Developing An Integrated Assessment Framework for Mergers and Acquisitions
A Case of the South African Banking Industry

by

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ABSTRACT

This study investigated the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions, by soliciting responses from bank Chief Executives and case evidence from the South African banking industry for the period 1990 to 2015. The study applied a mixed-use methodology. The case study evidence was drawn from the formation of the “Big Four Banks” in South Africa, namely, Absa (“Barclays Africa Group”), First Rand Group, Nedbank Group and Standard Bank Group.

The study found that when visions and values of merging banks were aligned, there was a greater chance of success. The study further found that culture compatibility of merging entities is paramount. Stakeholder acceptance was also found to have a strong impact on the chance of success or failure in mergers and acquisitions (M&A).

The case evidence corroborated and substantiated that there was a positive Deal Value Added (DVA) trend before the merger activity and immediately thereafter, evidenced by positive share price appreciation resulting in increased market capitalisation. The quantitative results found that 56% of the sampled CEOs indicated that an 80% majority of bank mergers in the South African banking sector had created value over the long term, evidenced by 10-year return trends.

This study contributes to the corpus of knowledge by generating an integrated assessment framework that can be applied even beyond the South African environment, by practitioners involved in mergers and acquisition activities.

**Key Words:** Banking Industry, Case Study, Critical Success Factors, Culture, Deal Value Added, Vision, Values, Leadership, Integrated Assessment, Mergers and Acquisitions, Return on Equity
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For time immemorial, I will forever cherish the love and support of my wife, Nompumelelo Prudence Vilakazi, my daughters Luthando and Nomandla and my son, Sabusiswa, for the sacrifices and encouragement to pursue this dream for us all.

I also dedicate this work to my late parents, my mother, Eunice Thembile (MaMkhize), Princess of AbaMbo eMfeni, and my father Jimmy Zaccheus Vilakazi. A special thanks to my uncle, the late Inkosi Henry Lawrence Tholakele Mkhize of AbaMbo eMfeni, for his immense contribution to my life; I became his ward after my father passed away in my early childhood. To all my teachers, these are the fruits of your immense dedication to teach an African child for the nation and the world.

Lastly, but not least, I salute the pathfinders of the Vilakazi family, the late Dr B.W. Vilakazi, late Professor Absolom Vilakazi and his son, the late Professor Herbert Mzwakhe Vilakazi, for inspiring the next generation and me. Mphephethe! Binda! Nkonyane!
DECLARATION

I declare that, "Developing An Integrated Assessment Framework for Mergers and Acquisitions: A Case of the South African Banking Industry" is my own work and that all sources that I used or quoted have been indicated and acknowledged by means of complete references.

This thesis has not been submitted in part or full for any degree or for any other qualification at another university.

Dennis Thulani Vilakazi                  Date
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<thead>
<tr>
<th>ACROnym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSA</td>
<td>Amalgamated Banks of South Africa</td>
</tr>
<tr>
<td>ABIL</td>
<td>African Bank Investment Limited</td>
</tr>
<tr>
<td>AF</td>
<td>Achievability Factor</td>
</tr>
<tr>
<td>AAC</td>
<td>Anglo American Corporation</td>
</tr>
<tr>
<td>BASA</td>
<td>Banking Association of South Africa</td>
</tr>
<tr>
<td>BAG</td>
<td>Barclays Africa Group Limited JSE Code</td>
</tr>
<tr>
<td>BCSF</td>
<td>Balanced Critical Success Factor</td>
</tr>
<tr>
<td>BOE</td>
<td>Board of Executors</td>
</tr>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
</tr>
<tr>
<td>BAF</td>
<td>Balanced Assessment Framework</td>
</tr>
<tr>
<td>CSF</td>
<td>Critical Success Factors</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CTI</td>
<td>Cost To Income Ratio</td>
</tr>
<tr>
<td>DVA</td>
<td>Deal Value Added</td>
</tr>
<tr>
<td>DDIL</td>
<td>Dimension Data International Limited</td>
</tr>
<tr>
<td>ENF</td>
<td>Edward Nathan Friedland</td>
</tr>
<tr>
<td>FNB</td>
<td>First National Bank</td>
</tr>
<tr>
<td>FSR</td>
<td>First National Bank JSE Code</td>
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<tr>
<td>FF</td>
<td>Feasibility Factor</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FBC</td>
<td>Fidelity Bank Corporation</td>
</tr>
<tr>
<td>GENCOR</td>
<td>General Corporation Limited</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>ICBC</td>
<td>International Construction Bank of China</td>
</tr>
<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
</tr>
<tr>
<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
</tr>
<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
</tr>
<tr>
<td>MBCA</td>
<td>Merchant Bank of Central Africa</td>
</tr>
<tr>
<td>M-PESA</td>
<td>Mobile Money Payments</td>
</tr>
<tr>
<td>MVE</td>
<td>Market Value Equity</td>
</tr>
<tr>
<td>NGL</td>
<td>Nedbank Group Limited</td>
</tr>
<tr>
<td>NCA</td>
<td>National Credit Act</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>NBS</td>
<td>Natal Building Society</td>
</tr>
<tr>
<td>NIB</td>
<td>Nedcor Investment Bank</td>
</tr>
<tr>
<td>NIBH</td>
<td>Nedcor Investment Bank Holdings Limited</td>
</tr>
<tr>
<td>P/E</td>
<td>Price Earnings Ratio</td>
</tr>
<tr>
<td>RSA</td>
<td>Republic of South Africa</td>
</tr>
<tr>
<td>ROE</td>
<td>Return On Equity</td>
</tr>
<tr>
<td>ROCE</td>
<td>Return On Capital Employed</td>
</tr>
<tr>
<td>ROCEq</td>
<td>Return On Common Equity</td>
</tr>
<tr>
<td>RMBH</td>
<td>Rand Merchant Bank Holdings Limited</td>
</tr>
<tr>
<td>RCI</td>
<td>Rand Consolidated Investments</td>
</tr>
<tr>
<td>RMB</td>
<td>Rand Merchant Bank</td>
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<tr>
<td>ROA</td>
<td>Return On Assets</td>
</tr>
<tr>
<td>ROAA</td>
<td>Return On Average Assets</td>
</tr>
<tr>
<td>ROAE</td>
<td>Return On Average Equity</td>
</tr>
<tr>
<td>SARB</td>
<td>South African Reserve Bank</td>
</tr>
<tr>
<td>SBK</td>
<td>Standard Bank Group Limited JSE Code</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern Africa Development Corporation</td>
</tr>
<tr>
<td>SAB</td>
<td>South African Breweries</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths Weaknesses Opportunities Threats</td>
</tr>
<tr>
<td>SPSS</td>
<td>Social Package for Social Sciences</td>
</tr>
<tr>
<td>SAPERM</td>
<td>South African Permanent Building Society</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprises</td>
</tr>
<tr>
<td>SD</td>
<td>Standard Deviation</td>
</tr>
<tr>
<td>SF</td>
<td>Suitability Factor</td>
</tr>
<tr>
<td>STANCHAR</td>
<td>Standard Chartered Bank</td>
</tr>
<tr>
<td>SBIC</td>
<td>Standard Bank Investment Corporation</td>
</tr>
<tr>
<td>TBTF</td>
<td>Too Big To Fail</td>
</tr>
<tr>
<td>TFP</td>
<td>Total Productivity</td>
</tr>
<tr>
<td>TSE</td>
<td>Total Shareholders’ Equity</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>UBS</td>
<td>United Building Society</td>
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</table>
CHAPTER 1: INTRODUCTION

1.1 ORIENTATION

Since the advent of modern industrialisation, mergers and acquisitions continue to be among the most studied and researched phenomena of interest by academic scholars, business professionals, consulting firms and investing public in general. The interest is mainly driven by a search to establish what drives mergers and acquisitions and enquire, whether value is created, conserved or destroyed. The search for these answers has become almost a search for the ‘holy grail’ of mergers and acquisitions.

Revell (1987), in his study of mergers and the role of large banks, traced the origins of mergers and acquisitions in the banking industry back to 1886, through citing the work of Crick and Wodsworth (1936). Revell (1987), through the work of Crick and Wodsworth (1936), told the story of a deputation of directors of the then newly-founded North and South Wales Bank in Britain, who were sent out in 1886 “with a carriage and a good strong horse, armed with full powers to trade with any bank or branches for the purchase of the business of their establishments”. This was recorded in history as the first merger and acquisition trend in the then fledgling banking industry.

Perhaps it is appropriate at this stage to demystify and define what mergers and acquisitions are. DePamphilis (2008:18) defined mergers as a combination of two companies, where an entirely new company is formed, with both old companies ceasing to exist. This gives rise to the birth of a new company, with a fresh corporate structure emerging out of the fusion of the existing value systems, norms, corporate cultures and practices. Usually, shareholders of the original firms are offered an exchange for share capital or a share swap in the newly-formed entity, mostly on an equitable basis. It is common that there is always an impact on the firms, underpinned by the organisational environment, industry trends and cycles, where they operate in a manner that drives them towards the merger strategy ethos.

Mohr and Fourie (2004) also defined mergers comprehensively in the context of competition policy that regulates the growth of market power through mergers and
acquisitions, with reference to the degree of competition in a particular industry or market. They cited the South African Competition Act 89 of 1998, which defines a merger as, “when one or more firms directly or indirectly acquire or establish direct or indirect control over the whole part of business of another firm” (Mohr & Fourie, 2004:307). They argued that mergers are usually aimed at eliminating competition or at achieving economies of scale. This, in their view, leads to the reduction of the cost of production per unit.

DePamphilis (2008:03) attested that the first decade of the new millennium heralded an era of global megamergers, followed by a period of extended turbulence in the global credit markets. DePamphilis (2006:03) further opined that after frenetic levels of mergers and acquisitions in the 1980s and 1990s, the level of activity through mid-2007 was fuelled by readily available credit, historically low interest rates, rising equity markets, technological change, global competition and industry consolidation.

As shown in Table 1, DePamphilis (2008) recorded the following global trends in announced mergers and mergers from 1995 to 2008:
This study set out to examine and identify critical success factors (CSFs) that affect the effectiveness and efficiency of mergers and acquisitions. Boynlon and Zmud (1984) accounted that the concept of ‘success factors’ was developed by Ronald Daniel of McKinsey & Co. in 1961. However, it was Rockart who, between 1979 and 1981, refined the concept as elements that are vital to make or break the selected strategy. Critical success factors are defined in this study by relying on the work of Boynton and Zmud (1984:17), who defined CSFs as:

“Critical success factors are those few things that must go well to ensure success for a manager or an organisation and, therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organisation's current operating activities and to its future success”.

Table 1: Global Trends in Announced Mergers and Acquisitions 1995-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Deals</th>
<th>Value in ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>22 027</td>
<td>980</td>
</tr>
<tr>
<td>1996</td>
<td>23 166</td>
<td>1,146</td>
</tr>
<tr>
<td>1997</td>
<td>22 642</td>
<td>1,676</td>
</tr>
<tr>
<td>1998</td>
<td>27 256</td>
<td>2,581</td>
</tr>
<tr>
<td>1999</td>
<td>31 701</td>
<td>3,439</td>
</tr>
<tr>
<td>2000</td>
<td>37 204</td>
<td>3,497</td>
</tr>
<tr>
<td>2001</td>
<td>28 828</td>
<td>1,745</td>
</tr>
<tr>
<td>2002</td>
<td>26 270</td>
<td>1,207</td>
</tr>
<tr>
<td>2003</td>
<td>27 753</td>
<td>1,333</td>
</tr>
<tr>
<td>2004</td>
<td>31 467</td>
<td>1,949</td>
</tr>
<tr>
<td>2005</td>
<td>33 574</td>
<td>2,775</td>
</tr>
<tr>
<td>2006</td>
<td>38 602</td>
<td>3,794</td>
</tr>
<tr>
<td>2007</td>
<td>42 921</td>
<td>4,784</td>
</tr>
<tr>
<td>2008</td>
<td>27,478</td>
<td>2,898</td>
</tr>
</tbody>
</table>

According to the Banking Association of South Africa (2012), the South African banking industry is a well-regulated banking system that compares favourably with many of those in industrialised economies. Furthermore, on the authority of the World Economic Competitive Survey 2012/13, South African banks were rated second out of 144 countries for soundness, while the country was rated third overall for financial sector development. On the authority of PricewaterhouseCoopers (2012), South Africa’s four major banks – Absa, Firstrand, Nedbank and Standard Bank – outperformed their Western global peers in areas such as return on equity. The PricewaterhouseCoopers firm reported that in the first half of 2012, the four banks with a combined headline earning of R21.3 billion and an average return on equity (RoE) of 15.9% outperformed a benchmark group of their Western peers, who recorded an average RoE of 2.1% for US commercial banks and 14.7% for Canadian banks. According to the Reserve Bank of South Africa, the banking industry consists of 72 (seventy two) local and foreign banks. There are 10 (ten) locally-controlled registered banks, 6 (six) foreign-controlled registered banks, 3 (three) mutual banks, 14 (fourteen) local branches of foreign banks and 39 (thirty nine) foreign banks with approved local representative offices.

The “Big Four” (4) banks are the First National Bank Group, Standard Bank Group, Absa ("Barclays Africa Group") and Nedbank Group. First National Bank, Standard Bank and Nedbank Group are locally-controlled banks, whereas Absa, although South African, was foreign-controlled by Barclays at the time of this research. All the Big Four banks have some form of representation in select regional African markets beyond South Africa. The case study population is limited to the Big Four, with focus on their mergers and acquisitions occurring as a result of the relaxation of the Banks Act (94 of 1990) and the subsequent macro-political developments in South Africa.

1.2. OVERVIEW
This section of the study presents an overview on the cycle of mergers and acquisitions and the macro environment context that motivated mergers and acquisitions in the South African banking industry.
1.2.1 Bank Mergers and Acquisition Cycles in South Africa

The significant merger and acquisition activities in the South African banking industry, consisting of the Big Four banks, namely Absa (Barclays Africa Group), First Rand Group (First Rand), Nedbank Group (Nedbank) and Standard Bank Group (Standard Bank), were predicated by major macro-political developments in South Africa. The advent of democracy was marked by the release of Nelson Mandela, Walter Sisulu and others from life imprisonment and the return of leaders from exile, such as Oliver Tambo, Thabo Mbeki and Chris Hani around 1990. South Africa was emerging from international isolation, the internal struggle against apartheid, cultural isolation, economic sanctions and the collapse of the corrupt ‘apartheid’ state, which culminated in the country’s first democratic elections in 1994. The relaxation of the South African Reserve Bank Act of 1989 and subsequent amendments unleashed complex banking industry phenomena, resulting in a changing banking landscape that became a fertile ground for mergers and acquisitions in banking.

1.2.2 Regulatory Impact on Mergers and Acquisitions in South Africa

Marcus (2001:133) wrote that until 1986, the Department of Finance supervised banks in South Africa and responsibility was then transferred to the South African Reserve Bank (SARB). She pointed out that in 1990, the approach of the SARB’s Bank Supervision Department was revised and the Banks Act rewritten, to support a modern risk-based approach to the supervision of banks. This approach, which has been continually refined, has served the banking system well, arguing that an independent assessment of the SARB’s compliance with the Core Principles for Effective Banking Supervision in 1998, as well as a subsequent IMF Article consultation, confirmed that the approach was appropriate for the country’s circumstances. Marcus (2001:133) provided evidence that a more recent Financial Sector Assessment Programme investigation resulted in further refinements to the supervisory process and supporting legislation. These refinements made the SARB fully compliant with the minimum standards set out in the Core Principles.

According to Marcus (2001:134), the Banks Act of 1990 requires the consent of the Minister of Finance, after consultation with the Competition Commission, to approve a merger between two banks. Marcus explained that before permission is granted, the Act requires that the Registrar of Banks or the Minister, as the case may be, must be
satisfied that the proposed acquisition of shares will not be contrary to the interests of the general public, the bank concerned, its depositors or the controlling company concerned. As explained by Marcus (2001:134), the Supreme Court of Appeal ruled that the Registrar of Banks and the Minister of Finance were responsible for regulating and judging bank takeovers and mergers. Notwithstanding this ruling, Marcus observed that proposed amendments to the Competition Act after the merger application will give the Registrar of Banks and the Competition Commission concurrent jurisdiction with regard to share acquisitions in banks and banking mergers or takeovers.

Marcus (2001:133) conceded that the South African banking sector, and for that matter the whole corporate sector, is still highly concentrated as a result of the years of economic isolation during the 1980s. This is corroborated by the fact that approximately 60 banks are registered in South Africa, but the largest four have approximately 70% of the assets and own the bulk of the retail banking system. The Big Four banks are Standard Bank Group, First National Bank Group, Absa (Barclays Africa) and Nedbank Group. The others are mainly small niche banks, focusing on specific activities, regions or communities. There are, however, significant players such as Investec, a major investment bank that makes up the Big 5 (five) with the other Big 4 (four) banks.

Falkena (2004) wrote that in 2004, the Big 4 banks in South Africa controlled 83.8% of the total banking assets in the country, totalling R1.4 trillion of the combined industry assets of R1.7 trillion. The largest bank by assets was Standard Bank at R436 billion, followed by Absa at R358 billion, First Rand at R307 billion and Nedbank at R303 billion (Falkena, 2004). The sheer size and sophistication of the local banking industry, although not large by global standards, was attractive to the large behemoth banks straddling the globe. On the authority of the South African Reserve Bank (2015), the above scenario has remained largely unchanged, bar the entrance of Capitec Bank, the largest microlender with over 5 million customers, thus giving rise to the Big 5 in recent years.
On the authority of the South African Reserve Bank (2015), the total asset structure of the South African banking sector is shown under Figure 1. The South Africa’s banking sector is dominated by the five largest banks, including microlender Capitec Bank, which collectively held 89,2% (December 2014: 90,6%) of the total banking assets as at 31 December 2015. Local branches of international banks contributed 7,3% (December 2014: 5,8%) as at 31 December 2015. The remaining banks accounted for 3,5% (December 2014: 3,6%) of total banking assets.

South Africa’s economy stagnated to forecasted levels of GDP rate of 0,7 in 2016, when compared to the overall GDP of 4,0 in sub-Saharan Africa and to peer regional countries such as Angola forecasted GDP of 4,0 and Nigeria at 4,3 GDP level as represented in Table 2 below.
South Africa was impacted by a less favourable global environment. Currency weakness of the Rand compared to the US dollar and other currencies weighed down the macroeconomic environment. Growth remained constrained in the short term by cyclical factors, mainly low commodity prices. However, the longer-term outlook remained promising due to government-led infrastructure investment as the main driver of growth, including intra-regional trade within its regional peer markets.

Reprinted from “IMF World Economic Outlook”, 2015, International Monetary Fund

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<td>3.4</td>
<td>3.1</td>
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<td>1.6</td>
<td>1.5</td>
<td>1.7</td>
<td>1.7</td>
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<tr>
<td>Emerging and developing</td>
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<td>7.5</td>
<td>6.3</td>
<td>5.2</td>
<td>5.0</td>
<td>4.6</td>
<td>4.0</td>
<td>4.3</td>
<td>4.7</td>
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<td>Developing Asia</td>
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<td>6.8</td>
<td>6.6</td>
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<tr>
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<td>10.6</td>
<td>9.5</td>
<td>7.7</td>
<td>7.7</td>
<td>7.3</td>
<td>6.9</td>
<td>6.3</td>
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<tr>
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<td>5.1</td>
<td>6.9</td>
<td>7.3</td>
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<td>Middle East and N Africa</td>
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<td>4.6</td>
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<td>2.1</td>
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<td>2.5</td>
<td>3.6</td>
<td>3.6</td>
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<td>4.3</td>
<td>5.2</td>
<td>5.0</td>
<td>3.5</td>
<td>4.0</td>
<td>4.7</td>
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<tr>
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<td>3.2</td>
<td>2.2</td>
<td>2.2</td>
<td>1.5</td>
<td>1.3</td>
<td>0.7</td>
<td>1.8</td>
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<tr>
<td>Angola</td>
<td>2.4</td>
<td>3.4</td>
<td>3.9</td>
<td>5.2</td>
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<td>3.5</td>
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<tr>
<td>Nigeria</td>
<td>9.0</td>
<td>10.0</td>
<td>4.9</td>
<td>4.3</td>
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<td>6.3</td>
<td>4.0</td>
<td>4.3</td>
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<tr>
<td>Zimbabwe</td>
<td>7.5</td>
<td>11.4</td>
<td>11.9</td>
<td>10.6</td>
<td>4.5</td>
<td>3.3</td>
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<tr>
<td>Namibia</td>
<td>0.3</td>
<td>6.0</td>
<td>5.1</td>
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<td>5.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Latin America</td>
<td>-1.3</td>
<td>6.1</td>
<td>4.9</td>
<td>3.1</td>
<td>2.9</td>
<td>1.3</td>
<td>-0.3</td>
<td>-0.3</td>
<td>1.6</td>
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<tr>
<td>Brazil</td>
<td>-0.2</td>
<td>7.6</td>
<td>3.9</td>
<td>1.8</td>
<td>2.7</td>
<td>0.1</td>
<td>-3.8</td>
<td>-3.5</td>
<td>0.0</td>
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<tr>
<td>Mexico</td>
<td>-4.7</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
<td>1.4</td>
<td>2.3</td>
<td>2.5</td>
<td>2.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Emerging and developing Europe</td>
<td>-3.0</td>
<td>4.8</td>
<td>5.4</td>
<td>1.3</td>
<td>2.9</td>
<td>2.8</td>
<td>3.4</td>
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<tr>
<td>Russia</td>
<td>-7.8</td>
<td>4.5</td>
<td>4.3</td>
<td>3.4</td>
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<td>0.6</td>
<td>-3.7</td>
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</table>
South Africa is largely a commodity-exporting economy, affected by the volatility in commodity prices and affected by oil price volatility as illustrated in Figure 2. The subdued price of PGM (Platinum Gold Metals) created a widened current account, exacerbated by increased government debt with minimal Foreign Direct Inflows (FDIS) for the reported periods. Despite such slow and stagnant growth, South African banks continued to perform resiliently, as shown in Table 3 by the South African Reserve Bank (2015):
Table 3: Performance of the South African Big Four Banks incl. Capitec Bank

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<tbody>
<tr>
<td>Total assets</td>
<td>4 176</td>
<td>4 369</td>
<td>4 434</td>
<td>4 617</td>
<td>4 831</td>
</tr>
<tr>
<td>Gross loans and advances</td>
<td>3 236</td>
<td>3 368</td>
<td>3 441</td>
<td>3 537</td>
<td>3 601</td>
</tr>
<tr>
<td>Total equity</td>
<td>318</td>
<td>322</td>
<td>332</td>
<td>335</td>
<td>342</td>
</tr>
<tr>
<td>Cost to income ratio</td>
<td>54,71%</td>
<td>54,45%</td>
<td>55,00%</td>
<td>56,25%</td>
<td>55,39%</td>
</tr>
<tr>
<td>Return on assets</td>
<td>1,02 %</td>
<td>1,12 %</td>
<td>1,15%</td>
<td>1,15%</td>
<td>1,21%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
<td>14,76%</td>
<td>14,12%</td>
<td>14,35%</td>
<td>14,33%</td>
<td>14,19%</td>
</tr>
<tr>
<td>Impaired Advances</td>
<td>106</td>
<td>108</td>
<td>114</td>
<td>113</td>
<td>112</td>
</tr>
<tr>
<td>Impaired Advances as % of total advances</td>
<td>3,24%</td>
<td>3,25%</td>
<td>3,31%</td>
<td>3,25%</td>
<td>3,12%</td>
</tr>
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On the authority of the South African Reserve Bank (2015:04), as represented in Table 3, the total banking-sector assets grew by 15,7% year-on-year to R4 831 billion at the end of December 2015 (December 2014: R4 176 billion). The annual growth in banking-sector assets was mainly attributed to the annual growth of 11,3% in gross loans and advances and 89,2% in derivative financial instruments. Gross loans and advances accounted for 74,5% of the banking-sector assets at the end of December 2015 (December 2014: 77,5%) and amounted to R3 601 billion (December 2014:...
R3 236 billion. The increase in gross loans and advances was mainly due to increases in other loans to customers, which grew by R126 billion year-on-year (specifically in the categories of foreign currency loans, other loans and overnight loans) and term loans, which recorded an R85 billion year-on-year growth.

The South African Reserve Bank (2015:04) further recorded that the 12-month moving average cost-to-income ratio deteriorated slightly during 2015, ending the year at 55,4% (December 2014: 54,7%). However, the 12-month moving average on return on equity (ROE) and return on assets (ROA) increased during 2015 and amounted to 17,1% and 1,2%, respectively, at the end of December 2015 (December 2014: 13,9% and 1%, respectively). The increase in both the ROE and ROA ratios as at 31 December 2015 was mainly due to the increase in operating profit, which increased by 20,8% year-on-year, compared to 7,4% year-on-year growth recorded at the end of December 2014. The increase in operating profit was mainly due to increases in net-interest income and non-interest revenue, as well as a decrease in credit losses.

On the authority of the South African Reserve Bank (2015:04), total banking-sector equity increased by 7,4% from R318 billion in December 2014 to R342 billion in December 2015. Total equity primarily comprised retained earnings and share capital throughout 2015, accounting for 51,6% and 45,1%, respectively, of total equity at the end of December 2015 (December 2014: 51,1% and 40%, respectively). Banks’ operations in South Africa (bank solo) remained adequately capitalised. However, capital adequacy ratios (CARs) decreased slightly compared to December 2014. Total CAR decreased to 14,2% at the end of December 2015 (December 2014: 14,8%).

The South African Reserve Bank (2015:04) further reported that impaired advances increased by 7% to R112 billion at the end of December 2015 (December 2014: R105 billion), due to an increase in impaired corporate exposures (excluding specialised lending and small and medium-sized corporate exposures). The ratio of impaired advances to gross loans and advances, a key indicator of credit quality in the banking sector remained largely unchanged at an average of 3,2% during 2015 and amounted to 3,1% at the end of December 2015 (December 2014: 3,2%).
Marcus (2001:133) posited that the Big 4 South African banks had always invested heavily in information technology (IT), and their systems are as sophisticated as those in much more developed countries. Marcus (2001:133) further contended that this has increased the availability of information in the markets and has led to a substantial expansion in cross-border transactions. Technological developments have also facilitated the design of complex new financial instruments, which have provided innovative ways of hedging against risks. Most importantly, information technology (IT) is seen as a major strategic competitive factor, since it forms the basis for South African banks’ drive to improve cost-efficiency.

Marcus (2001:133) pointed out that a related development has been the liberalisation and modernisation of financial markets, and that South Africa has adopted a clearly defined policy of actively participating in globalisation, and implemented a number of economic policies to facilitate this process. Furthermore, Marcus (2001:133-134) contended that deregulating the exchanges, phasing out exchange controls, restructuring the capital market to provide for more specialised trading in equities, bonds and derivatives, upgrading the national payment, clearing and settlement system, and more active participation in multinational economic cooperation have all helped integrate South Africa into the global financial markets. Marcus (2001:134) pointed out that foreign banks are largely free of restrictions; some 10 foreign banks operate in South Africa and a further 60 have representative offices. The large banks also have significant operations and interests in several major foreign markets (Marcus, 2001:134).

Despite its highly rated status, the South African banking industry was still beset by a lack of banking services access for the larger part of the African population, due to the high cost of banking fees that have, over the years, become the subject of many an investigation. Marcus (2001:134) conceded that a large proportion of the population was not served by the formal banking system and attributed this to the industry pursuing cost-efficiency. The main banks have left a vacuum of access to basic banking services in most rural areas and primarily among the poorest of the population. One may add that the pressure for short-term profits and dividend-hungry shareholders placed the economic motive far above the need for a social dividend.
Marcus (2001:134) conceded that formal government institutions, such as the Post Bank or Land Bank, were unable to fill the gap.

This scenario resulted in the development of an informal, but initially unregulated and fairly exploitive micro-finance industry. However, the passing of the National Credit Act (NCA) and the emergence of a Micro-finance Regulator to regulate this industry, increased supervision, governance and control of microlenders, Marcus (2001:134) observed. According to Marcus (2001:134), pressure mounted for the banking system to play a bigger role in resolving the problem of access to finance by specifically small, medium-sized and micro enterprises and potential sub-economic homeowners. Marcus (2001:134) foresaw further legislation may have to be promulgated in order to compel banks to undertake more developmental investment.

It was against this background that the African National Congress (ANC)-led government appointed the Panel of the Banking Enquiry, chaired by Judge Justice Thabani Jali to look into, amongst other issues, the development stance of banks in the country. In 2006, Jali was charged, through the Competition Commission of South Africa, to enquire into particular aspects of competition in retail banking and the national payment system in South Africa on the subject of high charges and the lack of competition, mainly among the Big 4 banks. The enquiry resulted in 28 findings and recommendations, mainly dealing with the punitive, exorbitant fee structure, lack of transparency and disclosure to banking consumers on products and services. Although most banks reportedly started to take corrective steps, these still fell far short of addressing the structural nature of the South African banking industry, which was rooted in the legacy and structure of the economic system in South Africa.

A KPMG banking study (2003) pointed out that the economy, inherited by the democratically-elected government in 1994, had a 30% rate of unemployment, which had been characterised by a per capita decline in gross domestic product over the previous 10 years. Therefore, the economy was not geared to support the initiatives of a democratic government. More importantly, the country’s banking system and the control and ownership of banks were typical of the imbalances in the economy, which had not been transformed. Access to finance and access to the banking system became a key driver to involve the now enfranchised population in the mainstream
economy, as only 40% of the economically active population participated in mainstream banking activities.

The effects of the macro and regulatory changes in South Africa unleashed the phenomenon of mergers and acquisitions (M&A) in the South African banking industry.

1.3 BACKGROUND AND PROBLEM STATEMENT

According to Barrett, Friedman, Gell, Gjaja, & Masseida (2012), mergers and acquisitions are an important strategic lever for many industries, due to organic growth having slowed in developed markets. Barrett et al. (2012) opined that there is ample evidence of numerous examples of acquisition failures. Barrett et al. (2012) further attested that several studies have shown that the majority fail to create significant shareholder value. This was also supported by Adolph (2006:01), relying on the Booz Allen Hamilton firm’s 2001 study on mergers, submitting that numerous empirical studies showed that half of all mergers failed to meet expectations and also that two out of three were failing to deliver their intended benefits.

This study acknowledged that several case studies had been conducted on mergers and acquisitions (for example, Awathsy, Vijayalakshmi, & Gupta, 2012; Lestari & Arsyad, 2010; Quresh, Sharif, Butt, & Bilal, 2011; Abd-Kadir et al., 2010; Hagendorf & Keasey, 2009; Sharma, 2010; Zuninga-Vicente & Vicente-Lorente, 2006; Barth, Jahera, Phumiwasana, & Yost, 2012; Brewer & Jagtiani, 2013; Akinbuli & Kelilume, 2013). However, this study observed that most of these studies focused on the hypotheses of creating value and profitability in mergers, relying solely on quantitative measures.

In a study conducted by Petsa-Papanicolau (2007:04), the content analysis method was used to interrogate business consulting firms such as McKinsey, Boston Consulting Group and Bain & Company to study the critical success factors that drive mergers and acquisition. Petsa-Papanicolau (2007:04) found that there were few studies that contributed to studies on critical success factors in the area of drivers of mergers and acquisitions. Petsa-Papanicolau (2007:04) further submitted that such

It was against the above context that the problem statement of this study was posed as the following main research question:

*To what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions?*

Therefore, the centrepiece of this study was to identify the critical success factors and to establish what causal relationship such dependent variables had on the effectiveness and efficiency of mergers and acquisitions.

### 1.4 Objectives and Propositions of the Research

The aim of this research was to develop an integrated framework that can be applied by practitioners involved in mergers and acquisitions.

This was achieved through the following specific objectives of the study:

- To determine the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions;
- To determine the extent to which the critical success factors affect mergers and acquisitions;
- To generate multiple case evidence on the effect of critical success factors in the South African banking industry;
- To validate to the extent to which findings on the South African banking industry could be applicable globally;
- To provide recommendations to policymakers, regulators and business practitioners on how to assess mergers and acquisitions in a balanced way.
This study also tested the following propositions:

\[ H_0: \text{There is no positive relationship between the alignment of visions and strategies of merging parties to increase the chance of success of M&A,} \]

- \[ H_{01}: \text{There is a positive relationship between the alignment of vision and strategies of merging parties to increase the chance of success of M&A.} \]
- \[ H_{02}: \text{There is a positive relationship between the CEO leadership style and the chance of success or failure of M&A.} \]
- \[ H_{03}: \text{There is a positive relationship between top management buy-in of a merger and cultural suitability of parties to merge.} \]
- \[ H_{04}: \text{There is a positive relationship between stakeholders' interests and stability of the merger.} \]

1.5 RATIONALE OF THE STUDY

There is general consensus and ample literature evidence that most studies on mergers and acquisitions were influenced and drawn from financial economics as indicated under Section 1.3. Most studies have focused on financial drivers such as share price movements, valuations and other financial-oriented techniques. Whilst such studies remain important in the body of knowledge, they fall short in demystifying why mergers and acquisitions destroyed value for shareholders as expounded by, for example, Adolph (2006) and Barret et al. (2012). This study sought to contribute to the elimination of this gap by offering a fresh perspective on the phenomena of mergers and acquisitions with a balanced focus of both financial non-financial factors.

In a related study, Bertoncelj (2009) wrote on CSFs and argued that despite numerous papers about merger and acquisition activity, the challenges facing the acquiring companies in emerging economies in Central and Eastern European economies had been paid little attention. Bertoncelj (2009) identified a set of “hard” and “soft” factors and correctly pointed out the importance of the soft factors, which are *inter alia* a new ‘combined’ organisational culture, a competent management team, innovative employees, efficient and consistent communication and a creative business
environment. However, the context of Bertoncelj’s work is not necessarily the banking sector; it is rather a variety of industries in Central and Eastern European markets.

This study took a position that context was an important issue when looking at mergers and acquisitions in the banking sector. For example, the fact that Central and Eastern Europe emerged from socialist-commanded economies painted the picture of the life-cycle stage of the markets in the region, which scholars view as being in the formative stage when compared to South Africa. South Africa, on the other hand, has a developing market and industry that compares favourably with other developed economies, and as such, provides an appropriate context, for which its observations and outcome learnings could even be applied beyond South Africa.

This study also sought to solve the challenges that face policymakers, regulators and the banking community, the research academic community and business practitioners across industries in general, when evaluating and assessing mergers and acquisitions. The essence of the problem that most stakeholders have to face, when mergers and acquisitions fail to deliver on expected results, as attested by Adolph (2006) and Barret et al. (2012), minimal attention was paid to critical success factors (Bertoncelj, 2009). This study propagated generating insights into the critical success factors to increase the probabilities of effective and efficient mergers and acquisitions.

1.6 SIGNIFICANCE OF THE STUDY

By analysing the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions, this study generates potential benefits for key stakeholders and provides theoretical contribution into the corpus of knowledge. The potential benefits for the key stakeholders were elucidated as follows:

I. Policymakers and Regulators

This study is significant for policymakers as policy reforms were a catalyst for mergers and acquisitions through globalisation and liberalisation (Rani, Yadav, & Jian, 2015). Reddy (2016:197) posited that the 1980’s policy reforms initiated across the world, wherein the idea of economic deregulation, financial
liberalisation and national integration, were adopted from developed economies by developing countries. Reddy (2016:197) opined that developing countries saw economic growth in international trade and capital flows, foreign exchange reserves, technological transformation and enterprise development. Reddy (2016:197) further posited that Asian, African and Latin American countries experienced inward growth from developed markets to emerging markets due to relaxed foreign direct investment (FDI) policies. Reddy (2016:198) submitted that emerging markets such as Brazil, Russia, India, China, South Africa (‘BRICS”), Indonesia and others, accounted for 38% of world gross domestic product in 2010, twice its share in 1990.

This study shared insights that policymakers ought to promote in creating an enabling environment for foreign direct investment, in this case, through mergers and acquisitions. Reddy (2016:200) articulated that the regulatory framework in a country like India, comprising the Companies Act, Registration of Companies, Securities and Exchange Acts, Competition Acts, Income Tax Act, Reserve Bank Act and Foreign Direct Investment, were reformed to promote investment and trade. This study asserted that policies of governments in promoting trade and investment were pivotal, otherwise mergers and acquisitions would be unable to flourish. In this study, it was demonstrated that creating a conducive environment through political reforms and transformation laid the foundation for the bank mergers to flourish.

II. Banking Community

Chu, Teng and Lee (2016:2309) asserted that given the importance of bank financing to an economy, governance variables such as executive remuneration, managerial ownership and board diversity were positively related to the results of mergers. In this study, case studies provided evidence on the influence of CE leadership and its impact on the effectiveness and efficiency of mergers and acquisitions by demonstrating that – if it remained unchecked and without good governance – it affected the banks negatively. The results of the study provided a balanced approach between financial and non-financial factors that were critical for effective and efficient outcome to be realised. This
study promoted the motive of mergers and acquisitions that ought to be driven by vision and values over and above financial benefits.

**III. Global and Regional economies**

Remigus and Karolis (2015:65) observed that the year 2014 saw the resurgence in mergers and acquisitions as the global M&A deal values topped US$3.23 trillion. Remigus and Karolis (2015:66) attributed the rise in M&As to cross-border transactions and inter-regional trade as corporates sought to expand their global footprints and enter markets.

Given that there was a resurgence of the M&A deals as evidenced here, the results of this study could be applied in the intra-regional trade and investment in the SADC regional economies (Southern Africa Development Community) and pan-African continent and even beyond the African continent.

**IV. Academic and Research Community**

Raja (2016:07) posited that strategic reforms such as new-age banking and innovation were taking place in the banking sector. Raja (2016:07) further posited that innovation required heavy investment, which raised a challenge for banks to sustain their returns on assets. This study positioned a number of areas for the academic and research community on how an integrated assessment framework could be used to provide a balanced approach to the study of mergers and acquisitions. This study also contributed to literature by analysing real-case situations characterised by the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions.

This study provided a unique contribution by using a mixed methodology. Bassey (1999) found that the case study approach provided a mechanism not only for theory-seeking and theory-testing, but for storytelling as well and concluded that the approach can enable evaluation of a situation. Corcoran, Walker, & Wals (2004) argued that a case study can be used as a mechanism to transform and improve practice. This improvement occurred, when practitioners were stimulated to engage in the building of theory, to bring about a change in practice (Corcoran *et al.*, 2004).
This study contributed to knowledge by generating a Balanced Critical Success Factor (BCSF) theoretical framework, which sought to provide a balanced perspective between hard and soft critical success factors that affect the effectiveness and efficiency of mergers and acquisitions.

1.7 ASSUMPTIONS
The validity of the results of this study depended on the underlying assumption that there were no significant differences between the South African banking industry and any other similar industry elsewhere, including other sectoral industries that would render the results of this thesis difficult to generalise.

1.8 DELIMITATION AND SCOPE OF THE STUDY
This study covered mainly the selected the multiple case studies of the Big Four South African banks, inter alia: Barclays Africa Group, First Rand Group, Nedbank Group and Standard Bank Group.

Amongst the reasons for selecting these case studies was that their founding and transformative evolution since the turn of the 19th century and over the last two decades provided real-life situations and enriched comparative case evidence. This study relied on the work of Woodside and Wilson (2003); Yin (1994); Woodside and Wilson (2003:493), who defined case study research as an inquiry focusing on describing, understanding, predicting and/or controlling the individual (such as process, animal, person, household, organisation, group, industry, culture or nationality). This does not imply that case study research is limited to samples of $n = 1$. Woodside and Wilson (2003) proposed that the reporting of several case studies in one enquiry is possible, when the inquiry is to estimate the size of an effect (such as the strength of a relationship between two variables) rather than to generalise from a population. Although Capitec Bank has, over the recent years, joined to make up the Big 5, it was not included as it was a microlender that began as a start-up in the recent past rather than through mergers and acquisitions over the long term.

The study also did not cover all macro indices and financial ratio variables other than those deemed relevant to this study. International or African continent banking cases
were not selected other than those referred to in literature review for observations of the phenomena of mergers and acquisitions, except where the Big 4 banks expanded into the rest of the African continent. Multilateral finance institutions and state-owned bank type institutions were also excluded as they were either state-owned or multi-national owned with a socio-economic focus.

1.9 CLARIFICATION OF CONCEPTS

1.9.1 Critical Success Factors
According to the *Dictionary of Sensagent*, the concept of "success factors" was developed by D. Ronald Daniel of McKinsey & Company in 1961. Furthermore, it was John F. Rockart who – between 1979 and 1981 – refined the concept of CSFs as elements that are vital for a company to make or break the selected strategy (*Dictionary of Sensagent*, 2014). Thereafter, a number of studies, including that of Johnson and Friesen (1995), applied the concept of CSFs to a variety of industries, including the health sector (*Dictionary of Sensagent*, 2014). The study attempted to analyse the CSFs that affect the effectiveness and efficiency of mergers and acquisitions in the case of the South African banking industry.

1.9.2 Mergers and Acquisitions
Ghemawat (1999) defined the business landscape as larger than the concept of what is termed “industry”. In other words, it means looking beyond the sphere in which the company operates, including suppliers, customers, complementary companies and competitors, to name a few. This was where mergers and acquisitions took place in a business landscape that influenced or affected its lifecycle. Prahalad and Hamel (1994) referred to mergers, acquisitions and alliances as a method that is used to cope with excess capacity.

Mohr and Fourie (2004) distinguished four types of mergers:

I. A **horizontal merger** occurs, when two firms, engaged in the same stage of production of the same goods, come together. Examples are SA Breweries acquiring Miller Brewing in the US in 2002 to form SABMiller; the merger of BHP and Billiton to form BHP Billiton in the mining sector; the merger of
Nampak and Malbak in the packaging sector; and BOE and Nedcor in the banking sector;

II. A **vertical merger** occurs between two firms in the same industry, but engaged in different stages of production of goods. This can be backward and occurs, when a firm acquires another firm to safeguard or control its inputs. It can also be forward, when a firm acquires another firm’s outlets for its product. The acquisition of Rheem Crown Plant, the largest producer of metal beer and soft drinks caps, by Coleus Packaging, a subsidiary of SABMiller in 2003, is an example of this;

III. A **conglomerate or diversifying merger** occurs between firms that operate in different markets. The goal is to diversify the operational activities of the acquiring firm, by deploying its managerial skills and expertise over a wide market, in anticipation of a decline or lack of growth in its geographical principal market. Examples are the acquisition of CAN by Edcon Group, owners of Edgars Stores, in 2002.

IV. Mohr and Fourie (2004) cited the example of large conglomerates such as Anglo American, Old Mutual, Liberty, Sanlam and Rembrandt Group that in 1987 controlled 84% of the total market capitalisation of JSE Securities Exchange. However, the pressure on these large conglomerates resulted in their **unbundling** to reduce their sheer size, as authorities and the market demanded and dictated a free market. The unpublished dissertation work by Ferreria (1998), which focused on the unbundling at Gencor from 1986 to 1996, covers this phenomenon in the context of strategy evolution in South Africa at the time;

V. A **lateral merger** involves two firms that produce related goods, but do not compete directly with each other. The merger between Cadbury, a manufacturer of sweets and chocolates, and Schweppes, a manufacturer of beverages, is an example of this.

In short, mergers and acquisitions are alternative methods of corporate strategy development other than internal organic development of a company.
1.10 OUTLINE OF THE RESEARCH REPORT

The remainder of this thesis is outlined as follows: Chapter 2 provides a theoretical foundation and literature for the study of mergers and acquisitions. Chapter 3 discusses the research methods used in this study. Chapter 4 presents the empirical results. Chapter 4 also provides a detailed discussion of the results, and makes a comparison of the study findings with previous research findings. The last chapter (5) draws conclusions, provides recommendations and detailed areas of further research.

1.11 CHAPTER SUMMARY

In summary, this chapter provided the context and background to the identified problem statement, the orientation to the context, and the structure of the research and its plan. The purpose of this section was to describe the macro and regulatory changes that precipitated the emergence of merger activity, the size and nature of the South African banking sector, a description of the selected sample of cases, and factors and principles that the regulators consider in any mergers and acquisitions. These mergers were driven mainly by the relaxation of the Banks Act of 1989 that made it possible for building societies, banks and insurance companies to be housed under one roof. A wave of merger activity was consequently unleashed, giving rise to critical success factors that affected the effectiveness and efficiency of mergers and acquisitions in South Africa.
CHAPTER 2: THEORETICAL FOUNDATION AND LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of this chapter is to provide a theoretical foundation and literature review by identifying the knowledge gaps on the study of mergers and acquisitions, as a phenomenon that is central to the research problem. The chapter traces the origins of mergers and acquisitions and covers the recent studies that have been undertaken on the problem of mergers and acquisitions, using the CSR method in the banking industries across the globe. A review of various theories that have an impact on the phenomenon of mergers and acquisitions are explored. These include the wave theory; games and business theory; discontinuities and complexity theory; and the value creation theory.

2.2 THEORETICAL FRAMEWORK

This section presents theoretical framework on established theories, constructs and domain definitions of mergers and acquisitions. On the authority of Maier (2013:03), the first step in the process of identifying and articulating the knowledge gaps is the identification of the domain problem, which is the research field, in which the study is making a contribution. In this study, the problem was established as the question, to what extent do critical success factors affect mergers and acquisitions.

2.2.1 The Interlinkage between Mergers and Acquisitions and Economic Cycles

DePamphilis (2008:13) opined that there are two competing theories that attempt to explain the cycles of the phenomenon of mergers and acquisitions. DePamphilis (2008:13) referred to the first theory as “neoclassical hypothesis” that mergers occurred, when firms in industries reacted to shocks in their operating environments. These shocks were events such as deregulation, the emergence of new technologies, distribution channels, substitute products and internet. The second theory is what DePamphilis (2008) called “behavioural hypothesis”, based on misevaluation, when managers overvalued stock or shares to buy the assets of lower valued firms. On the authority of DePamphilis (2008:13), M&A tended to cluster in six multi-year waves since the late 1890s, depicted as follows:
### Table 4: Merger Waves

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Driving Force</th>
<th>Type of M&amp;A Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1897-1904</td>
<td>Efficiency, Expansion</td>
<td>Horizontal integration</td>
</tr>
<tr>
<td>1916-1929</td>
<td>Entry into WW1 &amp; post-WW1 boom</td>
<td>Largely Horizontal Integration</td>
</tr>
<tr>
<td>1965-1969</td>
<td>Rising stock market &amp; Economic boom</td>
<td>Growth of conglomerates</td>
</tr>
<tr>
<td>2003-2007</td>
<td>Globalisation &amp; Low Interest Rates</td>
<td>Cross-border transactions</td>
</tr>
<tr>
<td>2010- Present</td>
<td>Sub-prime crisis Regulation Digital Media China</td>
<td>Divestitures Larger IPOs Disruptive Industry</td>
</tr>
</tbody>
</table>


As shown in Table 4, DePamphilis (2008) categorised cycles as the merger waves. These merger waves included the Horizontal Consolidation era between 1897 to 1904. According to DePamphilis (2008), this era was spurred on by a drive for efficiency, lax enforcement of anti-trust laws, westward migration and technological change. The period resulted in concentration in metals, transportation and the mining industry. The M&A boom was ended by the 1904 stock market crash and fraudulent financing. The next wave was the Increasing Concentration era between 1916 to 1929. Depamphilis (2008) attested that the entry of the United States into World War 1 and the post-war boom drove M&A growth. The boom ended with the 1929 stock market crash. This wave was followed by the Conglomerate era, lasting from 1965 to 1969. This was driven by conglomerates using financial engineering to boost their share price. This resulted in acquiring firms with High Price Earnings ratio (“High P/E”) acquiring target firms with Lower Price Earnings ratio (“Low P/E”). On the authority of DePamphilis (2008), the number of high-growth, low P/E firms declined as conglomerates outbidde
each other on prices. DePamphilis (2008) concluded that high purchase prices for target firms and increasing leverage of conglomerates brought the era to a close.

DePamphilis (2008) opined that the Retrenchment era followed between 1981 and 1989. The first decade was characterised by strategic United States buyers and dominance by foreign multinationals. Its second half was largely dominated by financial buyers employing buyouts financed by junk bonds. Key players such as Drexel Burnham provided market liquidity. This era ended with the bankruptcy of several large Leverage Buy-Outs (“LBOs”) and the demise of Drexel Burnham. On the authority of Depamphilis (2008), the age of the Strategic Megamergers was between 1992 to 2000. The US dollar volume of transactions reached unprecedent record levels in each year between 1995 and 2000. Colvin (1999:62-64) accounted that the largest mega-mergers ever recorded in dollar terms around the world took place in 1998. These were Exxon and Mobil at $86 billion; Travelers and Citicorp at $73 billion; SBC Communications and Ameritech at $72 billion; Bell Atlantic and GTE at $71 billion; AT&T and Tele-Communications at $70 billion; NationsBank and Bank of America at $62 billion; BP and Amoco at $55 billion; Daimler-Benz and Chrysler at $40 billion; and Norwest and Fargo at $34 billion. The drivers behind these megamergers were a soaring stock market, industry consolidation, technological innovation and benign antitrust policies. The boom ended with the collapse in global stock markets and a worldwide recession.

On the authority of DePamphilis (2008), the age of Cross-Border and Horizontal Megamergers began in 2003. DePamphilis (2008) observed that the average mergers were larger than in the 1980s and 1990s and were mostly horizontal and cross-border types. These mergers were concentrated in banking, telecommunications, utilities, healthcare and in commodities such as oil, gas and metals. On the authority of DePamphilis (2008), these mergers were spurred on by continued globalisation, deregulation, low interest rates, increasing equity prices and expectations of continued high commodity prices. This study investigated the mergers and acquisitions in the South African banking industry from about 1990 to 2015, which were spurred on by similar drivers such as globalisation, political transformation and deregulation of the industry, amongst other critical factors.
Although DePamphilis (2008) had not determined, when this era had ended, there is ample evidence that the 2008 sub-prime lending and world recession sounded its death knell. DePamphilis (2008) observed the largely debt-financed speculative housing bubble in the United States burst during the second half of 2008. Banks were concerned about the value of their assets that were held elsewhere as collateralised security in Europe and Asia. DePamphilis (2008) further observed that the availability of credit dried up, resulting in the malaise for high leveraged M&A transactions. The toxic combination of highly unsecured debts and record-high oil prices dried up credit and the world slipped into a recession, ending the M&A boom. Mathiason and Stewart (2008) recorded that not since 1929 had the world witnessed three weeks that changed the world so much, where big banks such as Lehman Brothers went bankrupt. Big banks such as Merril Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford and Bingley, Fortis, Hypo, Alliance and Leicester needed business rescue to survive. On the one hand, the US government injected $150 billion tax rebate, which was equivalent to $1 000 for every US household. On the other hand, the US Federal Reserve injected $236 billion into the US banking system. Over and above these rescue measures, further measure were the World Bank war chest of $200 billion and the United Kingdom package of 50 billion British pounds, which were made available.

Although the South African economy was affected by the global meltdown, the South African banking industry largely remained unscathed due to its soundness and risk governance measures. This study investigated the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions in the case of the South African banking industry.

Remigus and Karolis (2015:66) posited that even though significant growth of M&A activity was evident around the global economy in 2014, the prolonged recovery process from the global financial crisis was still saddled with unfinished post-crisis adjustments. On the authority of Remigus and Karolis (2015:66), these included heightened geopolitical conflicts around the world. Remigus and Karolis (2015:66) further opined that six years after the global financial crisis, gross domestic product (GDP) growth for a majority of world economies had shifted to lower trajectories, when compared to pre-crisis levels as various regions of the world as shown in Figure 3.
Overall, the sub-Saharan Africa region continued to perform above its weight, being the second best performing region in the world compared to Asia, as shown in Figure 3:

Figure 3: Regional economies of the world performance
Reprinted from “IMF World Economic Outlook”, April 2015, International Monetary Fund

According to Remigus and Karolis (2015:66), four fifths of the world’s economies saw lower average growth in 2011-2014 than in 2004-2007, excluding the three years from 2008-2010 that reflected the financial crisis, the Great Recession and policy rebounds with China on an new normal of 7% in GPD from double digits. On the authority of Remigus and Karolis (2015:69), it was acknowledged that mergers and acquisitions occurred in waves with regularly alternating periods of high and low M&A period. Also according to Remigus and Karolis (2015:69), the reasons were found to be regulatory, economic and technological together with sufficient liquidity of companies enabling them to pursue liquidity (Harford, 2005; Mitchell & Mulherin; 1996). Overcapacity, as alluded to by Davis (2000), led to brutal price competition and in turn led to consolidation. He argued that by virtually any standard, such as capital requirements set by the Basel II and III Committees, fierce price competition reflected in lower lending margins, overlapping of branches or other resources, overcapacity exists in all developed banking markets. South Africa has a developed banking industry, which is
susceptible to most of these shocks. However, some mergers in other industries did not survive the test of time, such as Daimler-Benz and Chrysler, as the clashing corporate cultures and differing business philosophies resurfaced. Other mergers, like Citigroup, the largest banking group in the world, worked. Prahalad and Hamel (1994) cited Porter (1980, 1985), concluding that strategy is about positioning a business in a given industry structure and in a given set of patterns in the environment. This also applies to the mergers in banking and the natural resources industry, for example BHP Billiton. Since strategy is about positioning a firm in a given environment, mergers and acquisitions in the banking industry are invariably about managing strategic change emanating from such a transaction. The above shocks have a direct impact on the strategy being pursued.

Cottrel (2006), in analysing why banks in particular are thinking ‘big”, submitted that banks the world over are scrambling to become larger, whether by organic growth or by mergers and acquisitions. The critical question is: How much does size matter? What is of significance in the banking industry in particular, is that the core function of borrowing and lending has become a commodity that is a fairly well-understood line of business and managed accordingly. Banks operate in one of the most highly regulated industries in the world, in terms of regulatory authorities and government bodies. Banks constantly operate in a volatile global environment and thus, tend to shift their strategic shapes and forms to adapt or ride the waves and cycles in order to win markets and increase market share.

Trends in China indicate that banks are either escaping state captivity or intense regulation by selling shares to foreigners and stock market investors. In Russia, banks’ growth is phenomenal, with their balance sheets growing by 30% to 40% a year. In Japan, the new mega-banks have swallowed and consolidated 11 old banks. In central Europe, foreign investors have merged and acquired over 80% of top local banks since the fall of communism. In the US, the 10 largest commercial banks control over 49% of the multiple-trillion dollar banking assets. These mergers were driven by deregulation of interstate banking and the removal of barriers and blurring of lines among banks, insurance companies and securities firms. The rise of non-financial institutions, such as Wal-Mart Inc., that are seeking limited banking licences, gives rise
to further activity that has to be understood in the complexity of organisational and environmental factors driving these changes.

The banking landscape constitutes increased competition from both established players and other “greenfield” players, ranging from airlines such as Richard Branson’s Virgin to retailers such as Woolworths. It is also characterised by the rise of complementary businesses such as insurance companies that were brought in as a result of trends like bancassurance; for example, Absa offering Sanlam products; Nedbank offering Old Mutual products; and Standard Bank offering Liberty Life products through various partial mergers and partnerships. Technology advancement and the rise of the internet have created business-to-business markets, where banks are disintermediated; for example, on eBay, transactions are between two parties. On the other hand, the entry of mobile telephony has given rise to virtual banking models or “click” banking away from traditional “bricks and mortar”. Banks have to embrace these technologies aggressively, lest they perish by disintermediation because of new players with low barriers of entry. The boundaries for customer markets have fallen and anyone anywhere in the world can be a customer. While traditional banks sourced supplies of lending from their Reserve Bank windows, today the large pension funds are providers of capital; hence, the phenomenon of overseas shareholders. In South Africa, for example, 20% of Standard Bank’s equity was by 2008 held by the Industrial and Commercial Bank of China (ICBC). In 2005, Barclays Bank Plc of the United Kingdom acquired 56.4% of Absa. Both cases will be examined in depth in this investigation. This is over and above second-tier capital, held through preferential shares and other financial instruments. The banking landscape is dynamic and made more complex by the ever-changing regulatory space due to increased risk as banks expand globally.

2.2.2 The Wave Theory

In laying the theoretical foundation for understanding merger and acquisition activity, the “theory of waves” is important in comprehending what drives mergers and acquisitions. Mitchel and Mulehrin (1996) defined the theory of merger waves as an outcome of fundamental change, resulting from shocks to an industry’s economic, technological and regulatory environment.
According to Johnson and Scholes (1997), developments as a result of mergers and acquisitions tend to proceed in waves. The historical timelines indicate merger wave trends from 1898-1900, then 1926-1929, followed by 1967-1973, also from 1985-1987 and the early 1990s. Johnson and Scholes (1997) observed that merger activity tended to be selective by sector. In the 1960s, mainly the electrical engineering and textiles fields were involved. The 1985-1987 wave was marked by high-street retailing takeovers. The early 1990s saw more mergers of professional services, legal and accountancy firms and financial services, with mega-mergers in the banking industry occurring in the period from 1998 onwards. The wave factor can be attributed to the changes in the business landscape, where these organisations operate, underpinned by industry cycle trends that today are more rapid and often turbulent.

The study on mergers and the role of large banks conducted by Revell (1987) made two findings, namely:

I. All banking systems have gone through a process of concentration, which is not yet complete in most cases; and

II. The factors causing mergers between banks are not constant, but differ according to the stage of development of a banking system.

The typical shock waves in the banking industry are mainly driven by deregulation of the Banking Acts in countries and revised minimum capital adequacy risks levels. In South Africa, when deregulation took place in the late 1980s, boundaries were blurred and banks were able to acquire building societies and insurance houses; for example, NBS was acquired into the BOE stable. The outcomes of the Basel II and Basel III Committee regulatory requirements on minimum capital have spurred consolidation through mergers and acquisitions in markets such as Nigeria, for example. Other shocks to be discussed later on are overcapacity, global competition and technological innovation. Rhodes-Kropf, Robinson, and Viswanathan (2005) also conducted research on valuation waves and merger activity.

A study by Harford (2005) on what drives merger waves, concluded that merger waves could be due to market timing and industry shocks, with mergers consequently changing the environment. The study concluded that economic, regulatory and technological shocks such as deregulation and prescriptive regulations, such as Basel
II, drive industry merger waves. Harford (2005) argued that whether industry shocksoccurred or not, capital liquidity is another factor that could encourage a wave to take
effect and stimulate mergers. The studies conducted by Rhodes-Kropf et al. (2005) on
the wave theory and also that of Harford (2005) on what drives the theory of merger
waves, are related to the importance of strategy execution through mergers and
acquisitions. The fundamental question, why mergers and acquisitions sometimes fail
or succeed, could be traced to a lack of strategic fit and consistency externally and
internally.

The key works that are of interest in the academic literature were the publication of
Harford (2005) on what drives mergers and acquisitions, the work of Morellec and
Zhdanov (2005) on the dynamic model of takeovers, and that of Rhodes-Kropf, Robinson,
& Viswanathan. (2005) on the empirical evidence on valuation waves and
merger activity.

The study by Rhodes-Kropf et al. (2005) focused on the phenomenon of merger wave
theory as being fundamental to mergers and acquisitions. The paper submitted that
mergers and acquisitions were due to market timing or to clustering of industry shocks
for which mergers facilitate change of the environment. There is conclusive empirical
evidence in the work of Rhodes-Kropf et al. (2005) that mergers are caused by
systematic waves in the business environment. The classical works of Gort (1969)
argued that merger waves result from an industry’s economic, technological and
regulatory environment. Harford (2005) presented results that support this view that
merger waves occur in response to industry shocks that require reallocation of assets,
but added that this is not sufficient a reason. The fundamental conclusion is that the
increase in capital liquidity and reduction in financing constraints that correlate with
high-asset valuations must be present for the shock to propagate a wave.
Transactions such as that between Standard Bank and the Commercial Bank of China
(CBC), valued at R36.7 billion, point to the presence of liquidity in the landscape; CBC
is the largest bank by market capitalisation at some $1 trillion, which makes it a mega-
entity. This type of liquidity eases the creation of such deals; hence, liquidity in the
landscape is a key factor contributing to the merger and acquisition wave.
Harford (2005) went a step further to add to the body of knowledge on shocks that cause the wave to occur. The merger wave theory and the empirical evidence provided by Harford (2005) proved that merger waves need both economic motivation and low transaction costs to generate a large volume of mergers and acquisitions. It is the impact of the macro-level liquidity that in Harford’s view causes industry merger waves to cluster in time, irrespective of industry shocks. These studies concluded that once the technological, regulatory shocks in the business landscape occur, there is a collective reaction from firms inside or outside that industry, resulting in reallocation through mergers and acquisitions.

Grant (2005) observed that for a long time during the mid-19th century, single-product firms had grown mainly organically within their geographic, vertical and product scope. Caldart (2003) correctly placed the work by Chandler (1963) on structure and strategy as the central piece that examined the emergence of divisionalised multi-business companies, known as the M-form. Chandler attributed the need to decentralise in the 1920s to the fact that businesses had grown too large and complex to be managed. The post-war period of 1950 to 1980 saw the emergence of diversification, which is the expansion of firms across different product markets. This became a significant source of corporate growth. The 1980s saw some $1.3 trillion of merger value activity. Mergers are also credited with the growth of international businesses or multinationals, whose operations spanned many countries, some by acquiring local players or taking advantage of privatised former state-owned enterprises.

Gandy (2000) wrote that all institutions in all industries are faced with an ever-changing environment. This stems from increasing competition and concentration, which force new relationships to emerge as new business frontiers are sought. He cited one of the reasons for mergers taking place as rationalisation of resources, where there are overlaps, such as rationalising branch outlets to reduce costs. However, he observed that merger activity is still dominated by mergers that create national giants, which are able to gain local market share. Thereafter, once local consolidation has taken place, international expansion is the natural next merger wave. The wave theory on mergers and acquisitions can also be related in this context to the theory of complexity. Grant (2005) submitted that there was evidence that complex systems, in which a large number of interdependent agents interact, were subject to
common patterns of behaviour. These systems may be natural, biological or social and the complexity theory underpins their behaviour. Grant (2005) further submitted that these systems are unpredictable, self-organised and can produce either an orderly outcome or a chaotic one. The implications are that the businesses are therefore identified by these very characteristics and thus unpredictable. Through management, companies need to establish rules of engagement on how to respond proactively to these complex systems. For mergers and acquisitions, companies need to establish the rules, determining why and how they are making that choice and set appropriate priorities, including dealing with incremental and radical change by being an agile, flexible organisation. Depending on the shock in that particular industry, the merger wave could be a sudden tsunami, which would require a different approach from when it is just organic in nature. Ohmae (1982) as well as Ferreira (2000) explained this approach in terms of industry’s fuzzy and blurred boundaries, that these radical changes can no longer be described in terms of East-West rivalries, North-South relationships or some other concepts. In Ohmae’s (1982) view, it became difficult to get accurate and reliable information about what to base long-range strategic decisions on, and this compounds merger and acquisition activity. The factors precipitating the merger waves invariably have an impact on managing strategy going forward after the merger. This is what the present study seeks to investigate.

The merger wave theory provides a proper understanding of the patterns as well as the dynamism of mergers and acquisitions. It is underpinned by the equally significant game theory and value creation theory. These theories, combined with the empirical evidence from the study, will form the basis for the development of a strategic theoretical framework necessary to understand the phenomenon of mergers and acquisitions in the banking landscape.

2.2.3 The Game and Business Theory
DePamphilis (2008) summarised the game and business theories that drove mergers and acquisitions and identified factors that motivated a particular behaviour as shown in Table 5:
Table 5: Game and Business Theory

<table>
<thead>
<tr>
<th>Theory</th>
<th>Motivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating synergy (Economies of Scale &amp; Scope)</td>
<td>Improve operating efficiency</td>
</tr>
<tr>
<td>Financial synergy</td>
<td>Lower cost of capital</td>
</tr>
<tr>
<td>Diversification</td>
<td>Higher growth markets</td>
</tr>
<tr>
<td>New product/current markets</td>
<td>Higher growth products</td>
</tr>
<tr>
<td>Strategic alignment/Technological change/Regulatory &amp; Political</td>
<td>Acquiring capabilities</td>
</tr>
<tr>
<td>Hubris (managerial pride)</td>
<td>Misvaluation causing managers to overpay for targets</td>
</tr>
<tr>
<td>Buying undervalued assets (q ratio)</td>
<td>Buying cheaply less than cost of capital</td>
</tr>
<tr>
<td>Mismanagement (agency problem)</td>
<td>Replace managers not acting in the interest of owners</td>
</tr>
<tr>
<td>Managerialism</td>
<td>Increase size of company and power &amp; pay of managers</td>
</tr>
</tbody>
</table>


Ohmae (1982), in taking a different view, defined strategy as having the capacity and the ability to change the battleground for a firm in order to win. He observed that this is game theory. Game theory was propagated over 50 years ago by Von Neumann and Morgenstern (1945), who eventually won a Nobel Peace Prize in 1994, as it influenced major scientific achievements in the fields of economics, politics, military strategy, law and computer science, as well as evolutionary biology. Brandenburger and Nalebuff (2006), in an interview, described looking at business as a “game”. Once that has been done, one can spot co-operative and competitive behaviour. Then, applying simple concepts from game theory, the firm is able to change the game. Mergers and acquisitions take place in a competitive business landscape, where games are being played by acquiring firms with firms to-be-acquired.

Drucker (1994) defined the theory of business, based on paradoxes and assumptions. Drucker observed that assumptions that shape any organisation’s behaviour, dictate its decisions about what to do and what not to do and define what the organisation considers meaningful results. These assumptions are about markets. They are about
identifying customers and competitors, their values and behaviours. They are also about technology and its dynamics, about a company’s strengths and weaknesses and about what a company gets paid for. This is what Drucker called a company’s theory of business. This means that strategy is underpinned by the theory of business, as a point of departure and business philosophy.

Morellec and Zhdanov (2005) developed a dynamic model, basing it on the stock market valuations of merging firms. The paper relied on the terms and timing of the merger, based on endogenous and exogenous factors. They also used the element of what Ghemawat (1999) called the theory of business landscape, by examining the impact of competition on the timing and terms of mergers and acquisitions. The work of Rhodes-Kropf et al. (2005) developed a decomposition, using the market-to-book, arguing that misevaluation drives merger activity as it distinguishes buyers from acquirers.

Because of the competitive nature of mergers and acquisitions, game theory is relevant in understanding the dynamics involved. Ghemawat (1999) defined game theory as the study of interactions among players, whose payoffs depend on one another’s choices and who take that interdependence into account, when trying to maximise their payoffs. Ghemawat (1999) echoed the work of Von Neumann and Morgenstern (1945) in the theory of games and economic behaviour. The component of game theory that is relevant is rule-based game theory. Ghemawat (1999) argued that rule-based game theory is used to select appropriate decisions from a number of crucial business decisions, including capacity and reduction, entry and entry-deterrence, including mergers and acquisitions, bidding and negotiations. Managers are forced to think within the framework of not just themselves, but also of other players with whom they interact. Mergers are about the anticipation of the other player involved and predicting behaviour.

The behavioural theory of mergers and acquisitions is also significant in understanding their dynamics as phenomena, as it is about the interdependence and relatedness of players in a particular industry. Once competitor behaviour is well understood and tracked, other players begin considering merger and acquisition activity as a dynamic outcome. It is about how companies are predisposed in their organisational
environment and whether they are prey or hunters, in the course of the merger and acquisitions. Ghemawat (1999) asserted that in the competitive environment, there are limits to sustainability because of scarcity and competition.

2.2.4 The Discontinuities and Complexity Theory

The foundation for this study drew from the theoretical literature on strategy, organisational and environmental complexities by various authors. Porter (1980) discerned the competitive advantage of a firm and industry environment in the Five Forces model; and Ohmae (1980) wrote on the importance of changing the battleground to compete effectively, while Ansoff (1980) focused on the development of various response systems by companies responding to a changing environment. Rumelt (1991) considered the effect of hostility and instability in environments on the resources of companies; Brandenburger and Nalebuff (1997) discussed the missing sixth force of “complementers” in Porter’s work and how these play a role in a coopetition environment, whereas Prahalad and Hamel (1998) examined mergers and acquisitions as a method used to cope with excess capacity in an industry. Ghemawat (1999) remarked on the business landscape that the industry environment, in which a business operates, has a strong influence on its economic performance, while Ferreira (2000:03) submitted that competition does not take place in a vacuum as firms compete in a particular context or environment. Pietersen (2002) discussed the Five Discontinuities Model of the internet, globalisation, deregulation and privatisation, convergence and disintermediation in attempting to understand today’s environment and its complexity. Grant (2002) argued that it is not just about classification of factors into a SWOT analysis, but about understanding their implications and strategic fit; that is, for a strategy to be successful, it must be consistent with the characteristics of the firm’s external environment and with the characteristics of the firm’s internal environment. Caldart (2003) deliberated on how to develop corporate advantage in companies exposed to turbulent environments. Prahalad (2004) expounded his “theory of co-creation” that is based on co-creating unique value with customers in the convergence era. He submitted that business has moved to a new form of value creation, where value is not created by the firm and exchanged with the customer, but is co-created by consumers and the company. Therefore, when a merger takes place, there also is the value that is co-created by the consumers of the merging parties that one needs to dissect and understand.
Pietersen (2002) wrote on understanding what is happening in today’s business environment and put it squarely on the shoulders of leaders to understand the field, in which they operate. Understanding the environment is the basis for a clear winning strategy. Pietersen’s Five Discontinuities named the internet and social media, globalisation, deregulation and privatisation, convergence and disintermediation as key forces that are radically changing the way in which business is being conducted in modern times.

Pietersen (2002:11) pointed out that “while each of these forces is distinct, they all interact with one another”. For instance, while the internet and globalisation are the most powerful forces driving businesses today, the internet on the one hand connects people and promotes globalisation, while the globalisation of the marketplace on the other hand pushes people to connect and conduct their business through the internet.

Deregulation and privatisation, largely pursued by the Bretton Woods institutions such as the World Bank and IMF through the Washington Consensus, have to a large degree had devastating effects on the economies of the developing world, largely in Africa. Liberalisation of their economies, while attempting to improve efficiency, has eroded local firms, as they are flooded by the imports that are produced at a fraction of the local unit cost. Both the textile industry and coffee prices for local farmers have almost collapsed.

Prahalad and Hamel (1994:06) wrote that,

“The changes occurring of the largest and what were known as the best managed firms in the world in the 1970s and early 1980s, such as IBM, General Motors, Caterpillar, Xerox, Sears and DEC are attributable to the radical changes in their competitive landscapes and the inability of managers to foresee these changes”.

It is, therefore, critical that leaders and managers keep abreast and stay ahead of what is taking place in the environment, where their firms operate. Prahalad and Hamel (1994) demonstrated that this phenomenon was equally devastating for European firms such as DAF, Philips, Benz, ICI and Japanese firms such as NEC, Fujistu, Matsushita and Komatsu.
In an attempt to find answers as to why and how these changes, which were visible for some time, escaped both managers and academics, Prahalad and Hamel (1994), like Pietersen in 2002, drew attention to forces of deregulation, structural changes, excess capacity, mergers and acquisitions, environmental concerns, less protectionism, changing customer expectations, technological discontinuities, emergence of trade blocks and global competition as inevitable for industry transformation.

Convergence in the new economy, according to Petersen (2002), means traditional industry boundaries are disappearing as firms compete with new rivals from outside fields. Berthon et al. (1996) referred to the cyberspace environment as not being time-bound. Pietersen (2002), on the other hand, pointed out that the leaders of today have to take into account, what he called the Hallmarks of the New Economy (Pietersen 2002), observing that information has become a commodity and that the internet – through social media – gives buyers more power.

The factors of globalisation, industry excess capacity, industry convergence, industry disintermediation, trade cycles, deregulation, re-nationalisation, privatisation, overlapping resources, banking firm capabilities and the internet also have a substantial impact on the strategic fit of the parties involved. Ferreira (2000) correctly summed it up as shifts in the competitive landscape caused by three major developments. He argued that the phenomenal growth in the development and application of new information and communication has facilitated convergence, globalisation, dispersion and fragmentation of corporations. He also cited the shift towards competition on the basis of knowledge and skills rather than physical assets. This is what Drucker termed the “knowledge worker”. Lastly, the rise of management and business as an applicable science by large consultancies requires constant focus on efficiency and what Ferreira (2000) called “catch-up”.

Grant (2005) raised a number of key fundamental factors that drive the need for firms to pursue the developmental strategy of mergers and acquisitions, which is the subject of this study. He wrote that the business environment of a firm consists of all the external influences that affect its decisions and performance. While the taxonomies of a variety of frameworks have been developed, such as PEST analysis, which is
classification by source, Grant (2005) argued that although this is systematic, such environmental analysis is unlikely to be cost-effective and it creates information overload. He submitted the argument that the core of the firm’s business environment is formed by its relationships in the areas of customers, suppliers and competitors, which he termed the industry environment. This does not mean other factors are not important, though. The above are some key characteristics of the new economic environment today, facing a leader of a firm or company, when taking strategic decisions such as pursuing a merger.

2.2.5 The Value Creation Theory
Prahalad (2004), in his “theory of value creation”, as indicated earlier, stated that value creation is no longer the preserve of firms, but occurs by co-creation with consumers. When a merger fails or succeeds, this has to be understood in the context that it has failed or succeeded to co-create value, among other factors. Grant (2005:39) posed a fundamental question and a case in point: “In whose interest is it between shareholders and stakeholders?” He submitted that the value created by firms in general is distributed among different parties, ranging from employees by wages and salaries, to lenders by interest, landlords by rent, government by taxes, owners by profit and consumers by satisfaction with the price they pay. Business is a coalition of interest groups. Mergers are by their nature a way to grow, but are fundamentally an attempt to enhance the value of all these interest groups, and management has to balance it. Managing strategy change in bank mergers and acquisitions is also about managing value created, or the value that ought to be created as a result of the merger.

Liu and Fehling (2006), in their study on evaluating strategies to cope with resistance in mergers and acquisitions, proposed diverse strategies for coping with post-merger resistance. These include the selection of similar partners, removal of post-merger autonomy from organisations and formalisation of post-merger policies and practices, using a simulation method. Prahalad (2004) studied the game theory. Brandenburger and Nalebuff (1997) studied the value net and complementers. Ghemawat’s publication (1998) focused on understanding a strategy within a business landscape. Most of the statistical analytical work on mergers and acquisitions, while significant, tended to focus on value creation and profitability, which are important. The strategic
rationale behind mergers and acquisitions is central to the attainment of the important financial and other goals envisaged in the transaction.

Morellec and Zhdanov (2005) developed their dynamic model, basing it on stock market valuations of merging firms. The paper relied on the terms and timing of the merger based on endogenous and exogenous factors. The study echoed the work of Lamprecht (2004), which relied on the analysis of a strong form of market efficiency. This means that even on the stock market valuations, the organisational and environmental complexities are driving phenomena that underpin the precipitation of the merger wave activity.

Morellec and Zhdanov (2005) also introduced the element of what Ghemawat (1999) called the theory of business landscape by examining the impact of competition on the timing and terms of mergers and acquisitions. Rhodes-Kropf et al. (2005) developed a decomposition, using the market-to-book and arguing that misevaluation drives merger activity, as it distinguishes buyers from acquirers. This is all part of the total business landscape that goes beyond competing for products and customers; the one that has accrued significant value creation, whether by market distortion or not, and could acquire another competitor and be complementary.

In this study, the two broad theory branches applied were the neo-classical theories and the behavioural theories.

On one hand, the neo-classical theory category applied was underpinned by the discontinuities and complexity theory. The discontinuities and complexity theory covered the factors of deregulation, globalisation, internet and social media or new technologies, industry convergence and disintermediation and industry excess capacity. In this study, the neo-classical theories were selected and applied due to their impact as drivers of change that affect the phenomenon of mergers and acquisitions.

On the other hand, the behavioural theory category applied was underpinned by the games and business theory. The applied theories covered the business cycles, wave shock theories, value creation and business landscape. In this study, the behavioural
theories were selected and applied due to the extent to which they impacted on the South African banking industry. The behavioural theories further demonstrated universal application to any other similar industry elsewhere or any other sector across, where mergers and acquisitions were pursued.

The above theories were all applied as they succinctly captured the extent to which such critical factors affect the effectiveness of mergers and acquisitions.

2.3. LITERATURE REVIEW: EMPIRICAL EVIDENCE

This section presents a critical discussion of the literature sourced by identifying knowledge that this study sought to close

2.3.1 Knowledge Domain Gap

Most of the studies on mergers and acquisitions, since the classical works by Crick and Wodsworth (1936) and Coase (1937), have been generated more profoundly from research conducted in the field of financial economics. This is not a surprise, as the strategy management field has been influenced by economics and sociology, the base disciplines of strategic management.

Admittedly, the field of financial economics has made a major contribution to understanding the phenomenon of mergers and acquisitions. Creane and Davidson (2004) examined the way, in which mergers are profitable for insiders, that is, the parent company, and unprofitable for outsiders. Pavlovich (2006) did extensive work on price valuation. Bertrand and Zitouna (2006) looked at the force of liberalisation effects on mergers across borders. Ivaldi and Verboven (2005), in examining the effects of competition policy on mergers in the European Union markets, considered alternative merger scenarios, should the one being pursued fail. Xia and Pan (2006) examined the role of overconfident management and the way, in which this can influence stock market valuations. This was also related to the work of Morellec and Zhdanov (2005), whereas Camerlynck and Ooghe (2005) repudiated these arguments of failures, by submitting that acquired firms do not report a high failure rate, but reflect higher than industry liquidity and solvency, with growth in assets for acquirers.
2.3.2 Financial-Oriented Studies

Recent studies, such as those of Lestari and Arsyad (2010) on the performance of the merger strategy in the Indonesian banking industry, and Quresh et al. (2011) on the effects of mergers and acquisitions on financial performance of banks in Pakistan, are silent on the criteria to assess mergers and acquisitions. Hagendorff and Keasey (2009) on post-merger strategy performance evidence from the US and European banking industries; Abd-Kadir, Selamat, and Idros (2010) on productivity in the Malaysian banks; Sharma (2010) on the mergers and acquisitions in the US to determine valuation effects; Zuninga-Vicente and Vicente-Lorente (2006) on the case of Spanish banks; and Intrisano and Rossi (2012) all came with inconclusive findings on whether mergers and acquisitions in the banking sector generate value for shareholders. All the above-mentioned studies focused mainly on value creation, profitability, stresses in the post-merger situation and acquisition management of merged and acquired firms.

Other studies, such as that of Brewer and Jagtiani (2013:01), investigated the concept of too-big-to-fail (TBTF) during the merger boom of 1991-2004 and found that banking organisations were willing to pay an added premium for mergers that would put them over the asset sizes that are viewed as being past the threshold for being TBTF. Brewer and Jagtiani (2013) estimated that at least $15 billion was added, creating banks with over $100 billion in assets. The financial crisis that started in mid-2007 and lasted into 2010 is directly linked to that phenomenon, which in the present researcher’s view, introduced vulnerabilities that affected the entire financial system, owing to poor governance and lack of strategic leadership.

A case study by Awasthy et al. (2012) on organisational changes in the Bank of Baroda (not a merger) in India, examined how the banking industry was also undergoing a major transformation in response to twin challenges of deregulation and the global crisis caused by subprime lending. The change at the Bank of Baroda illustrates that focus on customer service was key to its survival. Other studies, such as that of Barth et al. (2012), examined the value of bank mergers and what determines the number around the globe. However, that study also falls short of addressing non-financial factors, which the present study seeks to investigate. A related study by Kim and Halebian (2011) observed that when firms experience healthy organic growth,
managers are typically satisfied with their current growth and avoid risky strategic actions. The authors argued that when a firm experiences poor growth, managers come under pressure to adopt aggressive growth-oriented strategies. Kim and Halebian (2011) concluded that such managers may become desperate to grow via acquisitions. Rather than placing limited focus on financial determinants, this study examines CSFs with the aim of generating a balanced framework of effective mergers and acquisitions.

In a study by Akinbuli and Kelilume (2013), the authors investigated the effects of mergers and acquisitions on the efficiency, growth and profitability of corporate organisations in the post-consolidated environment of the Nigerian banking industry. The study revealed that while mergers and acquisitions drove growth and profitability in the short term, they were not at a solution to operating indiscipline. In this study, the analysis of key CSFs were examined in respect of aiding value creation. In another study, Marcella, Lily, and Ochieng (2012) concluded that strategic leadership is crucial for the success of change programmes, as it directs all organisational resources towards a common goal, by effectively motivating employees to achieve a desired common change vision. In this study, both hard and soft key CSFs are examined as a catalyst for failure or success of mergers and acquisitions, in the context of the South Africa banking industry.

In another related study, Islam, Sengupta, Ghosh, and Basu (2012) observed the failure to place emphasis on the human resources aspect; employee resistance acted as an impediment to the merger of the State Bank of Indore with the largest nationalised banking firm, the State Bank of India. In a similar study, Gomes et al. (2012) examined the importance of human resources management practices during the recent merger and acquisition wave in the Nigerian banking industry.

The present researcher observed that previous studies had focused mainly on the financial rationale, using share indices or some statistical evidence, but overlooked the impact of managing strategic change, when mergers and acquisitions are consummated. The gap filled by the present study was a focus on the understanding of CSFs affecting mergers and acquisitions, particularly in the management of both pre- and post-merger changes, rather than a narrow focus on financial factors. This
was distilled by organising CSFs into key dimensions, resulting in an integrated framework.

This study asserted that such a focus on CSFs provided a balanced perspective on the study of mergers and acquisitions. The framework that emanated from this study would contribute to the theory of knowledge and ultimately be used to determine the effectiveness and efficiency of mergers and acquisitions.

2.3.3 Case Studies of Bank Mergers and Acquisitions

Lestari and Arsyad (2010:231) concluded that the merger of Bank Permata produced a better performance response in comparison to the consolidation of Bank Mandiri and the merger of Bank Danamon. The merger of Bank Permata did not result in performance shocks, nor was there a structural break either. On the other hand, the consolidation of Bank Mandiri and the merger of Bank Danamon resulted in structural breaks, particularly in the spread performance. In order to return to a stable position, the mergers of Bank Mandiri and Bank Danamon required a longer time than the merger of Bank Permata did.

Quresh et al. (2011:1281) investigated the effects of mergers and acquisitions on the financial performance of banks in Pakistan, by comparing three years prior to and after the merger between Habib Metropolitan Bank (HMB) and National Investment Bank. The results of the case study showed that return on assets (ROA) and return on equity (ROE) of HMB did not indicate significant improvement, but on average, it can be concluded that the overall performance of the bank improved as a result of the merger and acquisition activity.

Abd-Kadir et al. (2010:111) investigated the extent of the merger and acquisition activity affecting Malaysian banks’ productivity over the period 2003-2007. It analysed both the technological changes and technical efficiency changes of the merged banks in Malaysia. It was found that total factor productivity (TFP) had increased in six of the nine banks tested; the mean total TFP for all banks also recorded an increase of 10.1%. The increase was derived solely from technological advances such as innovations in the banking technology. The study also revealed that the process of
mergers and acquisitions had actually increased the efficiency and productivity growth of the banking groups in Malaysia.

Hagendorff and Keasey (2009:725) compared the design and performance implications of different post-merger strategies in both geographical regions. Applying accounting data, the study showed that European banks pursue a cost-cutting strategy by increasing efficiency levels vis à vis non-merging banks and cutting back on both labour costs and lending activities. US banks, on the other hand, raised both interest and non-interest income in the post-merger period. Using both the accounting method and case study research, Sharma (2010:63) examined mergers and acquisitions in the US to determine the valuation effects of structural changes that are the result of mergers. The author observed that when a merger was announced, it often caused abnormal stock price jumps for both the acquirer and the target company, on or around the date of the announcement. Sharma (2010:63) found that acquisitions that concentrate on increasing the diversity of the business earned the highest abnormal returns, but other types of mergers neither created nor destroyed shareholder value. Sharma (2010:63) further found that stock return alone did not paint the entire picture of the value created by the merger.

Zuninga-Vicente and Vicente-Lorente (2006:485) examined the “strategic moves” (or strategic change) in the likelihood of organisational survival, for a population of firms that had undergone radical transformations in the environment. Their findings were that banks are able to change their competitive strategies in order to maximise their chances of survival.

Sinha, Kaushiki and Chaudhary (2010:190), using ratio analysis and a non-parametric Wilcoxon signed-rank test, found that while there was a significant change in the earnings of the shareholders, there was no significant change in the liquidity position of the firms. The case study concluded that merger and acquisition cases in India showed a significant correlation between financial performance and the merger and acquisition deal in the long run, as the acquiring firms were able to generate value.

Rodriguez (2008:63) focused on the human factors involved prior to an acquisition. The paper explained the behaviour of the acquired bank personnel and their
expectations, fears, hopes and beliefs before the transaction took place. He concluded that employees are subjected to different levels of stress and anxiety, usually associated with a lack of understanding of what the future effects of the transaction will be on the organisation to be acquired. Rodriguez (2008:63) further observed that information and communication are key to addressing that element.

Intrisano and Rossi (2012:206) used event study methodology and concluded that there was a significant destruction of value in acquisitions and mergers.

Davis (2000) wrote that exhaustive analytical studies of key data pre- and post-merger, such as ROE, cost-to-income ratios and share market performance, reach essentially negative conclusions. Some of these findings, as used by Davis (2000), revealed that gains by many measures are either small or non-existent. The results obtained are overwhelmingly unsupportive of the value effects. Studies continued to indicate that the experience of a majority of bank mergers is disappointing, as organisational problems are systematically underestimated and acquirers tend to overpay for targets. There is no evidence to support the theory that in-market mergers lead to significant improvements in efficiency. Most of these studies tend to focus on the quantitative rather than the qualitative aspects of evaluating mergers and acquisitions.

This observation was supported by Clayton (2010:01), who asserted that traditional merger and acquisition research has not succeeded to find answers to improve the continuing high failure rates of mergers and acquisitions. Clayton (2010:01) argued that the most frequently studied variables have offered no consistent explanations as to why some firms succeed at implementing and others fail. According to Clayton (2010:01), mergers and acquisitions have poor financial returns and high failure rates, and researchers have indicated that approximately 70-80% of mergers and acquisitions do not create value above the annual cost of capital.

This study observed that the majority of these studies were mainly focused on the hypotheses of creating value and profitability in mergers, and relied solely on quantitative measures. The gap identified in the literature was the lack of studies on the management of strategic change as a dependent variable that affects the failure
2.3.4 The Influence of Strategy on Mergers and Acquisitions

Markides (2004) commented on the reason, why there is still a gap in understanding what strategy is. He wrote that in November 1996, the most prominent strategy academic of Harvard, Porter (1996), published a Harvard Business Review article entitled, “What is strategy?”. Markides (2004) concluded that the mere fact that after 40 years of academic research on the subject, two of the most prominent academics in the field felt the need to go out of their way and start searching for strategy definitions, proved how much confusion had been created regarding such a crucial matter. Markides (2004) argued that this lack of understanding could be attributed to the lack of content of strategy. He proposed that there are simple, but fundamental principles underlying every successful strategy. This view assumes that all successful companies share the same underlying principles or building blocks. The success of Microsoft today is based on the same fundamentals that propelled Sears almost 100 years ago.

The company has to decide on a few parameters, mainly who will be its targeted customers and who it will not target; what products and services it will offer its chosen customers and what it will not offer them; and more importantly, how it will go about achieving all of this. Markides (2004:09) argued that choosing what to do and what not to do is an important element of strategy. This is compounded, when two or more companies have to merge in this complex world. Responding to the environment internally and externally in bedding down mergers is critical to success. Markides (2004) referred to the well-known story of the frog. When a frog is put in a pot of boiling water, it jumps out; when, instead, the same frog is put in a pot of cold water and the water is slowly brought to the boil, the frog stays in the pot and will be boiled to death. This means that companies that are not alert and responsive to the constant changes in the environment will die. Companies need to create the requisite fit with the environment and remain flexible. Changes must be identified early, accompanied by cultural readiness to embrace change and the skills and competencies to manage these changes. This is critical in mergers, where the requisite fit is paramount to success or failure. That was why Ferreira (2000:03) correctly argued that firms
compete in a particular context or environment, which is the industry, and that competition does not take place in a vacuum.

Porter (1996) wrote that improving operational effectiveness is a necessary part of management, but it is not strategy. He argued that management must clearly distinguish between operational effectiveness and strategy. He defined two distinct elements in this regard. Porter (1996:78) wrote that the operational agenda involves continual improvement everywhere, and there are no trade-offs. A strategy agenda, on the other hand, is the right place for defining a unique position, making clear trade-offs and tightening the fit. Strategy is about reinforcing and extending the company’s position. Porter correctly argued that strategic continuity does not imply a static view of competition. In this regard, companies may have to change strategy, if there are major structural changes in their industries.

The banking industry, given the increased global risk and blurring of geopolitical boundaries, in an ever-changing technology-driven economy is constantly dynamic. Porter (1996) further argued that commonly, the threats to strategy are seen to emanate from outside a company because of changes in technology or the behaviour of competitors. Porter (1996) observed that pressures to grow or apparent saturation of the target market leads managers to broaden the position, ensuring not only competitive advantage, but also the sustainability of that advantage in the long term. Broadening the strategic positioning includes making mergers and acquisitions sustainable in the long term, which is the focus of the present study.

Ghemawat (1999:01) wrote that despite thoughtful attempts over the decades to define “strategy”, a rash of manifestos continue to emerge that purport to redefine the term, and he submitted that it would be idiosyncratic to do so. He wrote that “strategy” is a term that can be traced back to the ancient Greeks, who used it to mean a chief magistrate or a commander-in-chief. He further observed that over two millennia that followed, the concept of strategy was defined in terms of military interpretations. While the first industrial revolution in the mid-1700s failed to move this debate; it was not until the second industrial revolution in the last half of the 19th century that strategy was seen as a way to shape market forces and affect the competitive environment.
This was mainly derived from the introduction of studies on business policies, for example at Harvard and Wharton schools.

Andrews (1987) defined mergers and acquisitions as being part of forced-growth strategies. He defined the acquisition of competitors as the process, when a company with a successful strategy and proven record of successful execution can acquire small competitors in the same business to expand its market, but pointed out that the anti-trust and competition authorities may limit this practice. He correctly argued that such acquisitions are usually followed by an adaptation of strategy, either by the parent or acquired company to keep the newly formed company a single business, or one dominated by its original product-market specialisation. Managing strategic change in mergers and acquisitions is key in the realisation of success.

Markides (2004) argued that the meaning of strategy was bewildering and confusing at every turn. Markides (2004) further stated that the chasm at the heart of researchers’ knowledge of strategy required a return to fundamentals. He examined what strategy really is. He wrote that the lack of an acceptable definition has opened up the field to an invasion of what he called ‘sexy slogans and terms’, all of which add to the confusion and state of unease. This confusion is not restricted to academics, but also affects executives who, if asked, would define strategy as the answer to the question, “How could I achieve my company’s objectives?”. Although it is technically correct, this is rather general and practically meaningless, according to Markides.

Pietersen (2002:11) firstly admitted that strategy had become a “nearly ubiquitous buzzword”. He argued that “new economy” does not simply refer to the high-tech sector or the dot-com bubble that epitomised the 1990s, but that it has a wider meaning than that. This infers new rules of competition that affect everyone everywhere, he argued. These impacts are felt by all large, well-established old-economy businesses as well.

Ferreira (2000:07) wrote:

“While industry has, for long, been a centrepiece of business strategy, it has become difficult to conduct these analyses for the simple reason that industry boundaries have become blurred or fuzzy, thus making it difficult to define
exactly where an industry begins and ends. Witness, for example, the mega-
mergers between traditional banks, insurance companies, merchant and
investment banks. If this is not enough, banks today face formidable
competition from companies with a large installed customer base such as Pick
n Pay. It is for this reason that the competitive playing field of a firm is referred
to as a landscape rather than an industry.”

Managing strategy change and executing it in this kind of environment is complex, and
the difficulty is compounded by the inherent challenges that emerge, when mergers
and acquisitions take place.

2.3.5 Motives for Mergers and Acquisitions

MacDougall (2007:60) defined “strategic change” as the movement of a business
away from its present state, towards a desired future state to improve its
circumstances. As illustrated under Figure 4, the change usually begins with the
recognition of a business problem.

Mergers and acquisitions are an attempt to improve the current and future state of an
organisation. The integration or fusion of two or more entities, or assimilation of one
by another, in a merger implies change that requires strategic thought and strategic leadership. In this study, the leadership core of the Big Four banks will be put under a lens, to ascertain the role they played in managing strategic change in the merging entities.

Eicher (2006:32) defined “strategic thought” as ideas, reasons and processes for changing the future state of an organisation. “Vision” or “future perfect” refers to picturing possibilities of what does not yet exist and assumes that the future possibility will be better than the present reality. Many organisations strive to do things better, especially with respect to improving customer service, improving business operations or producing products and services that are more innovative than their competitors’ offerings. Vision defines where an organisation intends to go. This study examines what the driving “visions” of each of the South African banks were and how their leaders provided or failed to provide strategic thought, during and after merger activities.

Marcella et al. (2012:50) defined strategic leaders as those, who lead organisations on strategic grounds, where they seek to achieve organisational objectives by creating vision and energising systems to achieve those visions. Strategic leaders stand out from their followers by having unique characteristics that support their call. In this study, the role of leaders in managing strategic change and galvanising a single focus to integrate the merged entities and make courageous calls that either enhance the chances of the merged entities or lead to major crises, was also be examined as an important factor.
Figure 5: Transformational leadership


Research work used by Marcella et al. (2012), drawing on a study of 48 firms among the Fortune 500’s largest US manufacturers, defined the most successful chief executive officer (CEO) as visionary, showing confidence in self and in others, communicating high performance expectations and standards, exemplifying the firm’s vision, values and standards, and demonstrating personal sacrifice, determination, persistence and courage. Transformational leadership is suitable for firms in a highly turbulent environment. It has to deal with issues of embracing change and accepting the challenge that the bank faces in addressing the legacy of the past, while seeking to be relevant within the South African socio-political economy. During the period under review, South African banking underwent tremendous challenges, but dealt with them in such a way that it emerged almost unscathed from the 2008 subprime lending crisis in the banking world.

Forbes (2013:80) defined strategic leaders as being like medieval alchemists, attempting to transmute lead into gold; they may expend considerable conscious effort in finding ways to transform potential threats into valuable opportunities. Strategic change leaders are often highly talented individuals with a positive bias toward the future, who have a zoom-in-and-zoom-out mentality. Cultural change is a very serious
matter and strategically tailoring the organisational culture is seen as a critical key to future success or failure. In this study, the various corporate cultures in the merging entities will be examined, to ascertain their contribution to managing strategic change in the selected mergers and acquisitions.

Research work by Rodriguez (2008:65) indicated that there is conclusive evidence that corporate mergers produce separation anxiety, when employees realise that some of their core workers may be leaving the organisation. Usually, after a merger is announced, employees face greater uncertainty, which in turn produces stress. Rodriguez (2008:65) observed that employees, who are involved in an acquisition, have to deal with loss of identity, lack of information and anxiety, being concerned about survival, lost talent and family repercussions. In this study, the impact of change on the key stakeholders such as staff, clients, communities and the greater public will be considered.

Franken, Edward, and Lambert (2009:49) observed that business leaders are under constant pressure from stakeholders to comply with their demands, while maintaining the organisation’s competitiveness in increasingly complex markets. As a result, such leaders continually strive to formulate new strategies that will help them offer more value to their customers and other stakeholders. In this study, the pressure exerted by stakeholders to fulfil promises and bring about the benefits of the mergers is examined to ascertain whether this enhances or thwarts strategy direction prior to and after mergers.

Franken et al. (2009:49) further claimed that strategy is concerned with first, creating a portfolio of change programmes that will yield the strategy; and second, attracting, allocating and managing all the necessary resources to realise these change programmes. It is becoming more critical to organisations’ long-term success to excel at strategy execution. Those that do so will outperform their peers by a wide margin. In this study, the alignment of the vision with the changed programmes that come into play during mergers and acquisitions, to ensure integration through effective strategy change management and execution, is a subject of interest.
Lahovnik (2011:364) stated that the most important motives for horizontal acquisitions were the transfer of skills, complementary resources between merged companies and the synergies created by sharing activities. In this study, synergies among the merging entities in terms of scale and scope, efficiency gains and shared skills are also examined. Chew and Choo (2007:108), in a related study on change management in a bank, found that the challenging issues that represent forces resisting change were often soft issues such as social, cultural and human issues across different managerial levels and functional boundaries. In this study, the clash of culture and values is examined to determine, whether it enhanced or hindered progress in realising the full potential of these mergers in the South African banking industry.

Mitsuhashi and Yokota (2008:299) wrote that executive teams are organisational units that make decisions about strategic domains, business-level strategies and structures of organisations, and that change in executive teams is therefore frequently viewed as an effective tool that firms can use to adapt to a turbulent environment. In this study, the change of leadership prior to and after mergers and acquisitions in the South African banking industry is also examined, to ascertain whether the success or failure of the gains or losses increased the benefits of these measures.

In order to understand what drives mergers and acquisitions, it is important to examine the organisational environment or industry trends that create generic conditions for merger activity to take place. Mergers and acquisitions are strategic development strategies, as articulated by Porter (1980), which are often associated with change for the following reasons:

I. Operating economies and economies of scale. Horizontal, vertical and to a much more limited extent conglomerate/acquisition (unrelated) lines of business;

II. Growth, often as the quickest way to market and expand. Grant (2005:167) argued that, “if new capabilities can only be developed over long periods, then acquiring a company that has already developed the desired capacity can short-circuit the tortuous process of capability development.” However, the management of strategic change during integration usually determines its success or failure;
III. Market entry, in particular in slow-growing markets or where demand/supply is elastic;

IV. Diversification into new products and markets.

Davis (2000) wrote that there had been a host of factors driving merger activity. These are industry overcapacity, global competition, deregulation and technology. Added to these factors post-1990, is the surge in shareholder value of bank shares, market capitalisation and the personal agendas of many CEOs, focusing on market dominance and pursuing markets through acquisitions. Mergers and acquisitions are largely the outcome of these factors in an industry environment, in particular because of the attractiveness of profitability and competition. Ferreira (2000) highlighted a good example, Canon and Kodak, of what Brandenburger and Nalebuff (1996) described as customers and suppliers assuming the role of competitors and complements simultaneously. These two formed a strategic alliance, jointly developed a digital camera and then ended up competing with each other post-collaboration. However, Kodak does not exist any longer, having been taken out by the rise of digital pixel technologies driven by mobile internet technologies, where everyone can take photographs without a polaroid camera, but is using a tiny lens camera on mobile phones or iPads, from behemoths such as Apple Inc. Industries are formed and reformed, driven by what Pietersen (2002) called forces of discontinuity, including technological innovation, shifts in costs and prices. This is the industry lifecycle. Emerging industries are characterised by strategic uncertainty, steep cost reduction, large embryonic players and regulatory intervention. Growth industries are typified by mergers and acquisitions, and most companies in growth industries become casualties. Mature and declining industries tend to have excess capacity and slow growth.

The work of Johnson and Scholes (1997), in developing a framework for development strategies, described the art of mergers and acquisitions as forming an alternative strategy to the general notion of organic growth of a firm. Johnson and Scholes argued that companies pursue other development strategies in order to achieve a lasting advantageous position in their environment, by meeting the expectations of buyers, users or other stakeholders. Mergers are, therefore, strategic choices selected to advance a firm to create value for stakeholders and wealth for shareholders. However,
this is not always the case, as spectacular failures of mergers and acquisitions do occur.

The above reasons are not exhaustive, as one has to keep in mind business environment drivers, such as changes in industry cycles and shocks such as overcapacity and supply-demand disequilibrium, deregulation, globalisation, the internet phenomenon, privatisation of state assets, regulatory pressures and disintermediation, which Pietersen (2002) called forces of discontinuity.

2.4 IDENTIFICATION OF KNOWLEDGE GAPS

Literature reviewed in this chapter confirmed that mergers and acquisitions were taking place in complex industry landscapes. Therefore, understanding the effects and impacts of these forces was critical for management to execute a merger integration management process. The interconnectedness of the above fundamental theoretical frameworks determines the direction that a merger was likely to take. It was, therefore, paramount to take all critical success factors into account and closely examine them during pre-merger and post-merger integration. It was evident that traditional research on mergers and acquisitions has placed minimal focus on non-financial factors that affect mergers and acquisitions. This study sought to consider the CSFs that have an effect on the effectiveness and efficiency of mergers and acquisitions to create a balanced perspective, which was identified as the knowledge gap.

The knowledge gap was evident as most of the discussed theories focused heavily on the financial effects and thus, underplayed other factors that were critical drivers of managers. This study asserts that bank mergers and acquisitions evolved from the pursuance of growth strategies in a dynamic industry landscape. This study further contends that the rationale for two or more parties entering into such mergers and acquisitions was not only financial, or relating to the value to be created; but had also more to do with the overall sustainability of both merging parties beyond the deal consummation. This section also demonstrated that most studies produced evidence upon evidence that mergers and acquisitions did not necessarily lead to superior financial performance. The reviewed literature confirmed knowledge gaps and
affirmed the need and justification for this study to investigate and analyse the CSFs that affect the effectiveness and efficiency of mergers and acquisitions.

2.5 CHAPTER SUMMARY

In summary, this chapter reviewed the theoretical literature on understanding the evolution and meaning of corporate strategy and change, in the context of managing a merger as a strategic fit of merging entities. A review of neo-classical and behavioral theories that affect the phenomenon of mergers and acquisitions were explored. These included the wave theory; games and business theory; discontinuities and complexity theory; and value creation theory. The chapter concluded by identifying a gap in the academic theoretical works in the context of present studies and positioned this study as closing the gap by expounding the CSFs, by going beyond financial analysis in determining the failure or success of mergers.
CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The previous chapter dealt with the theoretical foundation and literature review as a basis for this chapter. In this chapter, the selected research design and methodology will be examined in the context of their relevance to the research problem. The following elements are covered: research approach of mixed methodology, including why predominantly a case study is selected, sampling, population, data collection and measuring. The perspectives of generalisation, validity and reliability are analysed to assess the appropriateness of the research methodology and its design. This chapter concludes by evaluating how the present researcher deals with ethical considerations, given the intrinsic knowledge of the researcher of the case studies, to mitigate against bias and promote objectivity.

3.2 PROBLEM STATEMENT

3.2.1 Main Research Question

Diefenbach (2008:877) expounded the view that there is no precise research question to start off with; it will probably be redefined or changed during the research process. Research work used by Diefenbach (2008:877), based on the work of Maso (1989:162), highlighted another complaint concerning research using qualitative methods as the widespread practice of redefining the original research problem, question and/or hypotheses during the research process. According to Diefenbach (2008:877), from a quantitative research perspective, this can be catastrophic. Diefenbach (2008:877) argued that changing a survey question or hypothesis of a large-scale experiment meant that all data already gathered might be useless. From a qualitative research perspective, however, changing the research question might be seen differently.
Diefenbach (2008:877) conceded that the argument ignored the fact that qualitative research is *explorative* and correctly observed that most of the time, neither the sites and units of investigation, nor the precise objects of reasoning, circumstances and core problems are really known at the beginning of the endeavour; however, researchers do have some questions in mind, when they begin their qualitative investigation. Diefenbach (2008:877) further supported the view that qualitative researchers should feel encouraged to ask themselves, throughout the whole research process, whether they ask the right questions, to change these, whenever it seems appropriate, to challenge even their most basic assumptions and to see ‘things’ from as many different perspectives as possible. Diefenbach (2008:877) argued that there are no precise qualitative scientific methods to investigate the research question other than that a researcher, in investigating the research question(s), needs tools, meaning methods, theories and models.

Based on the background information provided above, the problem statement was stated as the following research question:

➢ *To what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions?*

### 3.2.2 Research Sub-questions

Rowley (2014: 314) opined that getting the questions right, whether they be open or closed questions, often requires the researchers to think carefully about their research objectives and questions. Rowley (2014:314) suggested that questions should be as short as possible, not leading or have implicit assumptions, they should not include two questions in one, only exceptionally invite a ‘yes”, not be vague or general and should not use double negatives.

Rowley (2014:314) also advised that questions should not in any sense be invasive or ask something a respondent is unlikely to want to answer and should not invite participants to breach confidentiality.
This study sought to proceed by examining the following research sub-questions:

1) Why is alignment of vision and strategies between or among merging entities critical in mergers and acquisitions?
2) Why is top management (“executive leadership”) buy-in into a planned merger and acquisition activity significant?
3) To what extent is culture compatibility between the merging parties paramount for mergers and acquisitions to be effective?
4) Why is acceptability of mergers and acquisitions by key stakeholders such as shareholders, regulators, competition authorities, staff, unions, clients and the general public critical?
5) How should merging parties deal with integration issues such as the choice of key executives, IT systems and cultural change?

3.3 PROPOSITIONS AND HYPOTHESES

Cooper and Schindler (2011:62) defined a proposition as a statement about observable phenomena (concepts) that may be judged as true or false. Cooper and Schindler (2011:62) further clarified that when a proposition is formulated for empirical testing, it is called a hypothesis. Abowitz and Toole (2010:110) submitted that all research should start with at least one meaningful research question, which typically leads to at least one hypothesis investigated through empirical study. Abowitz and Toole (2010:110) argued that most hypotheses are causal in nature. Marcyzk, DeMatteo, and Festinger (2005:08) opined that a hypothesis is simply an educated and testable guess about an answer to a research problem. Marcyzk, DeMatteo, and Festinger (2005:08) further described the hypothesis as an attempt by the researcher to explain the phenomenon of interest and that it must make prediction a key feature that will either be supported or refuted. In that regard, Cooper and Schindler (2011:62) opined that a hypothesis is of a tentative and conjectural nature because it is a declarative statement about the relationship between two or more variables. Babin et al. (2013:41) concluded that a hypothesis in its simplest form is a guess.
According to Abowitz and Toole (2010:110), three conditions must be met to establish causality linking two variables. The first condition is to establish temporal precedence, indicating that the hypothesised cause comes before the hypothesised effect. The second condition is a need for constant conjunction, demonstrating that changes in the independent variable are associated with changes in the dependent variable. Abowitz and Toole (2010:110) further observed that each time the value of the hypothesised cause changes, there is a predictable change in the effect, which is often measured through the Pearson correlation coefficient or some other appropriate statistical measure of association. The final condition is to establish non-spuriousness, thus eliminating plausible alternative explanations for the statistical relationships found.

According to Cooper and Schindler (2011:456), there are two kinds of hypotheses that are used in classical tests of significance; namely, the null hypothesis and the alternative hypothesis. Cooper and Schindler (2011:456) defined the null hypothesis as a statement that no difference exists between a parameter and the statistic being compared to it. The alternative hypothesis was defined by Cooper and Schindler (2011:465) as the logical opposite of a null hypothesis.

In this study, the propositions with a specific rationale included the following:

- **H₀**: There is no positive relationship between the alignment of visions and strategies of merging parties to increase the chance of success of M&A.

  This was not found to be grounded in theory. Islam et al. (2012) posited that the impact of human resources, including employee resistance, became an impediment in the merger of the State Bank of Indore with the largest nationalised bank, the State Bank of India. This was caused by lack of a clear vision and misalignment to all employees, which increased resistance. The null proposition was rejected by the results of the study and was not proven to be true.

- **H₁**: There is a positive relationship between the alignment of vision and strategies of merging parties to increase the chance of success of M&A.

  This study found that there was a strong correlation between the alignment of visions and strategies of merging parties that increased the chance of success...
of mergers and acquisitions. This was found to be grounded in theory. Marcella et al. (2012) posited that strategic leadership was crucial for the success of change programmes, as it directs all organisational resources towards a common goal, by effectively motivating employees to achieve a desired common change vision.

**H02:** There is a positive relationship between the CEO leadership style and the chance of success or failure of M&A.

The study found there was an implied correlation between the CEO leadership style and the chance of success or failure of mergers and acquisitions. On the authority of Marcella et al. (2012), a study of 48 firms among the Fortune 500 largest manufacturers defined the most successful CEO as a visionary with confidence in others and exemplifying the vision, values and standards. This was found to be transformational leadership and was critical for effective mergers and acquisitions.

**H03:** There is a positive relationship between top management buy-in of a merger and cultural suitability of parties to merge.

The study found that there was a positive correlation between top management buy-in and cultural suitability of merging parties. This was supported by theory by Gomes et al. (2012), who found that culture was a crucial element for effective mergers and acquisitions.

**H04:** There is a positive relationship between stakeholders’ interests and the acceptability of the merger.

Theories by Marcus (1986) to Norton and Kaplan (1996) placed a major premium for any merger or acquisition activity to be acceptable to stakeholders to stand a chance of any success. Ranging from government, regulators, shareholders, employees, unions, investors and communities to customers, they were crucial in the process of mergers. Reichheld (2003) designed a framework called Net Promoter Score to determine how such stakeholders could either promote or detract firms to affect the growth of a firm. The study found a positive correlation between stakeholders’ interest and acceptability of a merger.
3.4 THE RESEARCH PARADIGM

Drawing from the works of Kuhn (1970), Bryman and Bell (2007:25) defined a paradigm as a cluster of beliefs and dictates, which – for scientists in a particular discipline – influence what should be studied, how research should be done and how results should be interpreted. According to Wahyuni (2012), research paradigms address the philosophical dimensions of social sciences. A research paradigm is a set of fundamental assumptions and beliefs as to how the world is perceived, which then serves as a thinking framework that guides the behaviour of the researcher.

Bryman and Bell (2007:16) asserted that an epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline. Bryman and Bell (2007:16) argued that a central issue in this context is the question of whether or not the social world can and should be studied according to the same principles, procedures and ethos as the natural sciences. According to Bryman and Bell (2007:16), the position that affirms the importance of imitating natural sciences is known as positivism. However, Bryman and Bell (2007:16) further argued that positivism cannot only be equated to science. These include principles that knowledge and phenomena can be confirmed by senses (the principle of phenomenalism), and that theory seeks to generate hypotheses that can be tested (the principle of deductivism), knowledge can be gained through facts (the principle of inductivism) and the principle of objectivism.

In examining a number of theoretical paradigms in literature, Johnstone (2004:261) relied on the research work by Cresswell (1994) and the works of Firestone (1987), Guba and Lincoln (1988) and McCracken (1988), when comparing the assumptions of the two paradigms from the ontological, epistemological, axiological, rhetorical and methodological perspectives. Johnstone (2004) submitted that on the one hand, the ontological assumption of logical positivism is that reality is objective and predictable, as supported by research based on the work of DePoy and Gitlin (1994). Johnstone (2004) argued that on the other hand, the ontological assumption of naturalistic research is that reality is subjective, based on the research of Cresswell (1994) and Stake (1995). Johnstone (2004:261) observed that the methodical perspective relates
to the underlying logic or ways of thinking about the data, whether data are interpreted deductively or inductively from a prior frame of understanding.

According to Wahyuni (2012), the two main philosophical dimensions used to distinguish existing research paradigms are ontology and epistemology. They relate to the nature of knowledge and the development of that knowledge, respectively. Ontology is the view of how one perceives reality. In terms of social research, ontologically one can perceive that the existence of reality is external and independent of social actors and their interpretations of it, termed objectivist (Saunders, Lewis, & Thornhill, 2009) or realist (Neuman, 2011). On the other hand, subjectivist or nominalist adopter theory believes that reality is dependent on social actors and assumes that individuals contribute to social phenomena.

The second paradigm, epistemology, is the belief on the way to generate, understand and use the knowledge that is deemed to be acceptable and valid. In addition to these two fundamental philosophies, two basic beliefs that affect the way to investigate reality are axiology and methodology.

This study explored and defined phenomena of the selected bank cases to interpret evidence with regard to the impact of managing strategic change in mergers and acquisitions to distil an action-learning experience that could be the framework for guidance on merger and acquisition activities across industries.


According to the research used by Johnstone (2004), Popper (1959-1968) observed that a wide range of eminently well-reasoned views was held on what constituted “truth” and how it was “discovered”. Johnstone (2004:260) observed that among all these views, there existed a pragmatic school of thought, which held that “a false dichotomy exists between qualitative and quantitative approaches and that
researchers should make efficient use of both approaches in understanding the social phenomena”.

Table 6: Research paradigms

<table>
<thead>
<tr>
<th>Fundamental Beliefs</th>
<th>Research Paradigms</th>
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<tbody>
<tr>
<td></td>
<td>Positivism (Naive realism)</td>
<td>Post-positivism (Critical Realism)</td>
</tr>
<tr>
<td>Ontology: the position on the nature of reality</td>
<td>External, objective and independent of social actors</td>
<td>Objective. Exists independently of human thoughts and beliefs or knowledge of their existence, but is interpreted through social conditioning (critical realist)</td>
</tr>
<tr>
<td>Epistemology: the view on what constitutes acceptable knowledge</td>
<td>Only observable phenomena can provide credible data, facts. Focus on causality and law-like generalisations, reducing phenomena to simplest elements</td>
<td>Only observable phenomena can provide credible data, facts. Focus on explaining in a context or contexts</td>
</tr>
</tbody>
</table>
### Axiology: the role of values in research and the researcher’s stance

<table>
<thead>
<tr>
<th>Axiology</th>
<th>Value-free and etic</th>
<th>Value-laden and etic</th>
<th>Value-bond and emic</th>
<th>Value-bond and etic-emic</th>
</tr>
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<tbody>
<tr>
<td>Research is undertaken in a value-free way, the researcher is independent of the data and maintains an objective stance</td>
<td>Research is value-laden; the researcher is biased by world views, cultural experiences and upbringing</td>
<td>Research is part of what is being researched, cannot be separated and so will be subjective</td>
<td>Values play a large role in interpreting the results, the researcher adopting both objective and subjective points of view</td>
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### Research methodology: the model behind the research process

<table>
<thead>
<tr>
<th>Research methodology</th>
<th>Quantitative</th>
<th>Quantitative or qualitative</th>
<th>Qualitative</th>
<th>Quantitative and qualitative (mixed or multi-method design)</th>
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As shown in Table 6, research work used by Johnstone (2004) and based on the work of scholars such as Cresswell (1994:176), supported by Patton (1988) and Wolcott (2002), raised the issue that “placing approaches in opposition does a great disservice by detracting from the contribution to be made by each, including what each can contribute to the other”.

Two study designs were applied in this study; namely, surveys and case studies. While the survey helped to collect data from a large number of organisations through mail questionnaires and interviews, which were analysed using statistical techniques, the case study design sought to understand the problem being investigated and provided an opportunity for the researcher to ask penetrating questions and to capture the richness of organisational behaviour. By studying a representative sample of organisations, the survey design sought to discover relationships that are common across organisations and hence provide generalisable statements about the object of
the study. Often, the survey design provides only a "snapshot" of the situation at a certain point in time, yielding little information on the underlying meaning of the data.

Survey research also provides a relatively poorer 'discoverability' made during data collection. Also, once the work is underway, there is little one can do upon realising that some crucial item was omitted from the questionnaire, or upon discovering that a question is ambiguous or is being misunderstood by participants. Another major weakness of the survey design is that some variables of interest to a researcher may not be measurable by this method (for example, cross-sectional studies offer weak evidence of cause and effect), while qualitative fieldwork and related methods can provide important insights and discoveries during research, though fieldwork is a poor method for objectively verifying hypotheses. On the other hand, the weakness with a case study is that the conclusions drawn from the gathered information may be specific to the particular organisations studied and may not be generalisable.

In this study, the survey method was exploratory in nature and complemented the case study research. The study design included: (1) a survey of different organisations in the banking industry and (2) a multiple case study of the four big banks in South Africa. There is potentially great power in combining the two approaches to provide both breadth and depth of analysis within a single investigation. So, by combining the survey design and the case study design, the researcher managed to study the phenomenon more objectively and more comprehensively. The survey design was followed by a multiple case study research with an explanatory, cross-case analysis of the four banks. Problems and issues identified in the exploratory pilot survey pointed to important variables for further investigation in the case study research. The subsequent multiple case studies had the objective of testing a tentative pattern of important variables identified from the literature and pilot survey.

With the survey, it was possible to measure the reactions of a large number of people to a set of questions – thus facilitating comparison and statistical aggregation of the data. The case study research generated a wealth of detailed information about a smaller number of banks as cases to increase understanding of these cases and situations. While the survey was used to identify broad patterns of the impact, the case study complemented it with exploring the phenomenon further in a small number of
cases, thereby investigating the complexity of the critical success factors for effective execution of mergers and acquisitions.

In this study, the use of the CSR methodology, together with the use of empirical evidence from interviews and a sampled questionnaire, drew on the approach in qualitative research on the basis of a naturalistic enquiry, constructivism, post-positivism and/or an interpretative approach, mixed with quantitative data analysis to triangulate results and insights from the case evidence.

3.4.1 Naturalism, Constructivism and Positivism
In examining the various approaches, Johnstone (2004:261) relied on the research work of Cresswell (1994), who synthesised the works of Firestone (1987), Guba and Lincoln (1988), and McCracken (1988), when he compared the assumptions of the two paradigms from the ontological, epistemological, axiological, rhetorical and methodological perspectives. Johnstone (2004) submitted that on the one hand, the ontological assumption of logical positivism is that reality is objective and predictable, as supported by his research based on the work of DePoy and Gitlin (1994). Johnstone (2004) argued that on the other hand, the ontological assumption of naturalistic research is that reality is subjective, based on the research works of Cresswell (1994) and Stake (1995). Johnstone (2004:261) observed that the methodical perspective relates to the underlying logic or ways of thinking about the data, whether data are interpreted deductively or inductively from a prior frame of understanding. Johnstone (2004) argued that this perspective must be distinguished from “method”, which refers to types of data (qualitative or quantitative), the tools employed in collecting data (such as interviews or quantitative measurements) and the technique for analysing the data (such as content analysis or statistical methods).

Johnstone (2004:261) also wrote that the epistemological perspective is concerned with the relationship of the researchers to what they are researching. In this instance, the logical researcher is deemed to be independent of what is being researched, whereas the naturalistic researcher is said to be interacting with the study phenomenon over a prolonged period. Johnstone (2004) further observed that traditionally, commitment to a particular ontological position demanded commitment to a particular paradigm’s epistemological or methodological assumptions. Johnstone
(2004) asserted that the position of rigidity of interpretation and application of principles, according to the research work of Miller and Fredericks (2002), had been challenged. Further research used by Johnstone (2004), based on Patton (1980), argued for a paradigm of choices and that paradigms should not be assumed to be rigid and fixed: They are not prescriptive, but only descriptive and researchers do not have to choose between paradigms. Johnstone (2004:261) submitted that “different methods are appropriate for different situations and wherever possible, multiple methods could be used”. Johnstone (2004:261) further observed that the axiological assumption of logical positivist research is that it is value-free and unbiased, as opposed to naturalistic research, in which the researcher acknowledges his values and biases, as well as the value or nature of the information gathered from the field.

In this study, the selected case study method together with, for example, empirical evidence gathered from interviews conducted with participants from the different South African banks and a questionnaire to interpret and understand the phenomenon of managing strategic change as a dependent variable affecting the execution of mergers and acquisitions, provided a balanced perspective that mitigated bias and lack of objectivity that the researcher acknowledged.

3.4.2 The Natural Science School of Social Science Research versus the School of Management Research in Business Education

The case for and/or against the use of case studies can be traced to the distinctive views of both the schools of natural science and management research.

In demystifying the traditional school of management, Appelbaum and Patton (2003:61) drew on the research work of Gummesson (1991), who traced its origins all the way back to the 17th century and the view of Descartes and Newton that the whole is the sum of its parts. Appelbaum and Patton (2003) observed that the ‘natural science’ approach to management, activities and behaviours is broken down and compartmentalised; and management is viewed as a series of steps to follow; quantification and logic are the dominant forces. Appelbaum and Patton (2003) observed that this traditional school treats the fact that workers and organisations consist of human beings as almost an afterthought.
It is for this reason that Kaplan and Norton (1996) developed the now world-renowned Balanced Scorecard measurement model to debunk the myth that only the “bottom line” or the numbers mattered in measuring the performance of a company. Instead, Kaplan and Norton (1996) conceived the four perspectives of financial, client, internal and people, which they called learning and growth as balanced, instead of only the quantifiable elements in a business being important. A major corporate such as Mobil doubled its revenue (from $500 million cash flow and return on capital employed [ROCE] of 6% in 1993 to $700 million and ROCE 16% by 1997), following the implementation of the Balanced Scorecard measurement of strategy execution. Many corporates, across a variety of sectors, adopted the model with great success by focusing on not only the quantifiable elements of the business, but also the qualitative aspects.

Research work used by Appelbaum and Patton (2003:61), based on the work of Hamel (1991), related that while the case study was the approach of choice for sociologists in the US at the turn of the century, with the University of Chicago at the forefront, quantitative statistical methods in sociology championed by Columbia University gained ground by the mid-1930s and took centre stage. Research by Appelbaum and Paton (2003), based on the work of Sjoberb et al. (1991), advanced the view that since World War 2, sociology has also been dominated by a natural science model.

Appelbaum and Patton (2003:61) further observed that advocates of the natural science model assumed that an objective world exists independently of the researcher and that one can uncover “universal laws” of human nature and social reality. Research by Appelbaum and Patton (2003) advocated the establishment of rigorous and standardised procedures for collecting and analysing data to test hypotheses and predict the course of social reality. Appelbaum and Patton (2003:61) submitted that the search for such universal laws becomes a deductive process, using technical procedures aimed at demonstrating accuracy, while eliminating any bias on the part of the researcher or the empirical context.

Research by Appelbaum and Patton (2003), based on the work of Stake (1995), observed that in quantitative studies, the research question seeks out a relationship between a smaller number of variables, and efforts are made to bind the enquiry
operationally, define the variables and minimise the importance of interpretation until
data are analysed. The researchers further asserted that quantitative researchers
regularly treat the uniqueness of cases as “error” outside of the explained science.
Research by Appelbaum and Patton (2003), based on the work of Cooper and Emory
(1995), showed that what quantitative researchers consider “error” (standard error of
estimate, situational factors, the individuality of the respondent and the measure) may
be of critical importance to the case study researcher. Appelbaum and Patton (2003)
also drew on the works of Barman, Buckley, and DeVaughn (1997), who observed
that management science includes various mathematical models that encompass
calculus, linear and matrix algebra, statistical and simulation techniques. Appelbaum
and Patton (2003:61) asserted that the focus of the natural school of science is
precision in the form of statistical procedures, thus things can be counted and related
to one another, as natural science forces are related as “cause and effect”.

On the other hand, Appelbaum and Patton (2003:62) stated that the natural science
school has itself come under fire for its shortcomings, particularly in the field of
business management research. Research by Appelbaum and Patton (2003), based
on work by Barman et al. (1997), argued that management science has been losing
its appeal to the business community and its usefulness in practice has been
questioned. Appelbaum and Patton (2003) further asserted that business schools
have received strong criticism of their undergraduate and MBA core curricula because
of perceived excessive focus on theory, mathematical and statistical analytic methods.
They observed that even physicists such as Capra (1983) underlined that the
fragmented approach of business researchers and economists, who favour strictly
quantitative measures has created a huge gap between theory and business reality.
Research by Appelbaum and Patton (2003), based on the work of Orum et al. (1991),
criticised the natural science approach as only dealing with survey questions and large
numbers of disconnected participants; the flesh and bones of everyday life are
removed from the substance of the research itself, which diminishes the usefulness of
the research.

Research by Appelbaum and Patton (2003), based on the work of Kaplan (1964),
statement that only counting things does not always formulate the best research strategy.
Appelbaum and Patton (2003) observed that Kaplan (1964) referred to the mystique
of quantity, which is exaggerated regard for the significance of measurement just because it is quantitative, without considering what has been measured or what can subsequently be done with such measurement. Appelbaum and Paton (2003) used research work of Kaplan (1964), who argued that those bedazzled by the mystique of quantity respond to numbers as though they were the repositories of occult powers and that there are behavioural scientists who, in their desperate search for scientific status, give the impression that they do not much care what they do, if only they do it right: Substance gives way to form. Appelbaum and Patton (2003) stated that the lack of rigour also becomes problematic in quantitative studies. Referring to the work of Gummesson (1991), they affirmed that researchers run the risk of entering a vicious circle of academic research, where they quote one another, make the “right” references, publish papers in the right journals, and present papers at the “right” conferences.

Appelbaum and Patton (2003) were convinced that quantitative research can also be affected by the bias of the researcher and of participants: Samples can be manipulated, data can be tampered with or purposely excluded, surveys can be poorly constructed and participants can answer dishonestly or skip questions. They relied on the book entitled *The Mismeasure of Man*, by Gould (1981), which highlighted how quantitative measures had been used to give scientific validity to notions of intelligence (based on test scores and brain measurement) that were then used by White males to discriminate against women and ethnic minorities. The research of Appelbaum and Patton (2003), based on the work of Gould (1981), highlighted that blind faith in quantitative measures is not only wrong, but potentially dangerous.

Diefenbach (2008:875), while recognising the value of qualitative empirical research and case studies, argued that these can often be criticised from a methodological perspective, referring to the research of Deem (2001), Angen (2000:378), Altheide and Johnson (1998: 283). Diefenbach (2008:876) identified the major areas of concern as the influence of the researcher on the research design, weaknesses and limits of methods and theories, the selection of units of investigation, interviewees and other data sources, the sufficiency and reliability of sources of information, internal validity (truthfulness of the data), selection and grouping, interpretation and presentation of
data, external validity (generalisation of the findings) and testing of theory, as well as the relationship between the social sciences and social practice.

Research by Appelbaum and Patton (2003) underlined the reasons, why the laws and methods of physics should not be applied to social phenomena such as the study of business. Appelbaum and Patton (2003) wrote on the argument that conventional physics deal only with closed systems, such as systems that are regarded as isolated from their environment. Their research revealed that living organisms are essentially open systems that maintain themselves in a continuous inflow and outflow, a building up and breaking down of components.

Appelbaum and Patton (2003) argued that organisations such as businesses, hospitals and universities should obviously be viewed as open systems in a constant state of flux and in constant contact with their environment. Appelbaum and Patton (2003) concluded that the method of classical science is appropriate for phenomena that can be resolved in isolated causal chains or that are the statistical outcome of an “infinite” number of chance processes. Appelbaum and Patton (2003) asserted that the classical modes of thinking, however, fail in the case of interaction of a large, but limited number of elements or processes. They concluded that basically, the case is an integrated system.

Appelbaum and Patton (2003) further argued that the research conditions in business administration are such that conceptualisation and the operational definitions used for measurement and observation are rarely subject to the same control as those in the natural sciences. They stated that case studies offer the opportunity for a holistic view of a process as opposed to a reductionist-fragmented view that is often preferred.

The above research advanced a holistic view, which held that the whole is not identical to the sum of its parts; consequently, the whole can only be understood by treating it as the central object of study. The researchers were of the opinion that the case study contributes uniquely to the knowledge of individual, organisational, social and political phenomena; the distinctive need for case studies arises from the desire to understand complex social phenomena; in brief, the case study allows an investigation to retain the holistic and meaningful characteristics of real-life events. Research by Appelbaum
and Patton (2003), based on the work of Yin (1984), argued that the case study’s unique strength is its ability to deal with a full variety of evidence – documents, artefacts, interviews and observations.

Appelbaum and Patton (2003) relied on the research work by Orum et al. (1991), who argued that rather than assuming a world of simplicity and uniformity through the quantitative approach, those who adopt the qualitative approach of case studies generally picture a world of complexity and plurality. They also drew on the research of Sjoberg (1991), who argued that a number of organisational issues are related to the intersection of human agents and organisational structure. A case can therefore be made that various major organisational issues cannot be addressed until in-depth case studies come to be viewed as not just an adjunct to the natural science model, but as playing an independent role of their own in advancing sociological issues.

Appelbaum and Patton (2003) thought that it would appear that much of the conflict between those who favour a natural science approach and those who favour the case study approach is not due to the fact that one approach is superior to the other, but to the fact that these two approaches are so different, not only in their methods, but also in their aims. Research they referred to in the debate showed that Yin (1984) argued that case studies should be limited to include only qualitative measures. However, their further research on the same subject revealed that Kaplan (1964) also suggested that a mystique of quality exists that is equally dangerous to rely on.

Kaplan (1964), according to Appelbaum and Paton (2003), argued that this mystique, like its counterpart, also subscribes to the magic of numbers; only it views their occult powers as a kind of black magic, effective only for evil ends. Appelbaum and Patton (2003) asserted that no research technique or measurement should be rejected or used a priori; the focus and scope of a project should lead to the research design. They further claimed that this lesson also applies to case studies, where both qualitative and quantitative measures can be used as warranted. The present study uses both qualitative and quantitative measures to understand the chosen subject of study.
In Appelbaum and Patton’s writing on approaches, they stated that Hamel (1993) observed that the case study takes shape as part of an inductive approach, where the empirical details that constitute the object of the study are considered in the light of the particular context. They pointed out that this is a major contrast to the reasoning applied in the natural science approach, where the uniqueness of the particular case is not considered. They maintained that the choice of either approach is determined by the aim of the research.

On the one hand, quantitative researchers have pressed for an explanation and control by searching cause and effect relationships between a smaller number of variables that are applicable to any setting. Research by Appelbaum and Patton (2003) regarding the debates, indicated that Stake (1995) asserted that qualitative researchers have pressed for understanding of the complex interrelationships among all elements present in a particular case. Appelbaum and Patton (2003) argued that this view supported Yin’s (1984) assertion that case studies are the preferred strategy, when the investigator has little control over events, and when the focus is on a contemporary phenomenon in some real-life context. The present researcher concurs with Yin’s (1984) perspective, as business studies relate to a complex and dynamic macro-environment in real life situations, not just theory relying solely on numbers, as is the case in investigating mergers and acquisitions in the ever-changing banking industry.

Yin (1984) identified four main applications of case studies:

- To explain the causal links in real-life interventions that are too complex for the survey or experimental strategies;
- To describe the real-life context, in which an intervention has occurred;
- To explore those situations, in which the intervention being evaluated has no clear single set of outcomes;
- To consider case studies useful for theory generation, while the natural science approach is usually employed for theory testing.

Appelbaum and Patton (2003) also relied on the research of Hamel (1993) to infer that all social science starts with a theory based on the review of related literature and that
the theory should be validated through study of a specific object, phenomenon or social problem. They maintained that a theory first emerges through the inductive approach of studying an empirical case or object, and not through a deductive process, and maintained that all theories are initially based on a particular case or object. Work they had done based on the findings of Eisenhardt (1989), argued that the case study method’s in-depth style and the use of different methods frees the researcher from the shackles of strict procedure, enhances thinking and increases the likelihood of generating novel theory.

3.5 NATURE OF THE RESEARCH PROBLEM AND CASE SELECTION

In justifying the CSR methodology as appropriate for a doctoral dissertation, Malhorta (2004:30-60) observed that the single most important factor in deciding upon a research method is the nature of the problem. Malhorta (2004) argued that research problem formulation should only take place after a thorough study of secondary data sources found in literature. In the previous chapter, an in-depth review of the sources of relevant literature and theoretical foundation was undertaken in this context. The research problem is underpinned by the relevant research questions that deal with the body of the unit analysis. The identified gap in the literature points to bias in the body of financial economics in studying trends on mergers and acquisitions from valuation to share price movements in pre- and post-merger periods. Where studies had been conducted on CSFs, the context and location of such studies remain an issue, as they tended to focus on East European central command economies and were thus difficult to apply in the South African context.

It was in the nature of the above research problem that the present researcher had to consider the most appropriate methodology, given the need to examine the problem, using a number of cases rather than one where \( n = 1 \). This view was supported in literature by Woodside and Wilson (2003:493), who argued that CSR, according to its definition in research by Yin (1994:13), means that “a case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and context are not clearly evident”. This is not intended to imply that CSR is limited to samples of \( n = 1 \). Woodside
and Wilson (2003:493) argued that the reporting of several case studies in one enquiry is possible, when the enquiry is intended to estimate the size of an effect (meaning the strength of a relationship between variables rather than to generalise to a population). They gave the example of meta-analyses, based on the research of Hunter et al. (1982), which provided tools for estimating the strength of a relationship.

Woodside and Wilson (2003) asserted that evidence is also available in organisational science and referred to the work of Nutt (1993), which involved the study of the business-to-business context. They advanced evidence from marketing literature through the research of Howard and Morgenroth (1968), who illustrated transforming the research context in one supply chain from \( n = 1 \) to \( n > 30 \), when examining alternative thought-action routes taken in separate, but seemingly similar decisions by senior decision-makers, a regional manager, a local distributor and two sets of competitors. It is in this context that the identified research problem is meant to examine a number of South African banks that – over the period 1990-2010 – embarked on mergers and acquisitions to grow their businesses, to establish whether managing strategic change is a dependent variable that affects the effective execution of mergers and acquisitions.

### 3.6 USE OF CASE STUDIES IN RESEARCH

#### 3.6.1 Case Study Research

In defining case study research, this definition is intentionally broader than the definition of Yin (1994:13), which suggested that a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not evident.

Van Wynsberghe and Khan (2007), in grappling with the definition of a case study, asked: Why is it so regularly invoked in educational and other social science research and yet, so irregularly, randomly and poorly defined? Van Wynsberghe and Khan (2007) further observed that the past three decades of scholarship on CSR have
produced more than 25 different definitions of a case study, each with its own particular emphasis and direction for research.

The following definitions were offered in determining the research paradigm being pursued:

“A case can be defined technically as a phenomenon for which we report and interpret only a single measure on any pertinent variable” (Eckstein, 2002:124).

“A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2003:13).

“A case study is a problem to be studied, which will reveal an in-depth understanding of a ‘case’ or bounded system, which involves understanding an event, activity, process, or one or more individuals” (Creswell, 2002:61).

Research by Patton and Appelbaum (2003:60) relied on the work of Yin (1984), who observed that in spite of their frequent use and long history, case studies have historically been stereotyped as a weak sibling among social science methods. Appelbaum and Paton (2003:60) also observed that investigators who use case studies, are regarded as deviated from their academic disciplines and that such investigations are thought to lack precision, objectivity and rigour.

This study asserted that there was a marked increased recognition of the relevance of case studies for doctoral research over the years, as evidenced by the literature review.

3.6.2 Relevance of Case Study Research for Doctoral Studies in Action Research

Herr and Anderson (2005:2) asserted that dissertations in the social sciences are not what they used to be and submitted that before the advent of more qualitative and action-oriented research, advice on how to do the standard five-chapter dissertation was fairly clear. According to them, students were advised to begin in a linear fashion, producing the first three chapters for the proposal defence and then adding a chapter
to report findings and another for implications and recommendations after the data had been gathered and analysed. They maintained that the qualitative dissertation, with its more emergent design and narrative style, challenged the notion that three completed chapters could be defended as a proposal or that five chapters were enough to “display” qualitative data effectively. They argued that over the past 30 years, dissertation committees and institutional review boards have become more tolerant of the unique needs of qualitative researchers. The view supports the use of the case study method for doctoral-level studies.

Herr and Anderson (2005), in tracing the history of qualitative research, pointed out that action researchers were academics or professional researchers, who involved research participants in their studies to a greater extent than was typical with traditional research. Research by Herr and Anderson (2005) argued that participatory forms of action research are merely variants of applied research and that the difference lies merely in the degree to which participants are included. Herr and Anderson (2005) further argued that participants are involved from the inception of the research to the writing and presentation of the final report. They indicated that an increasing number of doctoral students in fields such as community psychology, social work, nursing and international development wanted to conduct dissertation studies, in which their outsider status is tempered by collaboration with insiders, and in which action is central to the research.

Herr and Anderson (2005) further argued that as more working professionals have begun receiving doctoral degrees, there has been a tendency for action researchers to be insiders in their professional settings, making them at once both researcher and practitioner. They drew on the doctoral programmes in education, which have produced a significant number of dissertation studies in recent years done by organisational insiders and observed that these practitioner researchers often wanted to study their own contexts because they want the research to make a difference in their own setting by making a practical contribution to the improvement of practice in their chosen field of study.

These researchers were of the opinion that the expectation that a successfully completed programme will contribute significantly to professional knowledge and
practice was central to the purpose of obtaining a professional doctorate from both the educational and organisational provider perspectives. Doctorates aim to contribute to the expansion of knowledge, whether theoretical, applied or both, and professional doctorates in particular require demonstration of a contribution to improvement and enhancement of professional knowledge and practice. In this study, the present researcher is of the view that there is enough literature evidence that justifies using a case study approach in doctoral studies to gain knowledge that could be applied practically in the business environment and also in theory development and workplace practices.

This was supported by Iqbal (2007:17), who argued in favour of the case study method and ruled out other available methods for studying an organisation. Iqbal (2007) wrote that the three methods available to conduct a study in an organisation are action research, field experiment and case study. Iqbal (2007) defined action research as aimed at building features through intervention via a planned change initiative over a long period. It is restricted to a single entity, the outcomes are difficult to generalise, the researcher cannot control the variables and the interpretation depends upon individual researchers (Iqbal, 2007). Iqbal (2007) further asserted that the aim of a field experiment is to test a hypothesis within a relatively short period and argued that it is difficult to find an organisation on which to experiment and even harder to achieve replication, but conceded that in these circumstances, the case study seems a convenient way to gain understanding of a contemporary phenomenon in its real-life context and within a time constraint. He concluded that the case study approach concentrates on using historical data in an unspecified time span, although performance over a three- to five-year period is considered sufficient to arrive at a reasonable conclusion.

Iqbal (2007) further observed that knowledge can be transferred, when dissertations generate new theory that can be used to help explain similar problems in other contexts. Research he conducted, based on the work of Anderson, Herr, and Nihlen (1994), described an action research study by classroom teacher Cynthia Ballenger (1992) that informed and expanded the existing theory base on early childhood literacy. Ballenger (1992), cited by Iqbal (2007), documented what she eventually
called the “shadow curriculum”, a product of children's social networks in the classroom that supplements the enacted curriculum.

Iqbal (2007) asserted that action research can also result in products and instruments that can be used in other settings. He referred to Mock (1999), who developed and validated the Personal Vision Scale to explore the concept of transformational leadership in a community setting and argued that this scale, which assesses various stages in the leader's visioning process, can be used by other community groups in selecting and training community leaders. Therefore, action research can be applied in real-life settings and practices.

This study drew insights from action learning that can be applied in the banking industry and the broader field of other industries to understand the phenomenon of mergers and acquisitions. In this study, a collective conceptual framework for studying a group of case studies on South African banks was adopted. Stake (1995) defined three conceptual frameworks, namely, (a) intrinsic – where the researcher holds an interest in the case, (b) instrumental – when the case is used to explain deeper issues, and (c) collective – studying a group of cases.

3.7 MIXED METHOD RESEARCH DESIGN

Cresswell (2008:09) described mixed method research as both a method and a methodology for conducting research that involves collecting, analysing and integrating quantitative and qualitative research in a single study or a longitudinal programme of enquiry. Cresswell (2008:09) further posited that the purpose of this form of research is that both qualitative and quantitative research in combination provide a better understanding of a research problem or issue than either research approach alone.

Abowitz and Toole (2010:113) argued that in using multiple methods to study the same problem, recurrent patterns or consistent relationships among variables can be detected, including results that are independent of one particular data source or type of measurement and its inherent weaknesses. Abowitz and Toole (2010:114) further
opined that the mixed-method approach is based on the premise that an effective body of research on a topic should include more than one research approach.

According to Wahyuni (2012:72), multi-method qualitative research refers to using more than one data collection technique and applying multiple methods to analyse these data, using non-numerical (qualitative) procedures to answer the research question. Here, the investigation should result in both a descriptive model as to how the world is, and prescriptive suggestions as to how the world should be. Thus, CSR should ideally be performed through a two-stage case study, using both qualitative and quantitative data collected from multiple sources, and predominantly qualitative analysis procedures applied in a sequential design.

Abowitz and Toole (2010:1150) also argued that a mixed method approach could incorporate unobtrusive research methods and the use of existing organisational or industry data, for example, to complement self-reported survey data. Hence, the researcher selects incorporation of the case study data that is incorporated into this study.

Venkatesh, Brown, and Bala (2014:22) concurred with the view of other researchers, who suggested that a peaceful co-existence of multiple paradigms is feasible in a research inquiry. Venkatesh et al. (2014:22) further suggested that if a mixed-methods approach helps a researcher find theoretically plausible answers to their research questions, and if the researcher is able to overcome the cognitive and practical barriers associated with conducting mixed-methods research, they should undertake such research without much consideration of paradigmatic or cultural incommensurability.

According to Cresswell (2008:06), a mixed method researcher collects both quantitative and qualitative data, mixes them either at the same time (concurrently) or one after the other (sequentially) and emphasises both equal or unequal. To deal with this dilemma facing a mixed method researcher, Cresswell (2003:211) suggested a systematic framework for approaching mixed methods research. The framework consisted of four decisions and design options that a mixed method researcher ought to consider, when using a mixed method approach.
According to Cresswell (2003:211), the 4 (four) decisions to consider are:

I. What is the implementation sequence of data collection?
II. What method takes priority during data collection and analysis?
III. What does the integration stage of finding involve?
IV. Will a theoretical perspective be used?

Cresswell (2008:28) posited that a mixed methods researcher should also consider the design options as shown in Table 7:

### Table 7: Design options for mixed methods

<table>
<thead>
<tr>
<th>Design Name</th>
<th>Equal Priority</th>
<th>QUAN emphasis</th>
<th>QUAL emphasis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concurrent, triangulation</td>
<td>QUAL + QUAN</td>
<td>QUAN+qual</td>
<td>QUAL + quan</td>
</tr>
<tr>
<td>Concurrent, embedded</td>
<td>n/a</td>
<td>QUAN (qual)</td>
<td>QUAL (quan)</td>
</tr>
<tr>
<td>Explanatory, sequential,quan first</td>
<td>QUAN → QUAN</td>
<td>QUAN → qual</td>
<td>quan → QUAL</td>
</tr>
<tr>
<td></td>
<td>QUAN</td>
<td>QUAN</td>
<td>(quan) → QUAL</td>
</tr>
<tr>
<td>Exploratory sequential, qual first</td>
<td>QUAL → QUAN</td>
<td>QUAN</td>
<td>QUAL → quan</td>
</tr>
<tr>
<td></td>
<td>QUAL</td>
<td>QUAN (quan)</td>
<td>QUAN (quan)</td>
</tr>
<tr>
<td>Sequential, embedded</td>
<td>n/a</td>
<td>(qual) → QUAN</td>
<td>(qual) → QUAL</td>
</tr>
<tr>
<td></td>
<td>QUAN</td>
<td>QUAN (qual)</td>
<td>QUAN (quan)</td>
</tr>
</tbody>
</table>


As shown in Table 7, Cresswell (2003:211) described **Concurrent Triangulation** as characterised by two or more methods used to confirm, cross-validate or corroborate findings within a study. Therefore, data collection is concurrent. On the other hand, Cresswell (2003:211) posited that **Concurrent Embedded** was characterised by nested approach that gives priority to one of the methods and guides the project, while another is embedded or “nested”.

On the authority of Cresswell (2003:211), **Sequential Explanatory** is characterised by collection and analysis of quantitative data followed by a collection and analysis of qualitative data. Cresswell (2003:211) further posited that **Sequential Exploratory** is characterised by an initial phase of qualitative data collection and analysis followed by a phase of quantitative data collection and analysis. Lastly, Cresswell (2003:211) described **Sequential Embedded** as characterised by: Collection and analysis of either quantitative or qualitative data first, with the results integrated in the interpretation phase.
In this study, the *Sequential Exploratory* design option was selected due to its suitability to overcome the limitations of a single design and to explore the phenomenon of mergers and acquisitions comprehensively. This study determined the extent to which the critical success factors affect mergers and acquisitions in the case of the South African banking industry. The purpose of this exploratory sequential design was to develop an integrated framework (taxonomy) that can be applied by practitioners involved in mergers and acquisition activities in the field of financial economics. The first phase of the study was an exploratory qualitative survey design and the multiple case study design on the phenomenon of mergers and acquisitions. This was done by collecting data from a large number of organisations through mail questionnaires and interviews, from participants in the South African banking industry, which were analysed, using statistical techniques. The study design included: (1) a survey of different organisations in the banking industry and (2) a multiple case study of the four big banks in South Africa.

The second quantitative phase was followed by the qualitative phase for the purpose of validating the initial outcomes of the exploratory survey design and case material. In the quantitative phase, data were collected from participants and also sourced from a credible banking industry database such as the South African Reserve Bank BA 900 and D1900 databases, annual reports and electronic sources such as BFA MacGregor research-ware.

Quantitative research questions/hypotheses were formulated after the completion of the initial qualitative phase. The reason for collecting qualitative data initially was the minimal availability of guiding theory of the effect of critical success factor variables on the phenomenon of mergers and acquisitions.
As illustrated in Figure 6, Zachariadis, Scott, and Barrett (2013:867) demonstrated the use of mixed methods, including case studies, as shown in Figure 6:

Figure 6: Mixed methodology

3.7.1 Qualitative Research
McGloin (2008:45) described qualitative research as concerned with explaining social phenomena. McGloin (2008:45) further described qualitative research as focused on Peoples behaviour being the effects of events on people, cultural influences and developments and differences between social groups. In this research, a case study method was selected because it provides an intensive, in-depth method of enquiry, focusing on a real-life case and using a variety of sources of evidence. In this research, the purpose of the case study is to provide a critical analysis of effective critical success factors in merger and acquisition activity that will result in the formulation of a theoretical framework that can be applied in similar or related industries.
3.7.2 Case Study

In this study, the case study design was used predominantly. Hence, this sub-section was devoted to describing what this design entailed. Yin (1994) argued that although widely associated with the qualitative paradigm, the case study provides a flexible approach that can use a variety of methods, enabling it to generate quantitative data. Yin (2003) considered that should a combination of approaches be used, these need to be identified explicitly at the beginning of the study in a conceptual framework.

In this study, a collective study of a group of cases in the South African banking industry was the preferred approach. Cooper and Schindler (2011:181) submitted that a case study – also referred to as the case history – is a powerful research methodology that combines individual and (sometimes) group interviews with record analysis and observations. Cooper and Schindler (2011:181) wrote that researchers also extract information from multiple sources.

Other research by McGloin (2008) considered the purpose of the case study as providing a critical analysis of practice that will result in the transformation of practice in others. The present study sought to study the effects of managing strategic change in mergers and acquisitions to seek practical solutions for executing these successfully and sustainably beyond the consummation of a transaction.

A CSR method, examining the South African banking sector, supported by an appropriate theoretical framework, based on a literature review and empirical data, was applied. This was supported by a survey of the top CEOs of large banks operating in South Africa, which involved interviews with the top CEOs and senior managers involved in mergers of the large banks. It also included interviews conducted with regulatory and competition authorities in respect of the approval or rejection of the mergers and acquisitions and their perception of the current situation.
In an attempt to understand the case study approach advocated by Yin (2003), McGloin (2008:48) proposed three types of case study that can form the conceptual framework:

I. **Exploratory** – Debates the value of further research, suggesting various hypotheses;
II. **Explanatory** – Explains aspects and causal arguments identified by the descriptive research;
III. **Descriptive** – Describes the phenomenon.

Research by McGloin (2008:48), based on the work of Stake (1995), identified three further types as:

I. **Intrinsic** – Where the researcher holds an interest in the case;
II. **Instrumental** – When the case is used to explain deeper issues;
III. **Collective** – Studying a group of cases.

Research by McGloin (2008) defined the key features of the case study as scientific and provided the evidence base for professional applications by exploring the reality of practice and policy issues. Further research by McGloin (2008) called for reliable qualitative research to provide the evidence base for inter-professional education. This adds weight to the assertion that the case study provides an appropriate methodology for such an enquiry.

### 3.8 REASONS FOR SELECTING CASE STUDY RESEARCH

Crowe, Cresswell, Robertson, Huby, Avery, and Sheik (2011:01), in defining the case study approach, asserted that it allows in-depth, multi-faceted explorations of complex issues in their real-life settings. They argued that the case study approach is particularly useful to employ, when there is a need to obtain an in-depth appreciation of an issue, event or phenomenon of interest in its natural real-life context. The present study intended to appreciate managing strategic change in the real business world of banking in the context of mergers and acquisitions.
Crowe et al. (2011:01) defined a case study as a research approach that is used to generate an in-depth, multi-faceted understanding of a complex issue in its real-life context, saying that it is an established research design that is used extensively in a wide variety of disciplines, particularly in the social sciences. They wrote that a case study can be defined in a variety of ways, the central tenet being the need to explore an event or phenomenon in depth and in its natural context. Furthermore, they argued that it is for this reason that the case study approach is sometimes referred to as a “naturalistic” design; this is in contrast to an “experimental” design (such as a randomly-controlled trial), in which the investigator seeks to exert control over and manipulate the variable(s) of interest.

Further research by Crowe et al. (2011) on the case study approach drew on the work of Stake (1995) that had been particularly influential in defining the case study approach to scientific enquiry. Crowe et al. (2011) recognised that Stake (1995) had helpfully characterised the three main types of case study as intrinsic, instrumental and collective, and defined an intrinsic case study as typically undertaken to learn about a unique phenomenon. The research by Crowe et al. (2011) showed that Stake (1995) claimed that an instrumental case is used to gain a broader appreciation of an issue. The researchers reflected that Stake (1995) observed that the collective case study involves studying multiple cases simultaneously or sequentially in an attempt to generate still broader appreciation of a particular issue.

In this study, the purpose was to examine more than one of the mergers and acquisitions in the South African banking industry to generate a body of knowledge to understand the phenomenon of mergers and acquisitions.

The research plan of this study employed the CSR method as the primary source of evidence. According to Seawright et al. (2008:294), case selection is the embryonic task of the CSR, for in choosing cases, one also sets out an agenda for studying those cases. This means that case selection and case analysis are intertwined to a much greater extent in CSR than in large-N cross-case analyses. Indeed, the method of choosing cases and analysis of those cases can scarcely be separated, when the focus of a work is on one or a few instances of some broader phenomena.
The focus of this study was the major mergers and acquisitions that resulted in the emergence of the Big Four South African banks, namely the Standard Bank Group, First Rand Group, Absa (now Barclays Africa Group) and Nedbank Group. The broader phenomenon tested was how these mergers had either created or destroyed value through the management of strategic change. McGloin (2008:45) argued that case study methodology offers a creative and credible approach to help underpin contemporary practice.

Research by McGloin (2008:45) provided evidence that CSR is gaining increasing credibility as a suitable research methodology, for example in healthcare research studies. Further research by McGloin (2008) indicated that there is still a debate about the validity, trustworthiness and rigour of qualitative research, the paradigm associated most closely with the case study approach. Research also by McGloin, indicated that the issue of the trustworthiness of CSR is still closely scrutinised.

Diefenbach (2008:877) argued that there is definitely no lack of such tools for qualitative research, referring to inductivism, heuristics, hermeneutics, phenomenology, ethnography, interpretivist/constructivist and critical approaches, several types of ‘realism’, narrative analysis, naturalistic, emergent and discourse analysis.

Van Wynsberghe and Khan (2007:03) defined a case study as a method or means in the following definition: “The case study offers a means of investigating complex social units consisting of multiple variables of potential importance in understanding the phenomenon”.

Van Wynsberghe and Khan (2007:03) contended that a case study is not a method because case study researchers cannot actually collect data prescriptively using the case study. They argued that despite the existence of many different types of case study (for example, exploratory, explanatory, extreme, multisite, critical, theory-confirming, intrinsic, instrumental, ethnographic, longitudinal and deviant), none of them require specific data collection procedures. Second, case studies have also been referred to as research designs. Research by Van Wynsberghe and Khan (2007:03) stated that:
“Case study is a research design best defined as an intensive study of a single unit (a relatively bounded phenomenon), where the scholar’s aim is to elucidate features of a larger class of similar phenomenon”.

Van Wynsberghe and Khan (2007:03) also relied on the work of Yin (2003), who described a research design as an action plan that guides research from the questions to the conclusions and includes steps for collecting, analysing and interpreting evidence according to pre-established propositions, units of analyses, logic for linking the data to the propositions, and application of set criteria for interpreting the findings.

Van Wynsberghe and Khan (2007:03) contended that the term methodology, like case study, has little definitional clarity and is commonly used interchangeably with the term method. Research used by Van Wynsberghe and Khan (2007:03) defined methodology as “the analysis of the intersection (and interaction) between theory and research methods and data”. Other research used by Van Wynsberge and Khan (2007:03) defined methodology as a theory and analysis of how research should proceed and includes accounts of how the general structure of theory finds its applications in particular scientific disciplines.

Van Wynsberghe and Khan (2007:03) stated that methodology, according to Harding’s definition, must be situated in the context of the dominant paradigm: The natural sciences. For example, feminism qualifies as a methodology because in part, it privileges techniques (for example, intensive interviews) that elicit evidence from the individual about how her experience reflects the broad patterns of interaction that give rise to system inequalities. Van Wynsberghe and Khan (2007:03) contended that providing a rationale for the intensive interview involves discussing how the social sciences generate new knowledge and how a feminist approach is a challenge to the natural science paradigm. Van Wynsberghe and Khan (2007:03) relied on Stake (2005), who contended that the case study differs from methodology by stating, “Case study is not a methodological choice, but a choice of what is to be studied”.

In this study, the use of the CSR method for a longitudinal study over two decades was selected as the most appropriate method to assess the impact of these mergers on the industry and to determine the current situation.
3.9 SAMPLING

According to Cooper and Schindler (2011:167), sample sizes for qualitative research vary by technique, but are generally small. Abowitz and Toole (2010:109) opined that in a sampling plan, there are two initial questions: The type of sample or sampling procedure used and the sample size. Abowitz and Toole (2010:109) further argued that good science typically involves probability-based sampling, an example of which is a “random” sample to minimise the chance of bias within the data. Schreuder, Gregoire, and Weyer (1999:281) defined a probability sample as one for which every unit in a finite population has a positive probability of selection, not necessarily equal to that of other units.

Cooper and Schindler (2011:167) wrote that qualitative research involves non-probability sampling. Cooper and Schindler (2011:167) further noted several common types of non-probability sampling such as purposive sampling, snowball sampling and convenience sampling. According to Cooper and Schindler (2007:167), purposive sampling involves researchers choosing participants arbitrarily for their unique characteristics or their experiences, attitudes or perceptions as conceptual or theoretical categories of participants developed during their interviewing process and seeking new participants to challenge emerging patterns. Noy (2008:327) defined snowball sampling as a procedure, when a researcher accesses informants through contact information that is provided by other informants.

Noy (2008:327) argued that the process of snowball sampling is, by necessity, repetitive. Informants refer the researcher to other informants, who are contacted by the researcher and then refer the researcher to yet other informants, and so on. Hence, the evolving ‘snowball’ effect, captured in a metaphor that touches on the central quality of this sampling procedure: Its accumulative (diachronic and dynamic) dimension. Noy (2008:327) suggested that snowball sampling is arguably the most widely employed method of sampling in qualitative research in various disciplines across the social sciences. Cooper and Schindler (2011:167) defined convenience sampling as a method, in which researchers select any readily-available individuals as participants.
According to Van Wynsberghe and Khan (2007:04), a prototype of the case study delineates the properties or features that are necessary (but insufficient in and of themselves) for the research to be categorized as a case study. A prototype view offers a way of thinking about the case study that allows for variability.

Van Wynsberghe and Khan (2007:04) suggested a number of common features in a prototypical case study, in which the size of the sample is dealt with. In the case of Small = N, the case study calls for an intensive and in-depth focus on the specific unit of analysis and generally requires a much smaller sample size than survey research (Gomm, Hammersley, & Foster, 2000; Yin, 2004). Efforts to perform broad analyses with large numbers of participants can reduce the effectiveness of a case study, as it might come at the expense of detailed description. For example, a single classroom’s use of a computer simulation could be an N = 1.

According to Eisenhardt and Graebner (2007:27), theoretical sampling simply means that cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs. They contended that just as laboratory experiments are not randomly sampled from a population of experiments, but rather chosen for the likelihood that they will offer theoretical insight, so too are cases sampled for theoretical reasons, such as revelation of an unusual phenomenon, replication of findings from other cases, contrary replication, elimination of alternative explanations and elaboration of the emergent theory.

Eisenhardt and Graebner (2007:27) further contended that theoretical sampling of single cases was straightforward. They were chosen because they were unusually revelatory, extreme exemplars, or opportunities for unusual research access (Yin, 1994). Eisenhardt and Graebner (2007:27) contended that research typically exploits opportunities to explore a significant phenomenon under rare or extreme circumstances. Research used by Eisenhardt and Graebner (2007:27) stated that single-case studies can richly describe the existence of a phenomenon.

Multiple cases enable comparisons that clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated by several cases (Eisenhardt, 1991). Multiple cases also create more robust theory because the propositions are
more deeply grounded in varied empirical evidence. Constructs and relationships are more precisely delineated because it is easier to determine accurate definitions and appropriate levels of construct abstraction from multiple cases.

In this study, the non-probability sampling selected for the qualitative survey research was purposive sampling of the CEOs and Country Heads of the foreign and locally registered banks with the South African Reserve Bank. The same sampling method was applied to select the participants to supply the case study evidence of the “Big Four” banks, namely, Absa (“Barclays Africa Group”), FirstRand Group, Nedbank Group and Standard Bank Group.

3.9.1 Study Population and Participants

According to Rowley (2014:318), the first step in identifying potential participants is to consider the population for the study. Rowley (2014:318) wrote that in an ideal situation, the researcher should select a sufficiently large sample from the population to ensure that the sample is representative of the population, using a suitable sampling method. Rowley (2014:318) also wrote that there a number of different approaches to selecting such a sample, including probability and non-probability sampling. According to Rowley (2014:318), probability sampling is viewed as ideal because a probabilistic sample is one that is representative of the population from which it is drawn and therefore, statistical generalisations about the population can be made on the basis of the sample data.

In this study, the CEOs and senior executives of the 72 (seventy two) local and foreign banks, as per the Reserve Bank of South Africa registration database, were the participants, who supplied the information. The study population was composed of mergers and acquisitions in the South African banking industry. To mitigate against poor response due the pressures that CEOs face to accede to interviews, current and former senior executives in regulatory organisations were also snowball-sampled.

In this study, 4 (four) case studies, inter alia, Barclays Africa Group, Standard Bank Group, FirstRand Group and Nedbank Group were selected. Seawright and Gerring (2007) observed that choosing good cases for an extremely small sample is a challenging endeavour. They argued that most case studies seek to elucidate the
features of a broader population and are about something larger than the case itself, even if the resulting generalisation is issued in a tentative fashion. Whereas other scholars proposed randomisation, Seawright and Gerring (2007) argued that a randomised case selection procedure will often produce a sample that is substantially unrepresentative of the population.

Seawright and Gerring (2007) stated that given the insufficiencies of randomisation and the problems posed by a purely pragmatic selection of cases, the argument for some form of *purposive* case selection seems strong. While they both conceded that it is true that purposive methods cannot entirely overcome the inherent unreliability of generalising from small V samples, they nonetheless believed that these methods make an important contribution to the inferential process by enabling researchers to choose the most appropriate cases for a given research strategy, which may be either quantitative or qualitative.

### 3.9.2 Sample Size

Marshall, Cardon, Pooldar, and Fontenot (2013:11) opined that other than selecting a research topic and appropriate research design, no other research task is more fundamental to creating credible research than obtaining an adequate sample.

Marshall et al. (2013:11) further opined that data saturation entails continually bringing new participants into the study until the data set is complete, as indicated by data replication or redundancy.

Marshall et al. (2013:11) used the research work in grounded theory studies of Creswell (2007), who recommended at least 20 to 30 interviewees; Denzin and Lincoln (2005), who recommended 30 to 50 interviews; and Morse (2002), who recommended 20 to 30 interviewees, with 2 to 3 interviews per person.

Marshall et al. (2013) recommended that (a) small sample size studies generally involved more contact time with each interviewee (longer interviews and/or repeated interviews); (b) theoretical saturation generally occurs between 10 and 30 interviews; and (c) once a researcher believes saturation has occurred, they should conduct
several additional interviews to test, whether existing themes and categories are sufficient.

In this research, the study population of participants for the survey consisted of 72 (seventy-two) CEOs / senior executives of local and foreign-controlled banks as per the South African Reserve Bank registration database. In this study, a total of 15 interviews were conducted. This was well within a minimum saturation point of between 10 and 30 interviews to draw inferences.

Furthermore, a collective case of the large South African banks was selected and delimitated to develop the case study research purposively around the phenomena of mergers and acquisitions that could present an international benchmark and framework for future activities of a similar nature. All other banks registered with the SARB were also sampled for the survey research, where relevant.

The survey involved interviews with the top CEOs and senior managers/retired experienced officers of banks that are / were directly involved in mergers of the large banks. In addition, interviews were conducted with regulatory and competition authorities in respect of the approval or rejection of the mergers and acquisitions and their perception of how these mergers and acquisitions had performed.

3.10 UNIT OF ANALYSIS

Research by McGloin (2008:45), based on the work of Bryar (2000), McDonnell (2000), Vallis and Tierney (2000) and Hewitt-Taylor (2002), showed that the case (or unit of analysis) could be a person, family, ward or organisation. According to Dolma (2010:169), the term ‘unit of analysis’ can be defined simply as “the entity that is being analysed in a scientific research”. However, Dolma (2010:169) equally asserted that in organisational behaviour and managerial sciences, for example, a typical unit of analysis are employees, supervisors, top managers, customers, work teams, departments and business corporations, to name some.
In this research, because the unit of analysis for a scientific study was what the researcher was studying, the unit of analysis was a merger or an acquisition, for which “top executive CEO / senior executive leadership”, the stakeholder community with exposure to and insight into the merger and acquisition activities of the South African banking industry were the providers of information. Therefore, the participants were the senior leadership, made up of current and former CEOs and senior executives of local and foreign-controlled banks registered with the South African Reserve Bank.

Van Wy nsberghe and Khan (2007:06) proposed that the definition of a case study is, in part, a response to ongoing discussions about the relationship between the unit of analysis and the case itself.

McGloin (2008) argued that Yin (1994), who was regarded as an authority on this subject, defined the case study as: “An empirical enquiry that investigates a contemporary phenomenon in its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used”. The present researcher also relies on the definition advanced by Yin (1994).

Diefenbach (2008:879) observed that the selection of the unit of investigation does not happen systematically and objectively; for gathering empirical data, site(s) or units of investigation have to be selected. Diefenbach (2008:879) advanced the view that companies are not chosen because they are representative of that particular industrial sector, but because of already established links to one or some of their managers.

Diefenbach (2008:879) argued that in a methodological sense, they are selected randomly, quite often according to the researcher’s personal interests.

Diefenbach (2008:879) further argued that two different types of representativeness are being confused, namely quantitative and qualitative. Diefenbach (2008:879) proposed, on the one hand, that checking all possible sites systematically (‘objectively’) in order to find a quantitatively representative sample is only crucial, if the findings are to be generalised by statistical means.
On the other hand, Diefenbach (2008:879) observed that, if the findings are to be generalised qualitatively, — for example, in the sense of grounded theory and in the belief that an inductive approach is possible — then there is no methodological need whatsoever for quantitative representativeness or for the unit of investigation to be selected ‘objectively’. Diefenbach (2008:879) concluded that what is needed is assurance that the site and unit of investigation are suitable for the type(s) of problem(s) that have to be investigated.

Taylor, Dossick, and Garvin (2011:303) contended that the paramount element of data collection and its measurement in case studies as a standard of the burden of persuasion is “clear and convincing evidence”. This describes the situation, where an argument is substantially more true than not true. In case-study research terms, researchers should meet the guidelines presented in the “preponderance of evidence” standard and in addition, include longitudinal data collection, utilise multiple researchers and/or raters and triangulate data to meet the clear and convincing evidence standard.

3.11 DATA COLLECTION AND MEASURING

Van de Weijer, Van Cleempoel, and Heynen (2014:21) asserted that standards of good research are deemed to include a systematic process that has rigour, transparency, communicability, repeatability, validity and originality.

Marcyzk et al. (2005:198) identified the process of data analysis as involving 3 (three) key steps. These are inter alia; preparing data for collection, analysing the data and interpreting data, which involves testing hypotheses and drawing inferences.

Marcyzk et al. (2005:199) opined that any study that involves data collection requires some procedure to log the information and cautioned that without a well-established procedure, data can easily become disorganised, uninterpretable and ultimately unusable. It is in this regard that Marcyzk, DeMatteo, and Festinger (2005:199) advised that the researcher should carefully plan how data will be logged, entered,
transformed and organised into a database that will facilitate accurate and efficient statistical analysis.

In this study, primary data, collected and processed through a questionnaire and interviews, was logged into a Data Codebook, clearly identifying the variable name, its description, formats, instrument source, date collected, informant group and its location. The researcher also kept a Recruitment Log of the participants and informants approached, regarding their participation into this research. These sources were also triangulated with the cases’ research data research, using the South African Reserve Bank BA 900 and D1900 databases, annual reports, electronic sources such as the web and publication materials.

3.11.1 Use of a Questionnaire
Ambrose and Anstey (2010) argued that each research problem, requiring the collection of information from individuals, presents a major challenge, namely the design of the study instrument. Whether this collection employs an interview procedure, a respondent-completed questionnaire or even an observation by the researcher, the hurdle confronting the researcher is, “What subject areas should be included in the study instrument?” A frequently used method of research of human populations is the questionnaire.

Ambrose and Anstey (2010) contended that the extensive use of the questionnaire technique has probably resulted in more poor-quality designs than designs that would be considered meritorious. In their view, everyone struggles with the questionnaire design assignment; even those who have developed some facility in questionnaire design always find the task challenging.

These authors further articulated that there is limited guidance in the process of questionnaire design; the process is probably more of an art than a science. If the strict principles of a science were applied, one could move forward with assurance. However, as in any art, the challenge is one that involves the creative element. Ambrose and Anstey (2010) cautioned that one cannot expect there will be an array of procedures related to the dimension of creativity in the questionnaire design.
Generally, knowledge about questionnaire design is related to the composition and character of questions and wording, which is a very limited foundation.

Despite the challenges expounded by Ambrose and Anstey (2014), Mohsen (2014) observed that one of the most important steps in the research cycle is to collect data. There are different methods available to do so, including application of a checklist, filling out a questionnaire or conducting an interview. According to Mohsen (2014), evidence suggests that the most common method of gathering data in research is filling out a questionnaire; it is thus very important that the questionnaires are designed so well that they help researchers to collect valid and reliable data.

Therefore, in this study, a questionnaire comprised of both open and close-ended questions was drawn up to elicit information from the study population to prove the theoretical framework and research evidence distilled from the case studies. Research questionnaires were distributed through e-mail as online questionnaire and/or by face-to-face by hand, over and above semi-structured interviews. Data from the questionnaires was analysed and illustrated through graphic representation and statistical analysis. Empirical data was also collected through interviews with current and former CEOs and senior managers, regulators and competition authorities involved in the large bank mergers in South Africa.

Mohsen (2014) proposed a 10-point guideline of good practice by researchers, when designing a questionnaire, as shown in Table 8:
### Table 8: Good practices for designing a questionnaire

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<tbody>
<tr>
<td>1</td>
<td>Make sure you conceptualise the aims of your study by conducting an extensive literature review. This is the first important step in your research that should not be overlooked.</td>
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<tr>
<td>2</td>
<td>Make sure you design a questionnaire only, when you have not found an already designed questionnaire that effectively meets the aims you have outlined in step 1. An already designed questionnaire saves your resources.</td>
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<td>3</td>
<td>Make sure you design a valid and reliable questionnaire that is not too long. Remember that for a self-administered questionnaire people do not spend more than 20 minutes filling it out.</td>
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<td>4</td>
<td>Make sure you begin your questionnaire with an opening letter in order to simply introduce yourself and the aims of your study.</td>
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<tr>
<td>5</td>
<td>Make sure you provide the participants with clear instructions on how to complete the questionnaire. Ensure you do not begin the questionnaire with sensitive questions. Leave them until the end of your questionnaire.</td>
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<tr>
<td>6</td>
<td>Make sure you do not pose an ambiguous question or a “double-barrelled” question, such as a question that asks two items simultaneously.</td>
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<td>7</td>
<td>Make sure you end your questionnaire by acknowledging the cooperation of the participants.</td>
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<td>8</td>
<td>Make sure you use an attractive format in terms of layout, font, size, paper, and so on, for your questionnaire.</td>
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<tr>
<td>9</td>
<td>Make sure you pre-test the questionnaire before actually using it on the targeted population.</td>
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<tr>
<td>10</td>
<td>Pre-testing helps you to pick up any mistakes or ambiguities, which can then be rectified.</td>
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#### 3.11.2 Use of Interviews

Doody and Noonan (2013) described an interview as a method of collecting data, in which quantitative or qualitative questions can be asked. Quantitative questions are closed, whereas qualitative questions are open-ended, with participants responding in
their own words. Interviews are the most frequently used method of collecting data in qualitative research, and their popularity is related to their being perceived as 'talking', which is natural.

Doody and Noonan (2013) stated that there is a range of formats from which to choose, including structured, unstructured and semi-structured interviews. The research design determines the method most likely to generate the data to answer the research question. Like other methods of data collection, interviews have advantages and disadvantages, as indicated in Table 3 below:

<table>
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<th>Table 9: Interview assessment</th>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>They are useful to gain insight and context.</td>
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<tr>
<td>They help participants describe what is important to them</td>
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<td>They are useful in generating quotations and stories.</td>
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<tr>
<td>They enable the researcher to develop a rapport.</td>
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<tr>
<td>They give the researcher the opportunity to observe as well as listen.</td>
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<td>They enable more complex questions to be asked.</td>
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<tr>
<td>The researcher can explain the purpose of the research and answer any questions the participant may have about the study.</td>
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<tr>
<td>The researcher can probe the participants’ responses and seek further clarification.</td>
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</table>
The researcher can explore participants’ reasons for acting in a certain way or their interpretations of events. They are susceptible to bias, which may include:
- The participants’ desire to please the researcher.
- Saying what they think / feel the researcher wishes to hear, such as giving an official point of view rather than their personal view.

Interviews can be rewarding for participants, as they stimulate self-exploration and discovery. Participants can derive the personal benefit of the telling of their story.


3.11.2.1 Structured interviews
Doody and Noonan (2013) explained that in structured interviews, each participant is asked the same questions, using the same wording and in the same order as all the other participants. This is done with the assistance of an interview schedule that contains the set protocol of questions and ‘probes’, and is adhered to throughout the interviews.

3.11.2.2 Unstructured interview
Doody and Noonan (2013) described an unstructured interview as often starting with a broad, open question concerning the area of study, with subsequent questions dependent on the participants’ responses. Doody and Noonan (2013) argued that the term ‘unstructured’ is misleading in the sense that no interview is entirely devoid of structure; if this were so, the data gathered may not be appropriate to the research question. While the interview is, therefore, non-directive and flexible, the researcher follows an interview guide, comprising themes rather than specific questions. This enables the participants' thoughts and interests to be explored in depth, which, in turn, generates rich data.
3.11.2.3 Semi-structured interview

The most common type of interviews used in qualitative research are semi-structured interviews, which involve the use of predetermined questions, where the researcher is free to seek clarification. An interview guide is developed to collect similar types of data from participants, which creates a sense of order.

Al-Yateem (2012) wrote that data obtained from qualitative interviews are usually recorded, transcribed and then inspected for evident themes. Recording is usually achieved through audio or video techniques, and this process has a great deal to offer the researcher. The recording can be viewed or listened to repeatedly in case of doubt or during data analysis, and it provides a basis for reliability and validity.

In this study, empirical data was accumulated through gathering information through face-to-face, semi-structured interviews with CEOs and senior executives of banking entities. Doody and Noonan (2013:30) argued that this interview format can be flexible, with open-ended questions and the chance to explore issues that arise spontaneously. The researcher is free to vary the order and wording of the questions, depending on the direction of the interview, and ask additional questions.

3.11.2.4 Selection of interviewees

The argument that the selection of interviewees does not happen systematically and objectively to ensure representativeness is put forward. Diefenbach (2008:879) criticised particularly the case study, saying that its claims to empirical generalisability of the data are not sustainable.

Diefenbach (2008:879) argued that the selection of interviewees is already part of organisational politics. According to Diefenbach (2008:879), interviewees selected have the opportunity to put forward their world-views and, therefore, influence the outcome of the research. The victims of such research are “those who have relatively little opportunity to influence its nature and direction, but whose interests may be adversely affected by its results” (Diefenbach, 2008:879).

Diefenbach (2008:879) also suggested that researchers must “do everything we can to see to it that the debate is fair, that no-one’s voice is excluded or demeaned, and
that the vested interests of the powerful, who usually end up having their way, are restrained”. Diefenbach (2008:879) concluded that researchers have to describe clearly, which persons were interviewed and their status, to limit the findings and conclusions to these particular world-views, which are only a certain part of social reality, and put them into perspective, in other words reflect the wider picture. Interviewees are influenced by the interview situation and are not a reliable source of information because of unconscious bias; it is not only the interviewer, but also the interviewee(s) who ‘spoil’ the data. One way this can happen is unconsciously, meaning that the interviewee (and perhaps the interviewer, too) is not aware of the influences of the interview situation and their internal, unconscious reactions to being asked ‘officially’ about certain issues.

Diefenbach (2008:884) argued that the validity of interview data can be assessed concerning how well the statements made by interviewees about their perceptions and opinions (second reality) are mirrored in the presentation of the findings. The internal validity of the data is also influenced by the researcher. Like the selection of the research problem, unit of investigation and research questions, the selection of the data gathered depends to a large extent or even solely on the judgment of the researcher. Diefenbach (2008:884) argued that the selection and grouping of data (first steps of working on transcripts, searching for categories and patterns, marking up or cutting up the data, and constructing outlines) are mainly countless decisions about the inclusion and exclusion of data in the report, their relative status and importance in the whole framework.

### 3.12 CASE STUDY DATA

According to Woodside and Wilson (2003:493), CSR is the enquiry focusing on describing, understanding, predicting and/or controlling the individual (for example, nationality). Woodside and Wilson (2003) pointed out that according to Yin (1994), a case study is an empirical enquiry that investigates a contemporary phenomenon of evidence. They said that such a view is not intended to imply that the CSR is limited to samples of \( n = 1 \). Woodside and Wilson (2003:494) accepted the classical research
of Howard and Morgenroth (1968) that illustrated the context of studying more than one case in a single study, thus moving from \( n = 1 \) to \( n > 30 \).

In this study, \( n = 4 \) of cases of bank mergers were studied. Patton and Appelbaum (2003:60) observed that while quantitative data often appears in case studies, qualitative data usually predominates. This study covered more than one case and used qualitative data derived from interviews and empirical data from a structured questionnaire to investigate mergers and acquisitions.

3.12.1 Case Selection and Database
In examining how scholars can select cases from a large universe for in-depth case study analysis, Seawright and Gerring (2008:294) asserted that random sampling is not typically a viable approach, when the total number of cases to be selected is small. They argued that while the existing qualitative literature on case selection offers a wide range of suggestions for case selection, most techniques discussed require in-depth familiarity with each case. Seawright and Gerring (2008) identified seven key selection procedures, namely typical, diverse, extreme, deviant, influential, most similar and most different cases. Seawright and Gerring (2008:294) identified quantitative approaches that meet the goals of the approach and that require information that can be gathered for a large number of cases.

They submitted that case selection is the first task of the case study researcher, for in choosing cases, one also sets out an agenda for studying those cases. They argued that case selection and case analysis are intertwined to a much greater extent in CSR than in large-N cross-case analysis and submitted that the method of choosing cases and the analysis of those cases can scarcely be separated, when the focus of a work is on one or a few instances of some broader phenomenon.

Comparative research by Seawright and Gerring (2008), using the work of Gerring (2004), concluded that most case studies seek to elucidate the features of a broader population. The writers discovered that case studies are about something larger than the case itself, even if the resulting generalisation is issued in a tentative fashion, as Gerring (2004) concluded. Seawright and Gerring (2008:294) argued that the chosen case is required to perform a heroic role, inferring that the case has to stand for
(represent) a population of cases that is often much larger than the case itself. Seawright and Gerring (2004:294) asserted that if cases involve countries, for example, the population might be understood as a region (for example, Latin America), a particular type of country (for example, oil exporters), or the entire world (over some period).

Seawright and Gerring (2008:294) further submitted that the problem of representativeness cannot be ignored, if the ambition of the case study is to reflect on a broader population of cases, but said that a truly representative case is by no means easy to identify. They stated that chosen cases must also achieve variation on relevant dimensions, a requirement that is often unrecognised. A third difficulty they identified is that background cases often play a key role in case study analysis. They argued that despite the importance of the subject and its evident complexities, the question of case selection has received relatively little attention.

Seawright and Gerring (2008:294) argued that scholars continue to lean primarily on pragmatic considerations such as time, money, expertise and access, and believed that they may also be influenced by the theoretical prominence of a given case.

Seawright and Gerring (2008:294) concluded that if cases are initially chosen for pragmatic reasons, it is essential that researchers understand retroactively how the properties of the selected cases agree with the rest of the population. Given the dangers of selection bias introduced, whenever researchers choose their cases in a purposive fashion, they submitted that case study researchers should choose cases randomly (2008:295).

Rowley (2002:23) advanced the perspective that case studies draw on multiple sources of evidence. These include documents, archival records, interviews, direct observation, participant observation and physical artefacts. Each of these different sources requires different approaches and is likely to yield different kinds of insights. Each source has its strengths and weaknesses, and the richness of the case study evidence base derives largely from this multi-facetted perspective.
A case study database of the evidence gathered needs to be collected. While a report or dissertation may be the primary distillation of the case study, a further outcome that strengthens the repeatability of the research and increases the transparency of the findings is a well-organised evidence base. This base may include case notes made by the investigators, case study documents that are collected during a case study, interview notes or transcripts and analysis of the evidence.

3.12.2 Triangulation
One of the great strengths of case studies, compared with other methods, is that evidence can be collected from multiple sources. Triangulation uses evidence from different sources to corroborate the same fact or finding.

Diefenbach (2008:882) argued that there is a definite need for further checking and additional information. This can and should be done in the sense of triangulation defined by Meijer et al. (2002:146), which means referring to additional data sources (for example, data collected from different persons, or at different times, or from different places), using different methods (for example, observation, interviews, documents, and so on), using different researchers, applying different theories, and using different types of data. Diefenbach (2008:882) concluded that all methods and approaches have their strengths and weaknesses and are appropriate only for certain problems; the combination of a few methods and tools helps to obtain a good picture.

3.12.3 Chain of Evidence
The researcher needs to maintain a chain of evidence. The report should make clear the sections of the case study databases that it draws upon, by appropriate citation of documents and interviews. Moreover, the actual evidence needs to be accessible in the databases. In the database, it should be clear that the data collection followed the protocol and the link between the protocol questions and the propositions should be transparent.

Eisenhardt and Graebner (2007:28) contended that a critical aspect of empirical research is presenting the evidence from which the theory of interest was inducted and state that in large-scale deductive studies, there is a widespread norm of
presenting theory and then empirical evidence in compact numerical tables that summarise statistical analyses of large amounts of data.

However, they argued that case data cannot be summarised too tightly because much of it consists of rich qualitative detail. In a single-case study, the challenge of presenting rich qualitative data is readily addressed by simply presenting a relatively complete rendering of the story within the text. The story typically consists of narrative that is interspersed with quotations from key informants and other supporting evidence. The story is then intertwined with the theory to demonstrate the close connection between empirical evidence and emergent theory.

In this study, a record of the chain of evidence was kept and coded appropriately to maintain its validity and reliability.

Analysing case study evidence is not easy. Typically, a case study database will include a multitude of different evidence from different sources. Data analysis of this rich resource is based on examining, categorising and tabulating evidence to assess whether the evidence supports the initial propositions of the study. The preferred strategy for analysis is to use the propositions that encapsulate the objectives of the study and have shaped the data collection. The researcher trawls through the evidence, seeking corroboration or rejection of the initial propositions, and then records relevant evidence and makes a judgement on whether the positions have been substantiated.

3.13 DATA ANALYSIS METHODS AND TECHNIQUES

3.13.1 Primary and Secondary Data

In support of the case study research method, data for this study was collected from both primary and secondary sources. Primary data was collected through a survey of current and former senior executive employees of the Big Four South African banks and regulatory bodies. A questionnaire, comprising two main components, was used. The first component required the participants to choose from a range of options,
including yes/no answers, open-ended questions and perceptions. The second component required the participants to use the five-point Likert scale to gauge their views, where one was strongly disagree, two was disagree, three was agree somewhat, four was agree and five was strongly agree.

Secondary data was collected from the published data and the annual reports of the Big Four banks, journals, official statistics, reports, Bankscope surveys, financial statements, articles, publications and other documents; electronic data were also used. These sources were used in the collation of case study evidence.

3.13.2 Statistical Data Analysis Techniques
The collected data was analysed, using both qualitative and quantitative techniques. Descriptive statistics were used to analyse the survey data. Inferential statistical tools were used to measure the associations between of effective M&As and critical success factors.

3.13.3 Survey Data Collection and Preparation
In preparation to collect and prepare the survey data, analysis software tools were used. According to Rowley (2014:323), there are three main groups in terms of data analysis software, *inter alia*: Web survey software such as SurveyMonkey; office software such Excel; and specialist research data analysis software such as Statistical Package for Social Science (“SPSS”). In this study, the questionnaire was posted online to participants with the support and permission of the Banking Association of South Africa; its data were analysed using SurveyMonkey and Excel tools and the data was exported to SPSS. Cooper and Schindler (2011:423) described the distribution of data as an array of value counts from lowest to the highest value of a variable, resulting from tabulation of an incidence. Cooper and Schindler (2011:423) further stated that descriptive statistical measures are used to depict the centre, spread and shape of distributions. Rowley (2014:323) argued that Excel, being part of Microsoft Office suite, is readily available and contains a reasonable range of functions for cleaning data (such as sorting and filtering, removing duplicates and data validation) and formulae for calculating totals, counts, percentages, means, medians, standard deviations, correlation coefficients, frequency distributions all accompanied by pop-up help.
Rowley (2014:323) described SPSS as a specialist package that is a core tool for academic research and is a must for any quantitative researcher at doctoral level or beyond, and it is reasonably easy to learn its basics. According to Rowley (2014: 323), the advantages of SPSS are that it can help check and verify data and also to generate descriptive statistics and charts and graphs used to describe and explore data. Rowley (2014:323) also highlighted that SPSS offers a range of statistics for exploring relationships between variables.

In this study, data generated from questionnaires and semi-structured interviews was captured, primarily using Statistical Package for Social Sciences (SPSS) with exports from Excel and the SurveyMonkey software. SPSS is a widely-used package that offers the user all the routine computation statistics used in social and environmental surveys.

3.13.4 Descriptive Statistical Analysis

Cooper and Schindler (2011:423) posited that descriptive statistical measures are used to depict the centre, the spread and shape of distributions. In this study, measures of central tendency, measures of variability and measures of shape were used. Measures of central tendency used were the mean (average response), median (midpoint of the distribution) and mode (frequently occurring value). Measures of variability applied were variance, standard deviation and range. The measures of shape used were Skewness and Kurtosis. Cooper and Schindler (2011:427) posited that Skewness and Kurtosis described the departures from the symmetry of a distribution and its relative flatness and/or peakedness.

3.13.5 Inferential Statistical Analysis

i. Hypothesis Testing

According to Sandelowoski and Vogt (2009:07), the purpose of quantitising (numericals) is to answer research questions or test hypotheses addressing relationships between independent (or explanatory or predictor) variable(s) and dependent (or response or outcome) variable(s), constructed from both qualitative and quantitative data sets. Sandelowoski and Vogt (2009:07) further opined that the hypothesis in question may be addressed directly by consideration of the effect of a
variable generated by quantitising or indirectly by treating that variable as a covariate, mediator or moderator of the effect of some other variable.

In this study, the hypotheses were tested, applying a Student t-test on a sample population from small sample. According to Whitehead and Whitehead (1996:270), the Student t-test is so called because W.S. Gosset, who developed the test, wrote under the pen name “Student”. The test uses the variate $t$ instead of the normal variate $Z$-score. The t-test was used to determine the rejection or acceptance of variables.

Whitehead and Whitehead (1996:268) asserted that the first requirement of hypothesis testing is the null hypothesis. A null hypothesis is defined as a statement usually formulated as a restriction on the parameters of a probability distribution. Marcyzk et al. (2005:09) concurred with this view, when they described the null hypothesis as predicting that there will be no difference between groups being studied, whereas the alternate hypothesis predicts that there will be a difference.

Whitehead and Whitehead (1996:268) defined the parameters as the quantities that characterise a distribution such as mean, standard deviation, population correlation coefficient, and so on. In hypothesis testing, the level of significance is the statistical standard specified for rejection of the null hypothesis. This is usually specified in terms of the 5% significance level, such that the null hypothesis would be rejected, if the sample result was sufficiently far from the hypothesised result for there to be a 5% probability only of it occurring, if the null hypothesis were true. The level of 5% is usually chosen, but the 1% significance level is also applied.

I. Pearson's Product Moment Coefficient $r$

According to Cooper and Schindler (2011:492), management questions frequently revolve around the study of relationships between two or more variables. Cooper and Schindler (2011:493) further opined that correlations revealed the magnitude and direction of relationships. Cooper and Schindler (2011:493) stated that the Pearson correlation coefficient varies over a range of $+1$ through $0$ to $-1$, where the designation $r$ symbolises the coefficient's estimate of linear association based on sampling data. Cooper and Schindler (2011:493) asserted that the correlation coefficient reveals the magnitude and direction of relationships. In this study, the research question of, “To
what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions", being the nature of relationships between “critical success factors" and “effectiveness and efficiency of mergers and acquisitions", implied that one impacts upon the other, and vice versa. However, this study revealed that a number of critical success factors, such as vision and values, culture, leadership, stakeholders, and so forth supported the assumption that such variables impacted upon one another without implying that one caused the others and vice versa. Cooper and Schindler (2011:153) opined that possible relationships among variables occurred either in a symmetrical, reciprocal or asymmetrical nature. This study opted for the asymmetrical nature of relationships, implying that changes in the independent variable may be caused by one or more dependent variables.

A correlation analysis of dependent variables and independent variables was also be used to test, whether such variables are positively correlated or negatively correlated. Whitehead and Whitehead (1996:244) asserted that if there is a linear relationship between two variables, it is often useful to determine a line of best fit or regressional line through the data. In statistics, a regression line often describes a line that indicates the general path of change of data that are interrelated, using inspection, the arithmetic means method or method of least squares. This is usually applied in a scatter diagram on an x and y axis plane graph.

II. Regression Model Analysis

Cooper and Schindler (2011:528) described multiple regressions as one of the techniques used, when criteria or dependent variables and predictor or independent variables are present. However, Cooper and Schindler (2011:528) further opined that if variables are interrelated without designating some as dependent and others independent, then interdependence of the variables is assumed.
According to Cooper and Schindler (2011:530), multiple regression is used as a descriptive tool in three types of situations, *inter alia*:

I. To develop a self-weighting estimating equation, by which to predict values for a criterion variable (DV) from the values of self predictor variables;
II. To better evaluate the contribution of other variables;
III. To test and explain causal theories.

According to Cooper and Schindler (2011:531), the generalised equation is:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n + \epsilon \]

where

- \( \beta_0 \): a constant, the value of \( Y \) when all \( X \) values are zero;
- \( \beta_1 \): the slope of the regression surface (the \( \beta \) represents the regression coefficient associated with each \( X \);
- \( \epsilon \): an error term, normally distributed about a mean of 0 (for purposes of computation, the \( \epsilon \) is assumed to be 0).

### III. Analysis of Variance (ANOVA)

Cooper and Schindler (2011:477) defined analysis of variance (ANOVA) as the statistical method for testing the null hypothesis that the means of several populations are equal. In this study, ANOVA was selected to test the relationships since the sample was small and the variables were few. Cooper and Schindler (2011:478) also attested that ANOVA is reasonably robust and that minor variations from normality and equal variance are tolerable.

According to Cooper and Schindler (2011:478), the test for ANOVA is the \( F \) ratio, which compares the variance from the last two sources. Cooper and Schindler (2011:478) stated that to compute the \( F \) ratio, the sum of the squared deviations for the numerator and denominator are divided by their respective degrees of freedom. On the authority of Cooper and Schindler (2011:478), there should be no difference between population means, if the null hypothesis is true. However, where the population means are not
equal, the numerator should manifest the difference and the $F$ ratio should be greater than 1.

### 3.13.6 Deal Value-Added Metric and Du Pont Analysis

Osae (2010:102) described the DVA as a short-term metric used by McKinsey Consulting Group to determine value creation. Osae (2010:102) further opined that DVA is based on the assumption that positive DVA tends to correlate with long-term value creation. The difference between the combined market capitalisation of the two merging entities two trading days prior to the merger announcement and two trading days after the merger announcement, is measured. DVA is used to demonstrate the market's view and reaction as to whether they believe it is a good deal or not. In this study, DVA was used to describe how markets received the news of the bank merger before and after the merger announcements.

However, Rehm, Uhlane, and West (2012:01) argued that measuring the value that mergers and acquisitions create, is an inexact science. Rehm et al. (2012:01) observed that typical analyses such as DVA compare average share prices before and after a deal is announced, using short-term investor reactions indicative of how much value it would create. On the one hand, Rehm et al. (2012:01) argued that one advantage is that it provides a measure of expected value unaffected by other variables such as further acquisitions or change in leadership. On the other hand, Rehm et al. (2012) pointed to its bias of results to larger deals that affect share prices and underrepresentation of smaller transactions, which are a majority of M&A. Rehm et al. (2012) also cautioned that such methods underestimate the value created by multi-deal strategies that can only be measured in the long term. It is for this reason and others that this study uses a mixed methodology that includes case studies to mitigate such shortcomings.

Furthermore, some elements of the Du Pont analysis model were also applied in determining the value of merged entities, using growth ratios over a 10 (ten)-year period. According to McGregor BFA, the Du Pont model was created by F. Donaldson Brown, who in 1914 and onwards, was employed by Du Pont Chemical Co in its Treasury Department. According to the Du Pont model, a company’s return on equity
is a function of three factors: A company's net profit margin; total asset turnover; and its financial leverage. The ROE is central to the valuation of mergers and acquisitions as it determines the return on average capital that shareholders have put into the business, particularly in a merger acquisition deal.

According to Whitehead and Whitehead (1996:189), time series analysis seeks to analyse a time series of data to distinguish the underlying trend in the data from the seasonal fluctuations. They argued that random variations are caused by abnormal events: Wars, strikes, natural disasters, economic failures, and so on. This research aimed to determine the underlying trends that influence the success or failure of mergers and acquisitions from 1990 onwards, in order to predict future developments of mergers and acquisitions.

Financial ratios were also be applied to measure the profitability, liquidity and credit quality of the Big Four merged entities to demonstrate their performance over the period, since the mergers covered the variables mentioned below.

### 3.13.7 Variables

Using a variety of secondary sources such as tracking BA 900 and D1900 data series from 2005 to 2014, the Big Four banks were compared in terms of the following variables as:

**Profitability**

Quresh et al. (2011) described profitability as most important to the firm's shareholders. Profit serves as the backbone of protection against adverse conditions such as losses on loans or losses caused by unexpected changes in interest rates. Ratios that show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders. Profitability is measured, using the following key financial ratios:

i. **Return on assets = net profit/total assets**

Webb (2010:39) described ROA as indicating the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments. The higher the ROA, the more profitable a bank is. In this study, it is critical to assess whether the
merged South African banks are profitable in relation to pre- and post-merger activity. In this study, ROA is headline earnings expressed as a percentage of average total assets.

**ii. Return on equity = net profit/total equity** –
JP Morgan Chase (2012) described ROE as providing the per-Dollar yield (in this case Rand yield) on investment to the equity holder or shareholder. If a shareholder had invested R1 at the time of the mergers, what would the returns be in today’s terms to assess the success or failure of these mergers? In this study, return on ordinary shareholders’ equity is headline earnings expressed as a percentage of average equity attributable to equity holders of the parent.

**iii. Price/Earnings Ratio = current share price: earnings per share**
JP Morgan Chase (2012:13) described the P/E ratio as a common investment ratio that compares the market value per share to the reported accounting earnings. According to JP Morgan Chase (2012:13), a high P/E ratio is often associated with prices that are driven by perceptions of high growth potential and/or safe earnings levels, although a high P/E ratio can also result from low reported earnings. JP Morgan Chase (2012:13) further distinguished 2 (two) types of P/E ratios. On the one hand, there is a “trailing P/E” that utilises the recent year-end earnings in the calculation, while a “forward P/E” utilises projected year-end earnings. In this study, the trailing P/E ratio will be applied due to a 10-(year) review period of each case study selected.

Liquidity measures the bank’s ability to meet short-term obligations. Webb and Kumbirai (2010:39) stated “liquidity is the life and blood of a commercial bank”. This is the case because banks mobilise mainly retail and wholesale deposits (liabilities on the bank’s balance sheet) over and above market borrowings and shareholders. The ideal is to attract retail deposits that are much cheaper than wholesale deposits.

**iv. Market capitalisation**
JP Morgan Chase (2012:13) described market capitalisation as the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding
by their current price per share. In this study, the periods of 1990, 2000 and 2013 will be compared among the merged entities.

v. Share price performance
In this study, the movement in share prices since 1990 was studied to determine the effectiveness of the merger bank entities. Data was sourced from the listings on the JSE and database on bank mergers from McGregor BFA, using the DVA method to compare data between pre-merger announcement and post-merger announcement periods.

3.14 VALIDITY AND RELIABILITY OF DATA AND RESULTS

Rowley (2002), in examining generalisation, validity and reliability, argued that these concepts establish the basis, on which other researchers should regard a piece of research as knowledge that can be assimilated into the knowledge base of a field of study. Rowley (2002) asserted that it is therefore important to demonstrate that these issues have been fully considered, and that generalisation of the case study is important to contribute to theory. Rowley (2002) further observed that generalisation can only be performed, if the case study design has been appropriately informed by theory, and can therefore be seen to add to the established theory.

The method of generalisation for case studies is not statistical generalisation, but analytical generalisation, in which a previously developed theory is used as a template, with which to compare the empirical results of the case study. If two or more cases are shown to support the same theory, replication can be claimed. In analytic generalisation, each case is viewed as an experiment, not as a case within an experiment. The greater the number of case studies that show replication, the greater the rigour, with which a theory has been established.

In this case study, a number of bank merger cases in the South African banking landscape were analyzed, as large banks had a greater impact on the banking industry. The CSR of the large South African banks demonstrated the theory that could be replicated in the body of knowledge.
### 3.14.1 Generalisation

Gomm, Angwin, Peter, and Mellahi (2009) observed that CSR has often been criticised on the grounds that its findings are not generalisable, especially by comparison with those of survey research. Gomm *et al.* (2009) further observed that the response of some case study researchers to this criticism had been to deny that their work is designed to produce scientific generalisations. Research by Gomm *et al.* (2009), based on the work of Stake (1994), argued that case studies facilitate learning on the part of those who use them and that this involves ‘naturalistic generalisation’, quite a different kind of generalisation from one that is characteristic of science.

In this study, the subject of investigation, South African banking, given its significance in the global banking industry, was an appropriate unit of analysis that was deemed to be the basis for further theory development.

Gomm *et al.* (2009) noted that some case study researchers suggested that the goal of their work is not the production of general conclusions and that this does not detract from its value. They cited Stake (1994), who talked about an 'intrinsic case study, which involves the investigation of particular cases for their own sake’, saying that there is some justification for this argument. Gomm *et al.* (2009) advanced the view that research case studies are of sufficient interest in themselves to a target audience for the findings to have intrinsic value.

Gomm *et al.* (2009) asserted that CSR that is not evaluative can still have intrinsic interest. They referred to a study on decision-making procedures in the Cabinet room of the British Government that is sure to have sufficient intrinsic relevance, obviating any need to try to generalise the findings to other governments. They argued that it seems that there are severe limits on the applicability of this justification to CSR and stated that most evaluation research is concerned not just with whether the policy or programme studied has worked in the case investigated, but also whether it would work elsewhere. In other words, its practical application can be demonstrated.
Atkinson and Delamont (2010:04) classified the problems with conventional wisdom about CSR into five misunderstandings or oversimplifications about the nature of such research:

**Misunderstanding 1:** General, theoretical (context-independent) knowledge is more valuable than concrete, practical (context-dependent) knowledge.

**Misunderstanding 2:** One cannot generalise on the basis of an individual case; therefore, the case study cannot contribute to scientific development.

**Misunderstanding 3:** The case study is most useful for generating hypotheses; that is, in the first stage of a total research process, whereas other methods are more suitable for testing hypotheses and building theory.

**Misunderstanding 4:** The case study is biased toward verification, that is, it has a tendency to confirm the researcher’s preconceived notions.

**Misunderstanding 5:** It is often difficult to summarise and develop general propositions and theories on the basis of specific case studies.

Atkinson and Delamont (2010) argued that these five misunderstandings indicate that it is theory, reliability and validity that are at issue; in other words, the very status of the case study as a scientific method. In this study, the researcher submitted that action-learning from case studies made a meaningful contribution both to theory and practice and was therefore beneficial.

### 3.14.2 Authenticity and Authority

Whose voice is recorded in the case study report? Some researchers use the case study as a method of ‘allowing the voices of participants to be heard’. This position is based on a rejection of any authority on the part of the researcher. On the other hand, some would argue that the very act of conducting research undermines the authenticity of the voices to which researchers seek to listen, and that the very act of interacting with the participants changes the case study situation (Gomm et al. (2009).

In this study, the researcher, who has worked in the industry, applied all the necessary ethical care to mitigate bias or subjectivity, to allow the phenomenon to reveal itself.
Gomm et al. (2009) relied on the research work of Yin (1994), who suggested an approach that is primarily positivistic in perspective and can be characterised by the following positions:

1. The analytic approach to generalisation is to be taken.
2. Theory should inform propositions, and propositions should inform data collection and analysis.
3. The researcher acts as commentator, in representing and interpreting the case in a way that relates to previous theory.

Atkinson and Delamont (2010), using the research of Gomm (2000), conceded that there is an ongoing debate on each of these positions, which reflects the different perspectives taken by the positivist and phenomenological schools of research philosophy and strategy.

3.14.3 Validity and Reliability

Rowley (2002), in examining generalisation, validity and reliability, argued that these concepts establish the basis, on which other researchers should regard a piece of research as knowledge that can be assimilated into the knowledge base of a field of study and asserted that it is therefore important to demonstrate that these issues have been fully considered. Generalisation of the case study is important to contribute to theory; it can only be performed, if the case study design has been appropriately informed by theory and can therefore be seen to add to the established theory (Rowley, 2002).

Rowley (2002:20) mentioned four tests that have been widely used to establish the quality of empirical social research:

I. **Construct validity** – Establishing correct operational measures for the concepts being studied. This is concerned with exposing and reducing subjectivity, by linking data collection questions and measures to research questions and propositions.

II. **Internal validity** (for explanatory or causal studies only, and not for descriptive or exploratory studies) – Establishing a causal relationship through which
certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.

III. External validity – Establishing the domain to which a study’s findings can be generalised. Generalisation is based on replication logic, as discussed above.

IV. Statistical validity – Demonstrating that the operations of a study, such as the data collection produced, can be repeated with the same results.

In this study, multiple regression tests, analysis of variance (ANOVA) and Pearson’s product moment correlations were used to test the relationship between variables of interest to establish reliability and validity in an attempt to mitigate against generalisation.

3.15 ETHICAL CONSIDERATIONS AND BIAS MITIGATION

3.15.1 Ethical Considerations
Research by Frechtling and Boo (2012), on the ethics of management research, relied on the ideas of Ryan (2005), who concluded that researchers must act with honesty and integrity while pursuing justice.

Marczyk et al. (2005:235) traced the origins of ethical consideration in research in the Nuremberg Code and the Helsinki 12 Principles. According to Marczyk et al. (2005:235), the Nuremberg Code was developed in response to the Nuremberg Trials of Nazi doctors, who performed unethical experimentation. The Code provided guidelines that participants should be able to consent, were free from coercion (outside pressure) and that they comprehend risks and benefits involved. The Helsinki 12 Principles promote respect for persons, beneficence, justice, confidentiality, informed consent, voluntary and knowingness. Both codes emphasised that researchers should minimise risk and harm, ensure that risks do not outweigh potential benefits, promote use of appropriate study design and guarantee participants freedom to withdraw at any time.
Cooper and Schindler (2011:32) defined ethics in research as norms or standards of behaviour that guide moral choices made by researchers and their relationships with others. Cooper and Schindler (2011:32) further asserted that the goal of ethics in research was to ensure that no one was harmed or suffered adverse consequences from research activities. As guided by Cooper and Schindler (2011:32), the researcher followed the three main guiding principles of:

I. Explain study benefits;
II. Explain participant’s rights and protections;
III. Obtain informed consent.

To explain the study benefits, the researcher complied with the guiding principle, through transparent introduction by name, the institution of learning and disclosure of the organisation with whom the researcher is associated, given the researcher’s association with the banking industry. The researcher described the purpose and benefit of the research, including how the study would benefit the participant and their related industry.

As the researcher of this study was a senior executive employee in one of the big banks that was a subject of the case study, full disclosure to the participants was made. The researcher also complied with the participants’ rights and protections by assuring participants in writing that their participation was voluntary and that all their responses would kept confidential. The researcher also complied with the principle of informed consent by informing participants of the nature of the research and obtaining voluntary and informed consent as per attached letter in Appendix A. The researcher also advised the participants that such consent maybe withdrawn at any time, if the participant(s) chose not to participate and this was without any obligations. The database of participants was restricted and data subsets were not disclosed. As the survey was conducted online, data mining ethics were also adhered to. Cooper and Schindler (2011:39) posited that the primary ethical data-mining issue in cyberspace were privacy and consent. In this study, the researcher used an industry-approved online tool called DigiSurvey that was widely accepted by banking institutions and regulators to flight the survey. The researcher also minimised invasiveness and
interference, particularly of the CEOs’ valued time by designing a survey instrument that could be completed between 10 and 15 minutes.

3.15.2 Bias Mitigation
Marcyzk et al. (2005:65) stated that research is conducted to systematically study specified variables of interest. Marcyzk et al. (2005:65) opined that any variable that is not of interest, but might influence the results, can be referred to as a potential confound, artefact or source of bias. Marcyzk et al. (2005:65) correctly argued that the primary purpose of research design is to eliminate these sources of bias, so that more confidence can be placed in the results of the study. Marcyzk et al. (2005:65) concluded that identifying potential sources of artefact and bias is therefore an essential step in ensuring the integrity of any conclusions drawn from data obtained during the study.

Diefenbach (2008:877) observed that it is true that qualitative research and social sciences are more vulnerable to the possible downsides of subjectivity that may influence the research negatively. Diefenbach (2008:877) attributed this phenomenon to the fact that social sciences cope with issues that are close to researchers’ own experiences and daily life and concluded that theoretically, often practically and emotionally, the researchers are somehow touched by the issues they are investigating.

Diefenbach (2008:877) used the research of Pyett (2003:1171) in dealing with the issue of subjectivity, and advanced the view that the question, therefore, is not how to exclude the human factor in research, but how to cope with the possible downsides of subjectivity. According to Diefenbach (2008:877), Pyett (2003:1171) said that researchers can contribute significantly to coping with that problem by making their own (implicit) assumptions, interests and objectives concerning the research and social practice as explicit as possible, and acknowledging, where relevant, their own philosophical and political perspectives.

Diefenbach (2008:876) argued that a researcher’s theoretical position, interests and political perspective will affect, if not determine, the research question and the methodological approach. Research by Diefenbach (2008:876), based on the work of
Collins (1992:182), observed that it is a common and perhaps one of the most fundamental criticisms of qualitative research that the entire qualitative research process is biased through implicit assumptions, interests, worldviews, prejudices and one-sidedness of the researcher. However, according to Pyett (2003:1172), whose work was referred to by Diefenbach (2008:876), researchers have their own subjective views, even in science and quantitative research, although it might be less obvious.

Diefenbach (2008:876) argued that particularly positivistic theories and models, formulas and diagrams imply objectivity and truthfulness that are simply not to be found. Research by Diefenbach (2008:876), who referred to Wainwright (1997), drew attention to the fact that random sampling and statistical testing ‘are not immune to manipulation by an unscrupulous researcher’. Diefenbach (2008:876) concluded that science in general is a human endeavour and therefore one cannot have ideas, assumptions, theories and formulas without the human factor. This view was supported by Patton (1990:372) as cited by Pyett (2003:1172), who concluded that “the human factor is the great strength and the fundamental weakness of qualitative inquiry and analysis”. Therefore, according to Diefenbach (2008:876), creativity and invention, science and social science are not possible without subjectivity. In this research, bias was mitigated by establishing and implementing elements of construct validity, internal validity, external validity and statistical validity.

3.16 CHAPTER SUMMARY

This chapter began by providing an insightful perspective on the selected research approach of both qualitative and quantitative methodology. The CSR methodology was justified as an invaluable tool to examine the unit of analysis, which is \( n = 4 \), the four major South African banks as case evidence. Literature evidence revealed that the use of the CSR method can contribute to theory and practice. The key elements of sampling by identifying the unit of analysis and study population were articulated. This led to the conclusion that multiple cases lead to building insights that could be applied in the general body of knowledge and theory for better practice.
The chapter also identified the statement of the problem as: “to what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions?”. This problem statement was expounded in the form of research questions and testable hypotheses. The research questions were aligned with the aim and the research objectives of this study. Furthermore, the approaches to research paradigms were explored to locate the research problem in the context of the body of knowledge and theory. Whereas this study used a mixed methodology, the rationale on why the case study method is selected was also articulated, describing its usefulness to generate knowledge through case evidence that could be applied practically in the business environment and also in theory development and workplace practices.

The chapter also dealt with all the research instruments and statistical tools and techniques to be applied in collecting and interpreting data. The researcher dealt with the key issues of objectivity and mitigating bias by examining the elements of validity and reliability of data. The chapter also dealt with the issue of ethical considerations, given the disclosure of the interest of the researcher who, at the time of this study, was working for one of the four major banks.
CHAPTER 4: RESULTS AND FINDINGS OF THE STUDY

4.1 INTRODUCTION

In Chapter 3, the research design and methodology were described. In this chapter, the results and findings of the study are reported. This study investigated mergers and acquisitions of the “Big Four” banks in the South African banking industry since 1990 and developed an integrated assessment framework based on quantitative, qualitative and case study evidence. The selected case studies were, *inter alia*; Absa (“Barclays Africa Group”), FirstRand Group, Nedbank Group and Standard Bank Group. The main research problem that this study sought to answer was, “To what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions?” This study sought empirical evidence for the following propositions, using qualitative, quantitative and case evidence, not to be rejected; that:

**H0:** There is no positive relationship between the alignment of visions and strategies of merging parties to increase the chance of success of M&A

I. **H01:** There is a positive relationship between the alignment of vision and strategies of merging parties to increase the chance of success of M&A.

II. **H02:** There is a positive relationship between the CEO leadership style and the chance of success or failure of M&A.

III. **H03:** There is a positive relationship between top management buy-in of a merger and cultural suitability of parties to merge.

IV. **H04:** There is a positive relationship between stakeholders’ interests and stability of the merger.
4.2 PRESENTATION OF THE SURVEY RESEARCH FINDINGS

4.2.1 Introduction
In this section, firstly, the survey response rate is discussed in sub-section 4.2.2. In line with the selected mixed-used methodology, the analysis of the survey results is presented in a two-fold perspective. Firstly, a quantitative analysis of the data collected is presented in sub-section 4.2.3. The second focus is on qualitative analysis of the data in sub-section 4.2.4.

The main research problem was posed as per the following question:

“To what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions?”

The following sub-questions in support of the main research questions were:

I. Why is alignment of vision and strategies between or among merging entities critical in mergers and acquisitions?
II. Why is top management (“executive leadership”) buy-in into a planned merger and acquisition activity significant?
III. To what extent is culture compatibility between the merging parties paramount for mergers and acquisitions to be effective?
IV. Why is acceptability of mergers and acquisitions by key stakeholders such as shareholders, regulators, competition authorities, staff, unions, clients and the general public critical?
V. How should merging parties deal with integration issues such as the choice of key executives, IT systems and cultural change?

I. Quantitative Findings
The quantitative section of analysis included the use of descriptive statistics generated from the survey questionnaires. The questionnaire was developed using web-survey software of SurveyMonkey and the DigiSurvey online, administered by Question Pro and interpreted, using Excel and SPSS as described in Chapter 3. Descriptive statistics selected included means, standard errors, median, modes, standard
deviations, sample variances, kurtosis, skewness, ranges, minimum and maximum, sums, \( n \)-population count and confidence levels. Various tables, graphs and charts were also used to depict results and findings.

II. Qualitative Findings
The qualitative section of the analysis included the coding of the data generated from the open-ended questions in the questionnaire. The open-ended data supplemented the constraint and limitations posed in accessing the CEOs of the selected banks through structured interviews. Themes were summarised and aggregated collectively. The number and percentage of participants were recorded to ascertain significant and emerging themes. A summary per question was provided.

This section was divided into two parts. Part 1 presented the results of the descriptive data analysis, whereas Part 2 provided the results of the inferential data analysis.

PART 1: DESCRIPTIVE DATA ANALYSIS

4.2.2 Response Rate
Due to the sensitive nature of the study and the fact that the present researcher at the time of this study worked for one of the banks, ethical considerations were followed by declaration and seeking permissions to administer an online questionnaire.

A questionnaire was developed, using both web-survey software of SurveyMonkey and the DigiSurvey online administered by Question Pro as described in Chapter 3. The SurveyMonkey online was found to be problematic due to most banks having blocked its software as “spam” to protect their IT systems and intellectual information.

In view of the above challenge, permission was sought and obtained from one of the banks, Nedbank, to host the questionnaire on its DigiSurvey online hosted at:  

\textit{nedbankdigisurvey.nedbank.co.za/a/t/AN21LZS4yz}

Further permissions were sought and agreed to by other banks, as they were familiar with this banking industry approved online research tool administered independently.
by Question Pro. It posed no adverse risk to their IT systems and intellectual property information. The tool is web-based and data generated is compatible with SPSS and other social research tools. The online questionnaire took on average 11 minutes to complete from the 10 to 15 minutes anticipated to accommodate the busy schedule of CEOs.

Rowley (2014:318) wrote that in an ideal situation, the researcher should select a sufficiently large sample from the population to ensure that the sample is representative of the population, using a suitable sampling method. According to the Banking Association of South Africa, the industry consists of 17 registered banks, 2 mutual banks, 12 local branches of foreign banks and 41 foreign banks with approved local representation. The target sample size was all 72 CEOs and Country Heads of 72 registered and represented banks in South Africa. The CEOs and Country Heads were polled from a recruitment log, indicating name of bank, name of CEO/MD/COO, telephone number, fax number, physical address, and contact e-mail of the PA.

After the online survey was activated, the response rate was initially slow due to the time constraints of mainly CEOs of banks. Follow-up through direct telephone calls were made to the offices of participants, who positively completed the survey. Additional informants were provided in certain cases as snowball population. Data saturation entails bringing new participants continually into the study until the data set is complete, as indicated by data replication or redundancy (Marshall, 2013:11).

Finally, a total of 32 participants had completed the survey out of 72 targeted. According to Dolma (2010:169), the term ‘unit of analysis’ can be defined simply as “the entity that is being analysed in a scientific research”. Dolma (2010:169) equally asserted that in organisational behaviour and managerial sciences, for example, typical unit of analysis are employees, supervisors, top managers, customers, work teams, departments, business corporations, to name some. In this research, “top executive leadership” made up of CEOs and the senior executive core in banks completed the questionnaire.
Marshall (2013) recommended that:

I. Small sample size studies generally involved more contact time with each interviewee (longer interviews and/or repeated interviews);

II. Theoretical saturation generally occurs between 10 and 30 interviews;

III. Once a researcher believes saturation has occurred, they should conduct several additional interviews to test whether existing themes and categories are sufficient. The researcher conducted 12 interviews out of 32 to reach a saturation point.

In total, 32 (thirty two) CEOs and senior executives of the 72 (seventy two) local and foreign-controlled and registered banks with the South African Reserve Bank completed the online questionnaire. This constituted a 44% return of the target population of 72 (seventy two) local and foreign-controlled banks in South Africa. This was considered an adequate sample for a credible research study to infer and generalise its results and findings on the target population.

4.2.3 Quantitative Findings
i. Responsibility in respect of Mergers and Acquisitions in their organisations
Participants were requested to best describe their primary role or responsibility in respect of mergers and acquisitions in their organisations.

![Figure 7: Sample population research results](image-url)
As illustrated in Figure 7, the demographic characteristics of the sample population that participated in the research study were described. A total of 6.25% of participants are non-executive. These were mainly chairmen and non-executive directors, who sit at board level. Non-executive directors exercise fiduciary duties and duty of care to safeguard and hold executive management to account on matters affecting banks, including decisions on mergers and acquisitions. An equal representation of managing directors or managing executives was at 6.25%. Although titles such as Chief Executive and Managing Directors are used interchangeably in the banking industry, none of the CEOs approached completed the forms, but referred the questionnaire to senior divisional executives, who were actively involved in mergers and acquisitions. This was snowball sampling as anticipated in Chapter 3.

As a result, 46.88% of participants were divisional executives, followed by middle management at 40.63%, who are involved in integration activities in mergers and acquisitions. Middle management comprised group strategists, senior financial managers, risk managers, sales managers, product managers, legal, compliance and governance officers and M&A analysts. Participants were requested to state their level of participation in M&A assessment and decision-making processes.
Figure 8: Level of participation in M&A decisions

Figure 8 illustrated the level of participation by the sample population in M&A activity in the past and in its decision-making processes. The study sought participants’ agreement on a Likert scale of 1 to 4 (where 1 = none, 2 = limited, 3 = moderate and 4 = extensive) with statements related to their level of participation. About 31.25% of participants recorded having had no previous participation in M&A decisions. This was due to M&A decisions largely taking place at board and group Excom level, mainly in investment management committees. About 28.13% of participants had a moderate participation, closely followed by 21.88%, who had limited participation. Only 18.75% of the participants had extensive participation, reflecting that decisions in M&A were usually made by those at the upper echelons within the banking industry. This correlated with Figure 7, where both non-executive directors and managing directors constituted on average 6.25% of the sample population.

The findings above indicated that top management is extensively involved in the M&A decision-making process. While a sizeable representation of 31.25% inferred that
middle management had no M&A participation or initial input, these were also the managers that were later required to implement and execute integration of acquired entities, giving rise to perceived lower buy-in.

**ii. Experience**

Participants were requested to state their total and financial industry experience.

As illustrated in Figure 9, out of 32 sampled participants, 53% had between 10 and 20 years of total banking and financial industry experience. About 19% had between 20 to 30 years of working in the banking industry. An equal number of participants at 19% had less than 5 years’ experience in the sector, reflecting the emerging managerial core of employees. Only 9.38% of participants had experienced greater than 30 years, reflecting the demography of the senior managerial core. The finding correlated in respect of the concentration of know-how on mergers and acquisitions within banks.
**Table 10: Descriptive statistics: Total banking and financial industry experience**

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<table>
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</tr>
<tr>
<td>Confidence Level (95.0%)</td>
<td>0.309</td>
</tr>
</tbody>
</table>

Cooper and Schindler (2011:427) described measures of shape skewness and kurtosis as departures from the symmetry of a distribution and its relative flatness. Wooldridge (2009:840) defined kurtosis as a measure of the thickness of the tails of a distribution based on the fourth moment of the standardised random variable and that the measure is usually compared to the value of the standard normal distribution, which is 3 (three). Wooldridge (2009:846) also defined skewness as a measure of how far a distribution is from being symmetric, based on the third moment of the standardised random variables.

As shown in Table 10 depicted that the mean at 3.19 on standard deviation of 0.86 and variance 0.74 reflected a significant dispersion from participants who had longer tenure to those with a short tenure, which affected their know-how of mergers and acquisitions.
iii. M&A Business Plan

4.3.1 M&A Business Plan is a Critical Component of Achieving Growth Strategy
Participants were requested to state whether their organisation had a clearly defined M&A business plan as part of achieving its growth strategy.

![Figure 10: M&A as a critical component for achieving growth](image)

$n = 32$; Mean $= 1.73$; Standard Deviation $= 0.92$; Variance $= 0.85$

As illustrated in Figure 10 about 63% of participants affirmed that the surveyed banks had M&A business plans as part of their long-term growth strategy. About 31.25% were unsure, with only 6.25% answering in the negative. The statistical numerical of the mean at 1.73, with both the standard deviation at 0.92 and variance 0.85 revealed a positive relationship that the majority of banks had plans to grow through M&A activities.

iv. Opportunities for Mergers and Acquisitions in the Banking Industry
Participants were requested to state to what extent they agreed or disagreed that there were more M&A opportunities for their business organisation than there were about 3 (three) years ago at the time of the study.
Figure 11: Opportunities for mergers and acquisitions in the banking industry

The study sought participants' agreement on a Likert scale of 1 to 5 (where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree) with statements related to the availability of M&A opportunities in the last 3 (three) years. As shown in Figure 11, about 34.38% of participants agreed, 25.00% neither agreed nor disagreed, 15.63% disagreed, 9.38% strongly agreed and 15.63% strongly disagreed.

The finding implied that participants had a positive outlook on mergers and acquisition and continued to hunt for opportunities, despite the prevailing economic climate at the time the research was conducted. The study sought participants' agreement on a Likert scale of 1 to 5 (where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree) with statements related to alignment of vision and values as critical to increased chances of success for mergers and acquisitions.
Table 12: Descriptive statistics: Opportunities for mergers and acquisitions in the banking industry

<table>
<thead>
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<th>Statistic</th>
<th>Value</th>
</tr>
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<td>Median</td>
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<td>Mode</td>
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<td>Standard Deviation</td>
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<td>Sample Variance</td>
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<tr>
<td>Kurtosis</td>
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<td>Skewness</td>
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<td>Confidence Level (95.0%)</td>
<td>0.433</td>
</tr>
</tbody>
</table>

As shown in Table 12, results reflected the use of statistical numerical measures of dispersion of the mean at 3.31, standard deviation at 1.20 and variance at 1.45. If its variance was (-1.0), it would have been a perfect negative relationship and meant that participants did not agree. If the variance was closer to (+1.07), it would have been a perfect positive relationship and participants would have therefore, agreed with the statement, that there were more M&A opportunities than there were about 3 (three years) at the time. Since the variance of 1.45 was a perfect positive, the findings implied and supported the view that there were more M&A opportunities, despite a quarter of all interviewed participants having remained undecided.
v. Global and Regional Markets Presenting Mergers and Acquisitions Opportunities

Participants were requested to state in which global or regional markets they saw opportunities for their organisations.

Figure 12: Global and regional markets presenting mergers and acquisitions opportunities

\( n = 32; \text{ Mean } = 2.93; \text{ Standard Deviation } = 0.33; \text{ Variance } 0.11 \)

As illustrated in Figure 12, 100% of participants overwhelmingly agreed that Africa had a massive opportunity for banks to grow through M&A activities. The measures of dispersion, particularly the mean at 2.93 reflected a positive relationship that Africa was a growth market for M&A activity.

vi. Alignment of Visions and Values is Key to Mergers’ and Acquisitions’ Chance of Success

Participants were requested to state to what extent they agreed or disagreed with the statement that when visions and values of M&A actors were aligned, there was a greater chance of success for the M&A activity. The findings shown Figure 13 implied that for mergers and acquisitions to have a chance of success, alignment of vision and values of the two or more merging parties was a significant critical success factor.
Figure 13: Alignment of visions and values increases the chance of success

\( n = 32; \text{Mean} = 4.28; \text{Standard Deviation} = 1.02; \text{Variance} = 1.05 \)

Table 12: Descriptive statistics: Alignment of visions and values increases the chance of success for mergers and acquisitions

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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<td>Standard Deviation</td>
<td>1.02</td>
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<td>Sample Variance</td>
<td>1.05</td>
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<td>Kurtosis</td>
<td>3.017</td>
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<td>Skewness</td>
<td>-1.768</td>
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<td>Minimum</td>
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<td>Sum</td>
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<td>Count</td>
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<tr>
<td>Confidence Level (95.0%)</td>
<td>0.368</td>
</tr>
</tbody>
</table>
As shown in Table 12, the use of statistical numerical measures reflected a dispersion of the mean at 4.28, standard deviation at 1.02 and variance at 1.05. If the variance was closer to (+1.07), it would have been a perfect positive relationship, where participants agreed with the hypothesis that when visions and values of two or more merging entities were aligned, then there was a greater chance of success for the planned M&A activity. If its variance was (-1.0), it would have been a perfect negative relationship that participants did not agree with such an assumption. Since the variance of 1.45 was a perfect positive, it meant that participants agreed with the hypothesis.

vii. The Extent to Which Bank Mergers Have Conserved, Destroyed or Created Value

Participants were requested – based on their own knowledge of and insights into the merger activity in the South African banking between 1990 and 2016 – to state what conclusions they would draw regarding the extent to which M&As had either conserved, destroyed or created value.

Figure 14: Findings: The extent to which bank mergers have conserved, destroyed or created value
\( n = 32; \text{ Mean } = 3.25; \text{ Standard Deviation } = 1.32; \text{ Variance } = 1.74 \)

As illustrated in Figure 14, the Likert scale used showed that about 56% of participants were of the view that the majority of bank mergers (80%) created value. About 19% of participants were undecided. About 10% were of the view that the majority of bank mergers (80%) conserved value. While zero % of participants believed that the minority of M&As destroyed value, 6% believed that the majority of mergers destroyed value. About 3% of participants were of the view that only a minority of mergers (20%) conserved value. About 6% of the participants were of the view that minority of bank mergers (20%) destroyed value. Since the variance of 2.23 was a perfect positive relationship, overall participants agreed that the majority of bank mergers (80%) had created value.

The findings implied that about 56% of the sampled management of local and foreign banks in South Africa agreed with the statement that the majority of bank mergers had created or conserved value over the long term.

**Table 13: Descriptive statistics: the extent to which bank mergers have conserved, destroyed or created value**

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<tbody>
<tr>
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<td>Standard Error</td>
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<td>Median</td>
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<td>Mode</td>
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<tr>
<td>Standard Deviation</td>
<td>1.32</td>
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<tr>
<td>Confidence Level (95.0%)</td>
<td>0.475</td>
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</table>
As shown in Table 13, the use of statistical numerical measures showed a dispersion of the mean at 3.25, standard deviation at 1.32 and variance at 1.74. If the variance was closer to (+1.07), it would have been a perfect positive relationship and meant that participants agreed with the hypothesis that M&A activity added or conserved value. If its variance was (-1.0), it would have been a perfect negative relationship and meant that the participants did not agree with the statement. Since the variance of 2.23 was a perfect positive relationship, it meant that participants agreed that the majority of bank mergers (80%) had created and conserved value.

**viii. Achievement of Financial and Non-Financial Expectations of Mergers and Acquisitions**

Participants were requested to state the extent they agree or disagree with the statement that South African bank mergers from 1990 until recently had achieved and met their expected outcomes, in financial and non-financial terms.

![Figure 15: Findings: Achievement of financial and non-financial expectations of mergers and acquisitions](image)

\[ n = 32; \text{Mean} = 3.38; \text{Standard Deviation} = 0.94; \text{Variance} = 0.88 \]

The study sought participants' agreement on a Likert scale of 1 to 5 (where 1 = strongly disagree, 2 = disagree, 3 neither agree nor disagree, 4 = agree and 5 = strongly agree) with statements related to achievement of financial and non-financial expectations of mergers and acquisitions. As illustrated in Figure 15, about 46.88% of participants
agreed, 40.63% strongly agreed, 6.25% of participants neither agreed nor disagreed, 6.25% disagreed. No respondent strongly disagreed.

The finding above implied a perfect positive relationship of the variance closer to (+1.07) that the participants agreed with the hypothesis that since 1990, the financial and non-financial expectations of mergers and acquisitions were being achieved.
Table 14: Descriptive statistics: Achievement of financial and non-financial expectations of mergers and acquisitions

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<table>
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<td>Confidence Level (95.0%)</td>
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As illustrated in Table 14, the use of statistical numerical measures resulted in a dispersion of the mean at 3.38, standard deviation at 0.94 and variance at 0.88. If the variance was closer to (+1.07), it would have been a perfect positive relationship that the participants agreed with the hypothesis. If its variance was (-1.0), it would have been a perfect negative relationship that the participants did not agree with the statement. Since the variance of 0.88 was a perfect positive relationship, it indicated that participants agreed that bank mergers in South Africa had largely achieved their expected financial and non-financial outcomes.

ix. Corporate Culture Compatibility of Merging M&A Actors
Participants were requested to state to what extent they agreed or disagreed with the statement that culture compatibility between M&A actors was paramount for a merger to take place.
The study sought participants’ agreement on a Likert scale of 1 to 5 (where 1 = strongly disagree, 2 = disagree, 3 neither agree nor disagree, 4 = agree and 5 = strongly agree) with statements related to culture compatibility between M&A actors as paramount for a merger to take place. As illustrated in Figure 16, about 46.88% of participants agreed, 28.13% neither agreed nor disagreed, 15.63% of participants disagreed, 3.13% strongly agreed and 6.25 % strongly disagreed.

The finding implied that culture compatibility between M&A actors was important to about half of all participants for an effective merger and acquisition to take place, given the often conflicting corporate cultures of merging entities.
As shown in Table 15, the use of statistical numerical measures produced a dispersion of the mean at 4.21, standard deviation at 0.83 and variance at 0.69. If the variance was closer to (+1.0), it would have been a perfect positive relationship. If its variance was (-1.0), it would have been a perfect negative relationship that the participants did not agree with the statement. Since the variance of 0.69 was positive, it meant that participants agreed that culture compatibility between two merging entities was important for a merger to be effective.

x. The Importance of Top Management Support for Planned Mergers and Acquisitions
Participants were requested to state their views regarding the importance of top management or executive leadership supporting a planned M&A activity.
The study sought participants’ agreement on a Likert scale of 1 to 5 (where 1 = least important, 2 = not important, 3 = undecided, 4 = important and 5 = most important) with statements related to the importance of top management or executive leadership support to a planned M&A activity. As illustrated in Figure 17, about 84.36% of participants were of the view that it was most important for top management / executive leadership to support a planned activity. An additional 15.63% were of the view that it was important. None were undecided and none of participants deemed the element as unimportant or least important.

The finding implied that if top management had good buy-in into a proposed merger acquisition activity, the chance of success for its consummation were dramatically enhanced. It was therefore paramount that top management had a collective ownership of the proposed merger activity.
Table 16: Descriptive statistics: The importance of top management’s support for planned mergers and acquisitions

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<table>
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<tr>
<td><strong>Standard Error</strong></td>
<td>0.07</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>5</td>
</tr>
<tr>
<td><strong>Mode</strong></td>
<td>5</td>
</tr>
<tr>
<td><strong>Standard Deviation</strong></td>
<td>0.37</td>
</tr>
<tr>
<td><strong>Sample Variance</strong></td>
<td>0.14</td>
</tr>
<tr>
<td><strong>Kurtosis</strong></td>
<td>2.077</td>
</tr>
<tr>
<td><strong>Skewness</strong></td>
<td>-1.987</td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>5</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>155</td>
</tr>
<tr>
<td><strong>Count</strong></td>
<td>32</td>
</tr>
<tr>
<td><strong>Largest (1)</strong></td>
<td>5</td>
</tr>
<tr>
<td><strong>Smallest (1)</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>Confidence Level (95.0%)</strong></td>
<td>0.133</td>
</tr>
</tbody>
</table>

As shown in Table 16, the use of statistical numerical measures generates a dispersion of the mean at 4.84, standard deviation at 0.96 and variance at 0.93. If the variance was closer to (+1.07), it would have been a perfect positive relationship that the participants agreed with the hypothesis. If its variance was (-1.0), it would have been a perfect negative relationship that the participants did not agree with the statement. Since the variance of 0.9 was a perfect positive relationship, this indicated no major dispersion from the assertion that it was important for executive leadership to support a planned execution. The finding was therefore, positively confirmed.

**xi. The Impact of Stakeholders’ Acceptance of Mergers and Acquisitions**

Participants were requested to identify the impact of stakeholders on the acceptability of a proposed M & A.
Figure 18: Findings: The impact of stakeholder acceptance of M&A

\[ n = 32; \text{Mean} = 4.79; \text{Standard Deviation} = 0.47; \text{Variance} = 0.22 \]

As illustrated in Figure 18, shareholders were selected by the participants at a frequency level at 17.54%, followed by regulators at 16.96%, competition authorities at 14.62%, staff at 12.87%, unions at 11.11%, clients at 9.94%, government at 6.43% and other competitors at 4.09.

The research findings implied that shareholders, regulators and competition authorities were regarded as significant in accepting a merger for approval, looking especially at the legal environment, compliance and shareholder support. The impact on staff and the safeguarding of employee conditions was reflected by staff and unions ranked to a lower third and fourth rank, implying the wider impact of mergers and acquisitions on these stakeholders. However, it also showed that M&As would also not go ahead, if they did not have total buy-in at the lower levels.

xii. Critical Success Factors for Mergers and Acquisitions

Participants were requested to rank the following factors according to their impact to improve the chance of success of M&A by selecting “1” for the most important and “5” for the least important.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Most Important</th>
<th>Least Important</th>
<th>Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Min.</td>
<td>Max.</td>
</tr>
<tr>
<td>Merger Preparation</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Choice of Key Executives</td>
<td>32</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>IT Systems</td>
<td>32</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Change Management</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Leadership Buy-In</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Clear Synergies</td>
<td>32</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Shareholder Acceptance</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Regulatory Approval</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Growing Economy</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Common Vision &amp; Values</td>
<td>32</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Positive Returns Above Cost of Capital</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Public Interest Is Served</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Access to Capital Markets</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Innovative Brand</td>
<td>32</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>
As depicted in Table 17, regulatory approval was ranked first by participants at 77.14%, with a positive relationship in the measures of dispersion with the mean at 1.51, the standard deviation at 1.12 and variance at 1.26. Due diligence was ranked second at 65.71%, with a stronger positive relationship reflected in the measures of dispersion with the mean at 1.60, standard deviation at 1.03 and variance at 1.07. Leadership buy-in and shareholder acceptance were ranked third, equally at 57.14%, with also a strong positive relationship that participants agreed with the statement. Merger preparation was ranked fourth at 51.43%, with a strong positive correlation of dispersion measures. The fifth ranked factor was the choice of key executives at 45.71%, with positive relationship of dispersion measures. The findings implied that the above top 5 (five) critical success factors are those that participants regard as paramount in improving the success of a merger.

PART 2: INFERENTIAL DATA ANALYSIS

xiii. Propositions
Participants were requested to reject or accept the following predictive statements that in their view best characterise South African mergers in the recent past.
In the above Figure 19, the proposition that “top management buy-in and cultural suitability increases the chance of success of a merger” received a 30.65% selection frequency. The next proposition was “stakeholders’ interests determine the acceptability of a merger” at 25.81%. This was followed by the proposition that “alignment of vision and strategies of merging entities increases the chance of success of M&A” at 24.19%. About 19.35% frequency was attributed to the proposition that the CEO leadership style had a direct impact on the chance of success or failure of M&A.

Since the variance of 1.25 was a perfect positive relationship, it indicated no major dispersion among participants on the 4 (four) predictive statements. Therefore, the propositions were accepted and not rejected. However, top leadership and culture compatibility of two merging entities was regarded as paramount for success of a merger.

xiv. Assumptions
According to Cooper and Schindler (2011:464), there are two general classes of significant tests: parametric and non-parametric. On the one hand, Cooper and
Schindler (2011:464) regarded the parametric tests as more powerful because their data were derived from interval and ratio measurements. On the other hand, Cooper and Schindler (2011:464) attested that non-parametric tests are used to test hypotheses with nominal and ordinal data. In this study, non-parametric tests were carried on nominal and ordinal data due to the small sample. The following assumptions were made that:

- The observations were independent variables;
- The population is normally distributed;
- The level of significance is 5% (.05).

In this study, Pearson’s (product moment) correlations, analysis of variance (ANOVA) and regression analysis were used to test the relationship between the variables of interest.

This study revealed the variables depicted in Table 12 in the following equation:


The independent variable (IV) was identified as “effective mergers and acquisitions”. The dependent variables ( DVs) are vision and values, culture compatibility, leadership, synergy, the economy, stakeholder acceptance and access to capital.
The data presented in Table 18 showed that the variables of vision and values, culture, leadership, synergies, favourable economy, access to capital and stakeholder plotted on a Pearson's Product Moment Coefficient $r$. Assumptions made were a confidence level of 95% and a significance level of 5% (.05). Given the mixed result, it can be concluded that the Pearson’s $r$ revealed a moderate positive relationship.

**Table 19: Analysis of Variance Results (ANOVA)**
As shown in Table 19, the ANOVA results showed that there was no positive linear relationship between the variables of interest. Since the $p$ value of 0.335 was $> 0.05$, it was therefore rejected. The null hypothesis was rejected with significant $F$-static of 33.51.

The study used multivariate regression to better understand the dependent variable of “effective mergers and acquisitions” and its relationship to the “critical success factors” that are independent variables of (1) vision and values, (2) culture compatibility, (3) leadership (4) synergies, (5) the economy, (6) stakeholders and (7) access to capital.

Using Excel and SPSS, the following multivariate regression equation was computed:

\[
\text{EffectiveM&A}(Q6.1) = \text{Vision&Values}(Q4) + \text{CultureCompatibility}(Q6.2) + \text{LeadershipSupport}(Q11) + \text{ClearSynergies}(Q14.7) + \text{GrowingEconomy}(Q14.10) + \text{StakeholderAcceptance/PublicInterest}(\text{Average:Q14.8/9/13}) + \text{AccessToCapital}(Q14.14)
\]

<table>
<thead>
<tr>
<th>Table 20: Multiregression statistics results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Multiple Regression</strong></td>
</tr>
<tr>
<td><strong>Regression Square</strong></td>
</tr>
<tr>
<td><strong>Adjusted Regression Square</strong></td>
</tr>
<tr>
<td><strong>Standard Error</strong></td>
</tr>
<tr>
<td><strong>Observations</strong></td>
</tr>
</tbody>
</table>

As shown in Table 20, the regression model revealed that the multiple regression $= .510$ to depict statistical significance was close or equal to .05 level of significance. This was supported by $R^2$ (regression square) adjusted from .260 to .045, and thus, aligning to the independent variables. Standard error $= .092$ was the standard deviation of actual values of $Y$ about the estimated $Y$ values. The regression model showed the relationship between the dependent variable of “effective mergers and acquisitions” and independent variables of vision and values, culture compatibility, leadership, synergies, the economy, stakeholders and access to capital. The results of the regression analysis are presented in Table 21 below:
Table 21: Results of regression analysis P-values

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>4.098</td>
<td>2.837</td>
<td>1.444</td>
<td>0.162</td>
<td>-1.758</td>
<td>9.953</td>
</tr>
<tr>
<td>Vision &amp; Values</td>
<td>-0.136</td>
<td>0.169</td>
<td>-0.801</td>
<td>0.454</td>
<td>-0.487</td>
<td>0.215</td>
</tr>
<tr>
<td>Culture Compatibility</td>
<td>-0.173</td>
<td>0.227</td>
<td>-0.761</td>
<td>0.454</td>
<td>-0.642</td>
<td>0.296</td>
</tr>
<tr>
<td>Leadership Support</td>
<td>0.092</td>
<td>0.553</td>
<td>0.167</td>
<td>0.869</td>
<td>-1.049</td>
<td>1.234</td>
</tr>
<tr>
<td>Clear Synergies</td>
<td>-0.469</td>
<td>0.245</td>
<td>-1.914</td>
<td>0.068</td>
<td>-0.975</td>
<td>0.037</td>
</tr>
<tr>
<td>Growing Economy</td>
<td>0.289</td>
<td>0.194</td>
<td>1.491</td>
<td>0.149</td>
<td>-0.111</td>
<td>0.690</td>
</tr>
<tr>
<td>Access to Capital Markets</td>
<td>-0.075</td>
<td>0.180</td>
<td>-0.417</td>
<td>0.680</td>
<td>-0.447</td>
<td>0.296</td>
</tr>
<tr>
<td>Stakeholder Acceptance</td>
<td>0.166</td>
<td>0.233</td>
<td>0.712</td>
<td>0.483</td>
<td>-0.315</td>
<td>0.647</td>
</tr>
</tbody>
</table>

According to Cooper and Schindler (2011:512), in multiple regressions, the $F$ test has an overall role for the model and each of independent variables is evaluated with a separate $t$-test. Based on the results depicted in Table 21, three variables showed a strong positive relationship with the effective mergers and acquisitions. These were the variable of “leadership support”, which was significant at the 10% level since its p-value = 0.869 (<.1), which at this level affected effective mergers and acquisitions. The variable “clear synergies” was also significant at the 10% level since its p-value = 0.068 (<.1), which at this level affected effective merger and acquisition. The variable “access to capital markets” was also significant at the 10% level since its p-value = 0.680 (<.1). However, the overall statistical evidence on variables indicated that there was no statistical significance as most variables have p-values >0.005. This was attributed to the survey sample of 32 CEOs out 72 approached, which resulted in $n = 32$. 

4.2.4 Qualitative Findings

In this sub-section, the results pertaining to the qualitative study are reported. The first source of the qualitative data comprised 10 (ten) interviews conducted telephonically as CEOs and senior executives had time and accessibility constraints and were not available for face-to-face interviews as per recruitment log. The second source of qualitative data recorded was generated using open-ended questions in the online survey that most of the target participants preferred to complete in their own time.

The qualitative data was reported, based on the 3 (three) perspectives, which were the building blocks for the development of assessment framework for mergers and acquisitions proposed by this study. The 3 (three) dimensions were suitability factors (“SF”), feasibility factors (“FF”) and acceptability factors (“AF”) as illustrated in Figure 20. Within each of the perspectives, key themes were identified under which the views and insights of the participants were reported. The researcher illustrated the three dimensions in Figure 20 as follows:
i. Suitability Factor Dimensions

Question 1: In your view, what are the key non-financial factors that should be taken into account when assessing a potential M&A transaction?

Theme 1: Cultural Fit

Culture was mentioned 16 times by participants interviewed and was regarded as a major non-financial factor that should be considered when engaging in M&A transactions. From the transcripts record, Respondent 3 elaborated that,
“Organisation culture is a major factor for consideration. Merging a bureaucratic culture with an entrepreneurial culture is never a good idea”. This was also corroborated by Respondent 8 answering that, “Alignment of cultures of the two merging entities is paramount for the success of a merger”. Respondent 30 also added that, “values and culture should be compatible, otherwise the merger is headed towards failure”. A number of similar accounts on “cultural fit and organisational fit” and “work-force culture” were provided by participants. Respondent 19 elaborated that, “Institutional strength of both organisations are important in determining how to preserve culture”. Similar comments were made by participants on “cultural fit”.

The above results corroborated the research work used by Pesta-Papanicolaou (2007) regarding the culture as one of the key reasons, why mergers failed to deliver on results, quoted by Jackson (2005) in her Doctoral thesis entitled, Success factors in mergers and acquisitions: Complexity theory and content analysis (University of San Francisco). In the body of the thesis, Pesta-Papanicolaou (2007:30) cited Jackson (2005), who submitted that most companies had a natural tendency to focus on the more tangible aspects of the merger – identifying improvement opportunities, rationalising sites, and designing new organisation charts to developing product migration plans. However, by doing so, they often ignored or overlooked the critical, but less tangible people and culture issues.

In this study, case evidence on the impact of cultural fit, was particularly obvious in the earlier Absa case study merger of the Anglo-Saxon and Afrikaner cultures and also substantiated this qualitative finding.

Theme 2: Common Vision and Values
Participants interviewed and surveyed online regarded the factor of vision-led and values-driven mergers as a key non-financial factor that could lead to effective execution of strategy and building synergies. Respondent 1 raised the issue of compatibility of the merging businesses as held together by common vision and values. Respondent 5 regarded vision and values as good for strategic fit of merging entities. Respondent 13 elaborated that, “Vision and values of both acquirer and alignment of strategy for acquirer and management team of the target are critical”.

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Respondent 17 raised the point that, “The key question is what values or culture need to be aligned and how to embed this in the merged organisation”.

The above results were corroborated and substantiated by work of Richard Barrett (2014). While they were not identical to cultural fit, values and shared vision are often an integral part of cultural fit.

**Theme 3: People Management and Resources**
A number of participants interviewed and surveyed regarded people management and resources as a key factor that should be thoroughly assessed. Participants 1, 5 and 15 raised related statements that, “Staff morale during mergers are a sharp issue that should be handled with duty of care and skill”. Respondent 32 elaborated that, “Workforce culture is important, otherwise no matter how valued the merger is, it is bound to collapse if the workforce is not highly motivated”. Respondent 29 elaborated that, “Incentives should be built for staff affected by mergers to build morale and create buy-in, often only the shareholders stand to benefit”. Similar comments on people management were raised by many a respondent.

**Theme 4: Leadership and Management Team**
Participants interviewed and surveyed regarded leadership and management teams as another key success factor. Respondent 1 elaborated that, “The strength and core competencies of the management teams are key to build a successful merger”. Respondent 1 further added that, “The tenure of the team and whether they remain on board through the merger process should be taken into account”. Respondent 11 elaborated that, “Quality or lack thereof of existing management needs to be thoroughly assessed”. Respondent 15 opined that, “Selecting a lead team to execute the merger is an investment towards its successful execution”. Respondent 30 elaborated that, “Skills and capabilities of management teams to run an integration post-merger are critical for its success”. Respondent 22 raised it as an issue that often led to either success or failure of a merger. Respondent 22 elaborated that, “Executive and senior management experience and alignment to the suitor and any dependency on key individuals should be taken into account”. Respondent 27 elaborated that “Management business structure should be determined earlier to manage post the merger transaction”.

Theme 5: Strategy and Synergy
Alignment to strategy by merging entities was mentioned 16 times. Respondent 26 mentions strategic fit; respondent 27 also emphasises that strategic fit between two merging entities was key to an effective merger. Respondent 17 referred to strategic synergies that should be the main motive for entering into a merger in the first place. Respondent 11 elaborated that synergy implied identifying rationalisation opportunities in areas of duplication. This entailed the possibility for value chain integration between acquirer for unlocking economies of scale either from a procurement, production or marketing point of view. Respondent 20 regarded synergy as critical to identify future development opportunities in and around the merged business. Respondent 22 highlighted the market position and product innovation as critical to win client segment share in the merged entity.

ii. Feasibility Factor Dimension
Question 2: In your view, what are the key FINANCIAL factors that should be taken into account, when assessing a potential M&A banking transaction?

Theme 6: Liquidity KPIs
Liquidity and related measures were mentioned by participants in 12 frequencies to signify their importance as key financial factor. Respondent 1 raised the issue of capital sufficiency as critical for any investment decision into a merger. Participants 15, 17, 25 and 27 regarded the return on equity (ROE) as a key measure to ascertain, whether a merger can generate a return above the cost of capital. Respondent 3 elaborated that, “It is the ability to generate future ROE that underpins a successful merger”.

Theme 7: Efficiency KPIs
Efficiency as measure of utilising assets within a merger was mentioned in 26 frequencies by participants. Participants 9, 10, 14 and 20 all opined that revenue uplift could be realised through efficiency-driving and -seeking efforts such as cost savings. Respondent 19 elaborated that:

“Consolidation of duplicate functions. New revenue streams for both entities via new markets and products. Cost to income ratio linked to an equation before and after the merger. Scale of benefits. A proper due diligence that the financial
information is a fair reflection of the business. Future potential of both business before and after the merger”.

Most respondent raised the issue of efficiency of assets in the balance sheet as a critical measure to assess.

**Theme 8: Profitability KPIs**

The profitability of a merged entity was mentioned by participants in 22 frequencies. Respondent 9 elaborated that, “It is the ability and capability to drive new revenue opportunities from new markets or growing market share in existing markets”. Respondent 3 opined that, “It is critical to identify income growth that could achieved out of one of the poorly managed entity in the merger”. Respondent 3 elaborated that it was the ability to focus on customers through… “the ability to generate a higher share of wallet per customer” …in the merged entity.

**iii. Acceptability Factor Dimension**

Question 3: Based on your knowledge, what challenges do organisations face that influence the approval of M&A by regulatory and competition authorities within and outside of the border of South Africa?

**Theme 9: Acceptance by Stakeholders**

Respondent 7 raised the issue of being able to “pick the right inside deal” and elaborated that all stakeholders, ranging from shareholders to staff, unions, management, clients and regulators, should have a sense of collective benefit of any proposed merger. Respondent 1 elaborated that, “Legal frameworks differ across jurisdictions, risk and capital management practices, language differences and liquidity of capital markets”.

Respondent 3 elaborated that:

“Organisations face the challenge that they must clearly demonstrate (i) the benefits to the financial services industry, (ii) the benefit in terms of potential job losses and (iii) the risk of creating a dominant entity from a market share perspective, before they will receive the backing of regulators and competition authorities”. 
“The challenge of the entity becoming more (less) systematically important is also of interest to regulators as the merged entity could end up being too big to fail.”

“If the merged entities consist of a retail bank merging with an investment bank, this will enhance the risk of the regulator and this could also be a challenge for a bank that wants to merge with another bank.”

Respondent 12 elaborated:
“Cross-border has different regulatory frameworks and jurisdictions in different geographies. M&A assumes cost savings from a newly-merged larger entity. Usually, these cost savings come from centralised servicing. Most international jurisdictions do not want outsourcing of support to external jurisdictions as it results in a loss of intellectual capital and jobs from their citizens. This contradicts the scale benefits of M&A”.

Respondent 14 elaborated:
“A big challenge is always agreement on price and other key financial indicators that impact valuations. Secondly, alignment on values, vision and strategy can be a serious deal breaker”.

The qualitative findings implied that factors such as common vision and values, strategy and synergy, cultural fit, people management and resources, leadership and management team are critical to the success of effective mergers and acquisitions. Furthermore, the qualitative research also revealed that key financial aspects regarding liquidity, efficiency and profitability were key feasibility factors to ascertain viability in the case of bank mergers. The finding inferred that that both financial and non-financial factors should be assessed holistically, when acquirers were engaged in mergers and acquisition activities.
4.3 CASE STUDY EVIDENCE

The data collected from the selected case studies includes a summary assessing post-acquisition value and performance of each of the Big Four South African banks in the last 10 (ten) years in South Africa, using both non-financial and financial indicators.

4.3.1 The Case Study of Barclays Africa Group Limited ("formerly Absa")

i. Merger description for Absa Group

The current significant merger and acquisition activity that gave rise to Barclays Africa Group Ltd can be traced back to the modern times’ 1992 birth of what would end up as Absa Bank (Barclays Africa Group) from the merger of four entities, namely Volkskas, United and Allied Building Societies and Trust Bank. Absa had its origins in the merger of UBS Holdings, Allied and the Volkskas Group, together with certain interests of the Sage Group in 1991 (Ndzamela, 2013). Following an agreement in 1991 between UBS Holdings Limited, Allied Group Limited, Volkskas Group Limited, Sage Holdings Limited and Sage Financial Services Limited, UBS acquired all the assets of Allied, Volkskas and some assets of Sage Financial Services on 01 October 1990 and changed its name to Amalgamated Banks of South Africa, hence “Absa”. In 1992, Absa acquired the entire shareholding of the Bankcorp Group (which included Trust Bank, Senbank, Bank of Johannesburg, Sasbank, Senreg and Bankfin). In 1997, the name of the holding company, Amalgamated Banks of South Africa Limited, was changed to Absa Group Limited. In 1998, the United, Volkskas, Allied and Trust Bank brands were consolidated into a single brand and Absa adopted its corporate identity. Further activities led to Absa becoming Barclays Africa Group, following the acquisition of Absa by Barclays Bank PLC, a UK-based global bank, in 2005 (Ndzamela, 2013).

Among other critical factors that underpinned this merger was the amalgamation of both Afrikaner-culture-oriented entities of Volkskas and Trust Bank with the English-culture-oriented entities of Allied and United, despite the bitter history of the two groups that could be traced back to the Anglo-Boer War (1899 - 1902). The overall corporate cultures and practices needed to be pulled together for the merger, however painful, to succeed. Jones (1991:152) traced, for example, the origins of the Allied Building Society to 1955, when it was formed out of a merger of two other societies founded in
the earlier days of gold mining in South Africa, the Rand Provident Building Society and the Alliance Building Society. Jones (1991:152) observed that the Allied was a typical English-type building society, not very audacious in its pursuit of depositors and reserved in its approach to lending; but by 1970, the pressure for political change and South Africa’s isolation had intensified, leading to change. The case study evidence infers that culture to a great extent played a major role in the origins and formation of Barclays Africa Group and was paramount to the effectiveness of the various merger activities.

Von Zeuner (2013:40) commented that historically, financial services were limited to white people, with Volkskas having a strong agricultural/rural brand. As its customer base grew younger, it had to cater for student loans and other sophisticated products, including electronic banking. According to Von Zeuner (2013:40), the more banking opened to the broader population, the more services were required. Von Zeuner (2013:40) pointed out that whereas the United Building Society and Allied had links to building societies dating back to the late 1800s, Absa’s roots were deeply entrenched in Afrikaner “volskapitalisme”, which loosely translated means ‘Peoples capitalism’. Ndzamela (2013:40) wrote that Volkskas was created through the secret Broederbond society in 1934 to meet the needs of Afrikaner farmers, who battled to get credit from established banks after the Great Depression. Ndzamela (2013:40) argued that the Afrikaner intellectuals in the 1900s believed that the source of Afrikaner poverty was not capitalism, but the fact the Afrikaners did not have a stake in capitalism, hence the formation of companies such as Volkskas and Sanlam. Volkskas’ merger into Absa gave it a new image and helped it to make the transition into a democratic South Africa. The case study evidence depicts an organisation that has had to adapt to epoch-making periods in South Africa, necessitating a strong vision and resilience over the decades.

South African banks have had to factor in the issue of economic empowerment with respect to the Black Economic Empowerment Act of 2003 (BEEA), as well as self-regulatory mechanisms such as the Financial Services Charter, endorsed by the industry in 2001 to transform the industry itself within a broader economic vision of South Africa. According to Botha (2013:40), the need for transformation became evident. Absa’s leadership had been dominated by male Afrikaner executives, for
example, Danie Cronje and Nallie Bosman, succeeded by Steve Booysen, with Santie Botha becoming the first female executive at the bank, albeit still white. On 1 July 2004, Absa concluded a Broad-based BEE transaction with the Batho Bonke Consortium and Absa's Employee Share Ownership Programme, thus becoming the first of the Big Four banks to do a BEE deal. As a result of the transaction, 11% of the enlarged issued share capital of Absa is held by the two groups, of which 10% was issued to the Batho Bonke Consortium and 1% was issued to the Employee Share Ownership Programme. The case study evidence reveals that transformation within Absa became a critical success factor to meet the challenges of the new dispensation and required leadership to embrace it.

ii. Merger description – Barclays Africa Group Limited

In May 2005, Barclays Bank of the United Kingdom purchased 56.4% stake in Absa as part of its drive to expand its global product and international retail and commercial banking businesses to untapped markets outside the UK. On 27 July 2005, Absa became a subsidiary of Barclays Bank PLC (Barclays), when Barclays acquired a controlling stake in the Absa Group. According to Ntingi (2012:10), Barclays acquired Absa for $4.5 billion (R35 billion) at the approximate exchange rate. Barclays is an international financial services group engaged in retail and commercial banking, credit card issuing, investment banking, wealth management and investment management services (Absa, 2013).

Using the DVA metric tool in conjunction with Du Pont analysis, the financial indicators of Market Capitalisation and Share Price effects were analysed in Table 22 to depict changes before and after announcement of the 09 May 2005 Barclays Africa Group acquisition.
As shown in Table 22, these were the share price and market capitalisation relative to the deal announcement date on 09\textsuperscript{th} May 2005. This indicated that the acquisition of Absa Bank Group Limited for $4.5bn (R35bn) had a positive DVA of about R3.647bn in the market capital of Absa Bank Group Limited. Although the changes in market capital could also be affected by external effects, the share price also had a positive movement of about 6 basis points. However, this study reflected on both financial and non-financial factors on value created in the medium to long term, which was over 10 years as depicted under Section 4.5.5 below.

In 2013, Absa Group acquired the entire issued share capital of Barclays Africa Limited and issued Consideration Shares to Barclays Africa Group Holdings Limited (a wholly-owned subsidiary of Barclays), thus increasing the shareholding of Barclays Bank PLC to 62.3%. The Consideration Shares were listed on the JSE from the commencement of trading on 31 July 2013. The name change from “Absa Group Limited” to “Barclays Africa Group Limited” was announced on 22 July 2013, and became effective 2 August 2013. Mittner (2013:38) wrote that as part of the deal in which Barclays PLC bought a majority share in Absa Group to form Barclays Africa, Absa acquired eight Barclays assets worth R80 billion in Uganda, Zambia, Botswana, Kenya, Ghana, Tanzania, the Seychelles and Mauritius for R18.3 billion; hence, the change of name from Absa to Barclays Africa Group.

### Table 22: DVA Analysis of Barclays Africa Group Limited due to announcement effect 09 May 2005 (R billion)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Before 09\textsuperscript{th} May 2005</th>
<th>On 09\textsuperscript{th} May 2005</th>
<th>Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price Close</td>
<td>77.70</td>
<td>82.61</td>
<td>4.91</td>
<td>6.31%</td>
</tr>
<tr>
<td>Market Capitalisation R\textsuperscript{t} bn</td>
<td>51,441</td>
<td>55,088</td>
<td>3,647</td>
<td>7.09%</td>
</tr>
</tbody>
</table>

Source: INET BFA 2016
Using the DVA metric tool in conjunction with Du Pont analysis, the financial indicators of market capitalisation and share price effects analysed in Table 23 depicted changes before and after announcement of the 2013 Barclays Africa Group transactions.

Table 23: DVA analysis of Barclays Africa Group Limited due to announcement effect July 2013 (R billion)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price Close</td>
<td>140,60</td>
<td>142,95</td>
<td>2.35</td>
<td>1.67%</td>
</tr>
<tr>
<td>Market Capitalisation</td>
<td>100,980</td>
<td>119,253</td>
<td>18,273</td>
<td>18.09%</td>
</tr>
</tbody>
</table>

Source: INET BFA 2015

Shown in Table 23, were the share price and market capitalisation relative to the deal announcement date two days prior to deal announcement of 22 July 2013 and four days after deal closure on 31 July 2013. Table 23 indicated that the acquisition of Absa Bank Group Limited for R18.3 bn had a positive DVA of about R18 273 bn in the market capital of Absa Bank Group Limited at 18.9%. However, the share price had a slight positive movement of about 2 basis points as the market had already factored in the entire Barclays transaction. The share price was also subdued by the some exit of former senior executives following Barclays’ transaction, which was a significant non-financial factor.

It was significant that a decade later, in 2005, in a transformed buoyant economy in a democracy, South Africa’s banking industry was enhanced through one of the largest foreign direct investments (FDI) of R35 billion in the South African economy, when Barclays Bank PLC acquired the merged Absa Bank Group. The study also examined whether the Barclays Bank PLC acquisition and the subsequent exit of some senior leadership at Absa, marked by a decline in profits and bad impairment effect
precipitated in the mortgage book, was a direct consequence of poor management of strategic change as one of the CSFs following the acquisition.


Figure 21 illustrated that the P/E ratio in 2014 was about 24.21% attributed to lower reported earnings and the positive market perceptions of bank shares. However, in 2013, the P/E ratio was in a negative trend at (-27.16%), the very same year Barclays Bank PLC acquired Absa for R35 billion. This was attributed to non-financial factors that impacted on the deal. Following the acquisition, a notable number of top banking executives left Absa and market share in retail began to slide. This was attributed to the clash of the Anglo-Saxon culture of Barclays Bank PLC and Absa’s mainly Afrikaner-oriented roots and the slow finalisation of the second deal, where Absa acquired Barclays Bank PLC interests in Africa for R18 billion. It was evident that the ROE also was impacted. At the height of the deal, ROE was at 26.05% and this plunged down to 4.78% at the back of both non-financial and financial factors. The periods prior to 2013 and 2014 indicated that whilst 2005 was mainly in positive
territory, the trend over the period deteriorated, which was symptomatic of the challenges that the Barclays-Absa merger faced. The sharp troughs and skews in the graph depicted the volatile scenario.

Ndzamela (2013:40) wrote that Absa Bank had grown steadily. In 1992, Absa had 140 branches and assets worth over R80 billion (Ndzamela, 2013:40), whereas at the time of the acquisition by Barclays in 2005, Absa had total assets of R313 billion, jumping to R453 billion by the end of 2006 (valued at R788 billion as at 30 June 2013).

Given that the banking industry is highly regulated globally, particularly after the 2008 sub-prime lending crisis, Barclays PLC, the parent company of Barclays Africa Group, decided at the beginning of 2016 to review its overall strategy on Africa. Staley (2016:02) announced at the Barclays PLC results for the year ended 31 December 2015 that Barclays PLC intended to sell down its 62.3% share in Barclays Africa Group trading as Absa. Staley (2016:02) submitted that Barclays Africa Group was well-diversified and a high quality franchise. Staley (2016:02) cited the challenges to Barclays PLC pertaining to the level of capital held in respect of Barclays Africa Group Limited, the impact of the UK Bank Levy, GISB buffer and MREL/TLAC and other regulatory requirements as reasons for the down-sell. Staley (2016:02) announced that Barclays Africa reported a 17% ROE for 2015 in its standalone local currency versus the 8.7% ROE reported on Africa Banking in Barclays PLC’s results.

Ndzamela (2016:01) concurred that global banking regulatory pressures pushed Barclays to sell down to 20% or below. Ndzamela (2016:01) opined that Barclays PLC had to carry 100% of the risk, including liabilities at Barclays Africa Group, despite its stake at 62.3%, thus affecting the ROE. However, Ramos (2016:01) submitted that Barclays Africa Group was well capitalised with a balance sheet of over R1 trillion. In assessing whether Barclays PLC’s acquisition into Barclays Africa Group had either conserved, created or destroyed value, Crotty (2016:01) observed that Barclays PLC had been involved in Africa for 100 years. Crotty (2016:01) accounted that in 1987, Barclays was forced to sell out of apartheid South Africa at an undervalued price. When Barclays returned in 2004, Crotty (2016:01) accounted that its plan was to pay R20 billion for a 50.1% stake in Absa, worth about $3.1 billion. Crotty (2016:01) observed when the deal was finalised in 2005, Barclays PLC was paying R30 billion for a 55% stake, costing $5.5 billion due to Rand-Dollar exchange. According to Crotty
(2016:01), Barclays PLC had since 2013 received a combined dividend of R28 billion. However, the Rand-Sterling translation effect and the regulatory requirements had weighed down the investment returns; hence, the intention to sell down.

4.3.2 The Case Study of First Rand Group

i. Merger description – Rand Merchant Bank Holdings

Among all the South African banks, none demonstrated better the influence of its founding leaders’ managing strategic change driven by entrepreneurship than the First Rand Group, the holding company of First National Bank (FNB), Rand Merchant Bank Holdings (RMBH), OUTsurance, Discovery Health and the merger of Momentum Health with Metropolitan Life. The origins of FNB, through merger activities, were intertwined with the lives of its three founding fathers, Laurie Dippenaar, Paul Harris and GT Ferreira, famously known as the “three musketeers”, whose careers stretched over 30 years of building the second largest financial services company in South Africa.

Caboz (2013:14) recounted that a young Laurie Dippenaar, an accountant, worked at the Industrial Development Corporation (IDC), a South African government institution that bankrolled companies and cited Dippenaar, who recalled:

“That’s where the big idea came. They (IDC) had a structure called leverage leasing and I used to work with it a lot. I thought this has got huge applications in financial services” (Forbes Africa, September 2013:14).

Caboz (2013:14) wrote that Dippenaar left the IDC with leasing in mind, teamed up with Paul Harris and Pat Goss to create Rand Consolidated Investments (RCI) in 1977 with only R10 000 and a secretary; they never drew a salary for nine months. Pat Goss left after three months and was bought out by Laurie Dippenaar and GT Ferreira. Pat Goss then had a stake of R500 ($50); his current shareholding is worth R740 million ($74 million). It was at that time that Paul Harris, a university friend, joined RCI. The company grew from R10 000 to profit after tax of R657 000 in four years.

Caboz (2013:14) recounted that in 1983, RCI was approached by Johann Rupert, the second richest man in Africa, worth $5.3 billion, who wanted to sell his bank, Rand
Merchant Bank (RMB), to concentrate on the family business of the Rembrandt Group, the tobacco and luxury goods business. RCI bought into RMB and got a controlling stake of the company, which they named RMBH, while RMB remained a subsidiary. The RMB transaction resulted in the three founders gaining access to a banking license through RMB, opening opportunities to diversify through merger and acquisition activities. Caboz (2013:14) observed that by 1988, RMBH was making profits of R13 million ($1.3 million) a year.

In 1992, the leaders of RMB decided that they needed an entity that could generate steady income and bought Momentum Life, a life insurance company. Dippenaar executed a reverse takeover by selling RMBH to Momentum Life for a majority share and formed Discovery Health, pioneered by a young actuary, Adrian Gore, to become the largest private healthcare company in South Africa. As South Africa’s democracy was ushered in at the beginning of 1994, Dippenaar anticipated that large investment global banks would be interested in the country and therefore RMB needed a retail bank strategy (Caboz, 2013).

ii. Merger description – First Rand Group
Dippenaar (2013:14) reported that their next move was defensive, when they purchased a 20% stake in the old Natal Building Society (NBS). Dippenaar (2013:14-15) remarked that in 1998, they identified Southern Life, an ailing insurance bank of Anglo American, the mining giant. Anglo American offered the three founders both Southern Life and the retail banking arm, FNB. They had three days, in which to raise R5 billion ($500 million) in new capital to close what at the time was the largest merger deal. That was how the First Rand Group was built to become the second largest financial services company in South Africa, with normalised earnings of R12.7 billion ($1.27 billion) as at June 2012.
Table 24: DVA analysis of First National Bank Holdings Limited due to announcement effect
1998 (R billion)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>On 09 March 1998</th>
<th>On 22 May 1998</th>
<th>Variance</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price Close</td>
<td>5200</td>
<td>6550</td>
<td>1350</td>
<td>25.9%</td>
</tr>
<tr>
<td>Market Capitalisation R’ bn</td>
<td>22 637</td>
<td>28 514</td>
<td>5 877</td>
<td>25.9%</td>
</tr>
</tbody>
</table>

Source: INET BFA 2015

Shown in Table 24, were the share price and market capitalisation relative to prior and post the transaction. The trading day means 09th March 1998 and the trading day after 09th March 1998 means the 22nd May 1998, excluding weekends, when trading is closed. Table 24 indicated that the acquisition of Southern Life, Anglo American Corporation interests and First National Bank by Rand Merchant Bank (RMB) to the tune of R5bn had a positive DVA of about R5 877 billion in the market capital of RMB. The market capital movement is about 26 basis points, which compared favourably to the JSE All-Share Index and JSE Financial Index on that day. The market was positive about the RMB deal, indicated by a share price swing of about 26 basis points. There was a positive correlation between DVA in the short-term and long-term value creation as this deal increased the First Rand Group earnings to R12.7bn ($1.27bn), laying the foundation for First National Bank.

The London-based Barclays Bank Plc had sold its remaining shareholding in Barclays National Bank Limited 1986. After protests against Barclays Bank’s involvement in South Africa and its apartheid government, Barclays Bank (SA) announced its new name: First National Bank of Southern Africa (FNB), a wholly South African-owned and controlled entity. Sir Timothy Bevan, chairman of Barclays Plc, admitted that while the decision to pull out of the South African market was a commercial one, the pressure exerted against the bank by anti-apartheid protesters had a detrimental effect on the bank’s business in other areas. Student campaigns against Barclays Bank,
initiated in the 1960s, carried on year after year, to persuade students not to open accounts with the bank.

Through the landmark acquisition of FNB in 1998, the financial services interests of RMBH and Anglo American were merged to form FirstRand Limited. In the process, FNB was delisted from the Johannesburg Stock Exchange (JSE) on 22 May 1998 to become a wholly-owned subsidiary of FirstRand, which was listed on the JSE on 25 May 1998. On 30 June 1999, the banking interests of FirstRand formally merged into a single entity to form FirstRand Bank. FNB, WesBank and RMB now trade as divisions of FirstRand Bank (FNB, 2013)

FirstRand was created in its current form in February 1998, through the disposal of Anglo American's interests in FNB and Southern Life and the merger of these assets with RMB and Momentum. At the time, this was the largest transaction in the history of local financial services at R5 bn.

Since the acquisition of FNB from Anglo American in 1998, the group has grown through a combination of corporate action and organic growth.

![Graph](image)

**Figure 22: First Rand Group LTD growth ratios over ten years**

Source: INET BFA 2015

As illustrated in Figure 22, there was a positive trend across the selected growth ratios over the periods. In 2005, the P/E ratio at 9.64% grew steadily in positive territory, holding a smooth pattern to about 11.89% in 2014. The acquisition of Southern Life, Anglo American Corporation interests and First National Bank by Rand Merchant Bank (RMB) to the tune of R5 bn to form FirstRand Limited had taken place in 1998. This demonstrated that mergers and acquisition were likely over the longer term for any chance of success, given the seven-year period. In 2005, ROE was 30.12% and it maintained positive trends throughout the periods, closing at 22.9% in 2014. This was attributed to a merger strategy successfully executed by applying entrepreneurial flair through unleashing multi-brands that made up FirstRand Group Ltd to grow inter-competitively to generate value.

Examples of other corporate actions at FirstRand Group included:

In March 2002, FirstRand Bank acquired the mortgages book of the NBS for R11.9 billon. At the time, NBS was a distressed bank that needed to reduce its asset base. The book was integrated with FNB's existing residential mortgages book and significantly increased the bank's share of the South African residential mortgage market. According to First National Bank (2013), some of the key merger and acquisitions activities were:

- In June 2002, FNB Namibia merged with Swabou Holdings to become the largest bank in Namibia and a major player in the bancassurance market;
- In September 2002, FirstRand Bank acquired the housing book of Saambou Bank, which at that time was under curatorship. The transaction was valued at R1.4 billion and significantly enhanced FNB's position in the low and medium income housing market;
In October 2002, WesBank acquired the motor vehicle financing book of Barloworld Limited for R830 million;

In June 2007, FirstRand acquired a majority shareholding in Banco Desenvolvimento e Comercio in Mozambique for R139 million. The business was fully integrated into FNB.

4.3.3 The Case Study of Nedbank Group Limited

i. Merger Description – Nedcor Investment Bank Holdings Limited

Over the years, Nedcor underwent a number of transformations through mergers and acquisitions. In 1986, the acquisition by Nedcor Limited of Finansbank Limited and the Cape of Good Hope Bank was followed by the acquisition of the South African Permanent Building Society (SA Perm) to form NedPerm Bank. NedPerm Bank Ltd changed its name to Nedcor Bank Limited in 1989. In 1992, Finansbank Limited, SA Perm and Nedbank Limited (including the Perm and Nedbank divisions) and their support units became known as Nedcor Bank Limited, a wholly owned subsidiary of the company (Nedbank Group, 2013)

In 1995, SA Perm split its operations into two separate banks, Permanent Bank and Peoples Bank. In 1997, the company formed Nedcor Investment Bank (NIB) through the merger of its various merchant banking services. In 1999, the South African Mutual Life Assurance Society, Nedcor Bank’s majority shareholder, was ‘demutualised’, resulting in the formation of the Old Mutual PLC Group, headquartered in the United Kingdom (UK) and listed on the JSE as the Old Mutual PLC. In August 1999, NIB was listed on the JSE and the Namibian Stock Exchange with Nedcor Bank Limited maintaining the majority share. Also during 1999, the acquisition of a majority stake in Edward Nathan and Friedland through NIB was completed. The Nedcor 8% stake in Dimension Data transaction was to prove a hindrance to Nedcor’s survival, when it had to be recapitalised to the tune of about R5 billion by Old Mutual in 2004, following a strategy drift owing to what analysts attributed to a leadership deficit and the “technology stock bubble” in 2001, amongst other factors. It was at this time that Old Mutual PLC became the largest shareholder in the insurance financial services industry.
The knock-on effect on Nedcor shareholders’ funds was R1 billion due to a tumbling Dimension Data share price. Sutcliffe (2003:03) attributed the then decline to the cost of holding excess US dollars as the Rand strengthened. Sutcliffe (2003:03) further reported that margins were also affected by fixed rate debt and deposits, which were expensive as interest rates declined. Although the formal consolidation of the banking licences of BoE, Nedcor Investment Bank and Cape of Good Hope Bank into Nedbank and Peoples Bank took place on 1 January 2003, the long-term funding raised since the acquisition of BoE also had a negative impact on Nedcor’s 2003 financial results.

Following 2003, the “annus horribulus” for Nedcor, a strategic turnaround was put in place under the leadership of Tom Boardman in 2004, following a R5.2 billion rights issue underwritten by Old Mutual PLC. The board instituted a roadmap to recovery known as a “Five Point” plan. Boardman (2004:02) accounted that the Five Point Plan elements were inter alia, to reconstitute Exco, a strategic review, improved transparency, delivery on the BOE merger and customer service focus. Boardman prioritised a strategy recovery programme to restore the bank and build it for the future. He emphasised organic initiatives to build a retail mass strategy and grow a corporate transactional business franchise were keys to recovery.

Boardman (2004:03) accounted that Nedcor numbers had gone backwards, particularly the ROE that stood at 10.3%, including BOE merger expenses, whilst its nearest two competitors were generating ROEs of 24.0% and 24.6%, respectively. According to Boardman (2003:03), margins were too low, there was a need to build non-interest revenue (NIR), the business was not cost efficient and there were too many non-interest earning assets. All these factors contributed to a depressed ROE being further weighed down by BOE merger costs due to the SA Rand/USD translation effect.

Boardman (2003:04) accounted that his strategy recovery programme had two pillars of restoring the bank and building for the future. On the one hand, to restore the bank, Boardman (2004:04) enumerated that management information, restored and managed capital, the BOE merger completion, Peoples Bank integration, risk management and governance, a refocus on incentive plans, building staff morale, culture and values, building an effective executive team (EXCO), and reducing the
cost base to non-core asset disposal to the tune of R2 billion were key elements. On the other hand, Boardman (2004:04) opined that to build the future, a long-term strategic plan was needed to focus on customer satisfaction and retention, improve the bank’s image, grow transactional banking, fulfil the principles of the Financial Services Charter (FSC), and to build wealth ‘bancassurance’ business were key.

With regard to the BOE merger, Boardman (2004:08) accounted that completing the BOE merger was critical to turnaround of the fortunes of Nedbank. Boardman, himself a shareholder in BOE prior to ascent to CE position, reported in 2004 that all BOE clients’ migration had to be concluded, a process completed in mid-2004. Also a migration for NBS meant a sizeable number of high-net-worth clients were to be transferred to Nedbank with a balance transferred to Peoples Bank, all targeted within a year. Boardman (2004:08) accounted that the overall committed synergy target was R700 million per annum and the overall merger costs to remain within budget. Boardman (2004:09) reported that regarding the Peoples Bank integration, minorities had agreed to the merger. Management teams were integrated into Nedbank Retail and the risk function was centralised. Branch network integration also had been scheduled for completion by mid-2005. For this recovery, Nedbank went through a lot of pain, which included reduction of staff costs that at the time constituted 49% of total expenses. This meant retrenchments, most of them voluntary.

However, Boardman’s recovery plan was underpinned by his focus to rebuild motivation and morale of Nedbank staff. Driving vision and values became his ethos and philosophy to embed change of his back to basics turnaround. Boardman (2010) attested that:

“The biggest learning curve during my seven years as CEO of Nedbank has been getting deep understanding and coming to a belief that the world’s most successful organisations are vision-led and value driven”.

Boardman (2010) further accounted that the first step was to create a vision and a mission. Boardman (2010), drawing on the work of Tom Peters in 1983, “In Search of Excellence”, submitted that the main job of a CEO is to manage the values of the organisation. Boardman (2010) further drew inspiration from the work of Richard Barrett (1998) on “Liberating the Corporate Soul” who invented a cutting edge tool for
measuring and tracking values known as Barrett Entropy. A vision to be Africa’s most respected bank emerged and later evolved into “Building Africa’s Most Admired Bank by Staff, Clients, Shareholders, Regulators and Communities”. Boardman built his turnaround plan on this foundation by embedding all these elements and processes into Nedbank’s day-to-day management culture. Boardman (2004) also focused the bank on the Southern Africa region as its key market for growth.

Table 25: DVA analysis of Nedcor Investment Bank Holdings Limited due to announcement of ENF acquisition 1999 (R billion)

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<tbody>
<tr>
<td><strong>Share Price</strong></td>
<td>350</td>
<td>360</td>
<td>10.00</td>
<td>2.85%</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>5 485</td>
<td>5 641</td>
<td>156.00</td>
<td>2.84%</td>
</tr>
<tr>
<td><strong>Capitalisation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>R’ bn</strong></td>
<td></td>
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</table>

Source: INET BFA 2015

As shown in Table 25, the share price and market capitalisation relative to prior and post the transaction. The trading day means 21st October 1999 and the trading day after 25th March 1999 means 25 October 1999, excluding weekends, when trading is closed. As depicted in Table 25 the acquisition of Edward Nathan & Friedland legal firm by Nedcor Investment Bank Holdings Limited (NIBH) to the tune of R400 million had a positive DVA of about R156 million in the market capital of NIBH. The market capital movement was about 3 basis points. The market was positive about the ENF deal, indicated by a share price swing of about 3 basis points, given the anticipated deal flows of about R95 bn expected out of the synergy of ENF and NIBH. However, the ENF deal – similar to the Dimension Data International Holdings transaction – were impacted upon by non-financial factors described below.

It was also significant to note that although Nedcor anticipated a convergence of technology and banking but followed through with a number of non-core acquisitions
outside the banking sector, outlaying R2.5 bn to acquire Dimension Data International Limited, Internet Solution, IQ, Aplitec, Nihilent, Miraculum and Kagiso as reported in the Nedcor Annual Results (2000:3-4). When the ‘technology stock bubble’ took place in 2001, the contagion resulted in the share prices of technical companies plummeting; all share gains were lost, with Nedcor suffering heavy losses. The ENF transaction was questioned by the market on a risk governance basis and NIBH had to eventually wind it down.

In 2000, Nedcor Bank Limited acquired FBC Fidelity Bank Limited and integrated Peoples Bank into the entity. A number of alliances were entered into, including Old Mutual, Capital One, JD Group, Pick n Pay, Imperial and Virgin Active. In 2001, Nedcor Bank Limited and Old Mutual PLC announced the proposed merger of Permanent Bank and Old Mutual Bank to form a new banking operation, specialising in wealth management and financial planning, known as Old Mutual Bank. The formation of a joint venture by Nedcor and Imperial Holdings, specialising in asset-based financing, was completed.

ii. Merger description – Nedcor acquires BOE Limited

On 01 January 2002, a BEE consortium, led by the late Lot Ndlovu, former president of the Black Management Forum, held a 30% minority interest in Peoples Bank. In July 2002, Nedcor acquired Board of Executors (BOE) Limited, the sixth largest bank in South Africa. The acquisition of the BOE bank by Nedcor Investment Bank Holdings Limited at R7.4 bn is significant as it formed a foundation for the buildings of Nedbank Group as it is known today.

Shown in Figure 23, were the results of a long-term strategy turnaround led by Tom Boardman from 2004 until 2012, when he stepped down. By end of 2005, ROE had dramatically improved to 24.65% from the below-class rate of 10.3% in 2005. This was the evidence of the back to basics turnaround aimed at extracting value from the BOE merger, Peoples Bank integration and NBS businesses over and above the organic focus, whilst paying attention to culture through vision and embedding values as alluded to earlier in this document. Nedbank growth ratios indicated a positive trend overall that reflected the significance of the turnaround in 2004 and continued focus into the period beyond 2012, despite challenging events of the time such as sub-prime crisis of 2008 with Nedbank at a positive ROE of 20.7%.

Table 26: DVA analysis of Nedcor Investment Bank Holdings Limited due to announcement of BOE acquisition 2002 (R billion)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Share Price Close</td>
<td>358</td>
<td>380</td>
<td>106.14</td>
<td>29.64%</td>
</tr>
<tr>
<td>Market Capitalisation R’ bn</td>
<td>6 021</td>
<td>6 394</td>
<td>373.00</td>
<td>6.19%</td>
</tr>
</tbody>
</table>
Table 26 showed the share price and market capitalisation relative to prior and post the transaction. The trading day means 13th May 2002 before announcement date of 3 July 2002 and the trading day on 3 July 2002, after the deal had been consummated on 3 July 2002, excluding weekends, when trading is closed. Table 26 indicated that the acquisition of BOE Bank Limited by Nedcor Investment Bank Holdings Limited (NIBH) to the tune of R7.4 billion had a positive DVA of about R373 million in the market capital of NIBH. The market capital movement was about 7 basis points. The market was positive about the BOE deal, indicated by share price swing of about 30 basis points, given that BOE was the sixth largest bank at that time in South Africa. However, the BOE deal was deemed by the market to be a very complex deal completed over some time. It was reported that it was influenced by the increased of cost of capital and exposure to the SA Rand/USD translation effects that by 2003 pushed NIBH to the brink of collapse over and above the “IT technology bubble burst” that affected NIBH’s exposure to Dimension Data technology stocks.

The NIB minority shares were acquired by Nedcor Limited in October 2002 and NIB was delisted. Nedcor Bank Limited changed its name to Nedbank Limited in November 2002. On 01 January 2003, after SARB approval, Nedcor Limited was formed, combining the banking operations of BoE, NIB and Cape of Good Hope Bank under Nedbank Limited. In March 2004, Nedcor Ltd acquired the 30% interest of the BEE groups in the Peoples Bank.

On the authority of Nedbank Group (2013), the origins of Nedbank can be traced back to 1888 with the establishment of the Nederlandsche Bank en Credietvereeniging voor Zuid-Afrika (NBCV), recorded in milestones as:

- 1831 - Cape of Good Hope Bank was established;
- 1892 - The Kimberley Permanent Mutual Building and Investment Society changed its name to SA Permanent Building and Investment Society, later known as the Perm;
- 1951 - The Nederlandsche Bank voor Zuid-Afrika (NBZA) was established as a South African banking company and changed its name to the NBSA;
- 1969 - The South African shareholding in NBSA increased to 100%. Syfrets SA was listed on the JSE Limited. Boland Bank was listed on the JSE;
• 1971 - The Nederlands Bank of South Africa, NBSA, changed its name to Nedbank;
• 1973 - Nedbank Group formed from the merger of Syfrets South Africa and Union Acceptances and Nedbank;
• 1986 - Old Mutual became the major shareholder (53%) of Nedbank; Nedbank Investment Bank was created as a result of the acquisition of Finansbank Limited;
• 1988 - Nedbank merged with Permanent Bank Building Society to form NedPerm Bank;
• 1989 - Nedbank Group changed its name to Nedcor;
• 1992 - Nedfin, Perm and Nedbank became known as Nedcor Bank, a wholly owned subsidiary of Nedcor;
• 1994 - Nedbank acquired an interest in Commercial Bank of Namibia to establish Nedbank Namibia;
• 1997 - Syfrets merged with UAL Merchant Bank and Nedbank Investment Bank Division to form the listed NIB;
• 1997 - Nedbank acquired both Lesotho and Swaziland operations from Standard Chartered to establish Nedbank Lesotho and Nedbank Swaziland, respectively;
• 1998 - BoE merged with NBS Boland;
• 1999 - Nedbank Private Bank and Syfrets Private Bank merged to create the largest private bank in South Africa. BoE merged with NBS and Boland;
• 1999 - Nedbank acquired MBCA Bank, a Nedbank subsidiary in Zimbabwe operating under that name;
• 1999 - Nedbank further acquired Fincom in Malawi to establish Nedbank Malawi;
• 2000 - Nedbank acquired FBC Fidelity Bank;
• 2001 - A merger of Permanent Bank and Old Mutual Bank took place;
• 2002 - A merger of Nedcor and BoE occurred. NIB minority shares were acquired and NIB was delisted;
• 2003 - The new Nedcor Group was formed, combining Nedcor, BoE, NIB and Cape of Good Hope Bank;
2004 - Nedcor Group raised R5 billion in a rights issue, following the near-demise of the bank in 2003/2004. Old Mutual underwrote the scheme and subsequently became the largest shareholder over time;

2005 - The name of the holding company changed from Nedcor Limited to Nedbank Group Limited;

2007 - Old Mutual Bank was integrated into Nedbank Retail;

2008 - Nedbank announced a ground-breaking alliance with Ecobank to strengthen and expand Nedbank’s African presence;

2008 - Nedbank entered into a strategic alliance with Ecobank, the Pan-African bank with the largest network in Central and West Africa, represented in over 30 countries;

2009 - Nedbank bought out Old Mutual stakes in bancassurance and wealth joint ventures; it received regulatory and Competition Commission approval to acquire the Imperial Bank minorities to create South Africa’ second largest vehicle finance business;

2009/10 - Nedbank opened strategic trade offices in Angola and Kenya to cover global trade opportunities;

2010 - Vodacom and Nedbank partnered to bring M-PESA to South Africa; Old Mutual announced an HSBC proposal;

2011 - At the end of the year, Nedbank entered into a transformational deal by extending a loan of US$285 million to Ecobank Transnational Incorporated, which gave Nedbank an option to acquire a 20% stake in Ecobank;

2012 - The consolidation of BOE private clients and Fairbairn Private Bank under the new brand of Nedbank Private Wealth was completed;

2013 - Nedbank announced the acquisition of a significant stake in Banco Unico in Mozambique;

2014 - Nedbank exercised its option to acquire 20% in Ecobank in pursuit of its Pan-African banking network and consolidated the alliance created in 2008.

iii. Old Mutual PLC Decision and its impact on Nedbank.

As alluded to before, Old Mutual, the JSE and London-listed insurance player with its original roots in South Africa became the largest shareholder, following the 2003/4 period. Over the years, there had been continuous market speculation about whether Old Mutual would sell its 54% stake in Nedbank. As reported by Dolan and Soh (2010),
this became more prominent, when Old Mutual confirmed in 2010 that HSBC could purchase up to 70% of South Africa’s fourth-largest bank. Dolan and Soh (2010) further noted at the time that such an acquisition could be worth about R49,9 billion ($6,8-billion). However, the deal fell apart, owing largely to a change of guard at HSBC, with the incoming CEO incumbent in 2010 rationalising the HSBC business to cut costs and also deal with risk compliance issues, shelving off expansion plans.

Towards the end of 2015, a change of guard took place at Old Mutual PLC with Bruce Hemphill taking over from Julian Roberts as CE. Hemphill (2016) reported that due to the evolving regulatory environment in Europe and South Africa that was adding a degree of additional cost, complexity and constraints, Old Mutual PLC had to review its business through ‘managed separation’. Hemphill (2016) argued that the current Group structure also inhibited the efficient funding of future growth plans for the individual businesses, restricting them from realising their full potential. Hemphill (2016) presented that such factors prevented shareholders from benefitting from the full value of the underlying businesses, which included Nedbank.

Hemphill (2016) announced that in time, Old Mutual envisaged reducing its interest in Nedbank to an appropriate strategic minority position to underpin the future commercial relationship. Old Mutual, through Hemphill (2016), further clarified it envisaged reducing its shareholding in Nedbank primarily by way of a distribution of Nedbank shares to the shareholders of Old Mutual in an orderly manner and at an appropriate time in the context of the managed separation and did not intend to sell any part of its shareholding in Nedbank to a new strategic investor.

Brown (2016), as CE of Nedbank, confirmed that the Old Mutual PLC announcement provided clarity on the ongoing commercial relationship between Old Mutual South Africa and Nedbank and that this should end any speculation as to the ownership of Nedbank. Hemphill (2016) further announced that Old Mutual, a 54% shareholder in Nedbank Group, would be reduce its controlling stake in Nedbank Group, to a strategic minority shareholding.

Brown (2016) submitted that for Old Mutual, this would improve efficiency of funding, reduce Old Mutual PLC head office costs, remove complexity, including increasing
regulatory constraints, and unlock and create value for Old Mutual shareholders. Old Mutual announced that the Group’s four underlying businesses, Old Mutual Emerging Markets (“OMEM”), Old Mutual Wealth, Old Mutual Asset Management and Nedbank would be managed as independent businesses.

In conclusion, Brown (2016) said: “This clarification of Old Mutual’s strategy is a positive step for Nedbank and all the businesses within the Old Mutual Group. Nedbank is a solid and a strongly performing business on its own”. Nd zamela (2016:10) argued that Old Mutual PLC hiving off Nedbank would be equivalent to selling the goose that lays the golden egg. Nd zamela (2016:10) opined that Nedbank generated R10.8 bn in headline earnings in 2015 and generated more earnings than any other business in Old Mutual PLC. Nd zamela (2016:10) further observed that if an operating profit contribution analysis was conducted, then Nedbank alone brought 48% in UKBP770 million compared to Old Mutual Wealth in UKBP227 million, Institutional Asset Management UKBP131 million and Old Mutual Emerging Markets UKBP617 million. This case evidence confirmed that Nedbank was a solid business built over the years from various mergers and acquisitions.

4.3.4 The Case Study of Standard Bank Group Limited

i. Merger description – Standard Bank Investment Corporation

Standard Bank Group Limited has been in existence since 1862, with presence across global and African markets; its headquarters located in Johannesburg. Standard Bank is listed on the JSE and is the largest bank in Africa by earnings and assets. As at 30 June 2012, Standard Bank Group had total assets of R1.54 trillion ($189 billion) and a market capitalisation of R176 billion (about $22 billion). Standard Bank Group conducts operations in 17 countries, with 1 220 branches and 8 000 ATMs.

From its early formative period 150 years ago, Standard Bank Group Limited has always pursued a strategy of mergers and acquisitions to grow its banking operations. Larsen (2012:02) related that Standard Bank’s earlier concern was survival as the wool boom of the 1850s gave way to a grim depression in the 1860s that forced many local banks to close. Larsen (2012:02) attributed the turn of fortune to the discovery of diamonds and gold in the 1870s and 1880s and the inflow of capital from abroad for
railway construction, which enabled the bank to spread its wings across South Africa and beyond. Ironically, the growth was intertwined with the then spreading British colonial rule during the 1890s. The British Empire consolidated its influence in the territories of the then Belgian Congo (Democratic Republic of Congo), Zanzibar and Tanganyika (Republic of Tanzania), Uganda and Northern Rhodesia (Republic of Zambia) alongside the expansion of Cecil John Rhodes into Southern Rhodesia (Republic of Zimbabwe). The bank survived the Anglo-Boer Wars, the Great Depression of 1932 and the two World Wars.

However, the litmus test was regarded as the international isolation of South Africa as a result of apartheid racial policies that endured from the 1960s into the 1980s, punctuated by historical milestones from Sharpeville to the Soweto riots in 1976. Around 1985, following the infamous “Crossing the Rubicon” speech, where then President PW Botha failed to present credible political reforms, sanctions and disinvestment were catalysts that changed the course of history. It was at that time that major United States (US) companies that had adopted the Sullivan Code, led by the Reverend Dr Leon Sullivan, the first African-American to chair the Chevron Group, forced US corporates to abandon South Africa as an investment destination.

Larsen (2012:15) related that foreign reaction was instantaneous, with Chase Manhattan Bank recalling its loans to South Africa and refusing to roll over the country’s debt. Citibank followed suit, the Rand collapsed, money markets and the stock exchange closed for a week. Larsen (2012:15) recorded that both Barclays and Stanchart, at the time the two largest foreign shareholders in the South African banking sector, had begun to re-evaluate their investments in South Africa. This decision was the catalyst that precipitated merger and acquisition activities.

Larsen (2012:15) wrote that in May 1986, Lloyds Bank in London launched a hostile bid for Stanchart. Lloyds indicated that if it were successful, it would reduce or sever Stanchart’s South African connection. Larsen (2012:15) argued that it was Barclays, which was exposed to the UK public because of its retail branch network, that was first to succumb to disinvestment pressures. According to Larsen (2012:15), Barclays announced in November 1986 that it was selling its interest in South Africa for the sum of 80 million British pounds to Anglo American, De Beers and Southern Life. Larsen
(2012:15) further reported that Stanchart would also reduce its shareholding to 25% in South Africa. Around the middle of 1987, it was known that Stanchart had also decided to sell its South African holding. These entities had in 1970 emerged out of Standard Bank Limited in London with the Chartered Bank to form a Standard and Chartered Banking Group Limited. The name changed to Standard Chartered Bank (Stanchart) in 1975.

It was at that time that Donald Gordon’s Liberty became the major shareholder in Stanbic (Standard Bank Investment Corporation, a holding company established in 1969), with a 30% (formerly 22%) stake. Other substantial shareholders were Old Mutual, with 20% (from 17.1%), Gold Fields South Africa with 10% (from 3.4%), Rembrandt Group with 10% (0%) and the Standard Bank Pension Fund with 5% (from 2.5%). The remaining 25% was to be held by the public, bank executives, staff and clients (Standard Bank, 2013).


Figure 24: Standard Bank Group LTD growth ratios over 10 years (2005 to 2014)
Source: INET BFA 2015
Figure 24 illustrated the trends that emerged following the expansion strategy, using mergers and acquisition by going global and into African markets outside of South Africa led by Jacko Maree CE. His stint followed the failed hostile take-over attempt on Standard Bank by Nedcor. As accounted here, Standard Bank had built its growth on aggressive acquisitions starting in Africa and moving onto South America and the UK. Whilst this strategy initially paid dividends for the investing public, it soon got challenged by both endogenous and exogenous factors.

From period 10, which was 2005, the return on average equity had been in negative territory at (-35.69%) with ROA also in negative territory. This was attributed to the consumption of capital, which meant acquiring business at peak premiums, whilst the average return above the cost of capital remained subdued. Exogenous factors included the impact of the sub-prime crisis in 2008, which further caused Standard Bank Group Ltd to retreat from its global expansionist policy, particularly into South America and other global markets. The exposure to these markets was further worsened by the USD/SA Rand exchange. The ICBC deal in 2008 provided a reprieve from the investing public, but was yet to be tested for the value it had added to Standard Bank Group compared to ICBC itself.

The above major merger and acquisition led to a series of corporate activities that was to underpin the inorganic growth strategy of expanding into Africa, Europe and South America, which Larsen (2012:23) recorded as:

- 1987 - Stanbic established its presence in London, Zurich and Swaziland;
- 1988 - Stanbic acquired 49% of Union Bank of Swaziland;
- 1989 - SBSA opened a branch in Taipei and at the same time establishes the Africa Banking Group, made up of its operations in Namibia, Botswana and in the “homeland” of Transkei;
- 1995 - Standard Bank operated in London, Asia and New York, as the economic sanctions against South Africa had been lifted in 1991;
- 1996 - Stanbic acquired 49% of the equity Bank of Stanbic Uganda and increases its stake in Banco Standard Totta de Mocambique in Mozambique;
- 1998 – Stanbic acquired 60% of Barclays Bank of Swaziland and merges Standard’s and Barclays’ operations under Standard Bank Swaziland. Standard Bank London opened offices in Sao Paulo, Brazil and Dubai. Nigerian investments exist at 40% through Grindlays Merchant Bank of Nigeria;
- 1999 – Standard changed the name of the Africa Banking Group to Stanbic Africa. Stanbic acquired Liberty Investment (Donald Gordon is the founder of Liberty), gaining a 50% stake in Liberty Controlling Corporation for R5.5 billion to create a bancassurance model between Stanbic, the bank operations and Liberty, the insurance arm. Further offices were opened in Shanghai, China and Istanbul through Standard Bank London;
- 2000 - Liberty Life Association changed its name to Liberty Group. Stanbic and Liberty sold their shares in Liberty International in the UK for 547.2 million British pounds;
- 2001- A Standard Bank Offshore Banking unit was established in Mauritius. Stanbic acquired a majority stake of Commercial Bank of Malawi (now Standard Bank Malawi). Standard Merchant Bank (Asia) Limited was established in Singapore. Stanbic Africa acquires an 80% stake in Uganda Commercial Bank Limited and merges UCBL with Stanbic Bank Uganda Limited;
- 2012 – CFC Standard Bank in Kenya opened a branch in the oil-rich Southern Sudan.

ii. Merger description – ICBC significant stake in Standard Bank Group
In 2008, the Industrial and Commercial Bank of China (ICBC) acquired a 20% stake in Standard Bank Group Limited for $5.5 billion, becoming China’s largest foreign investment and the largest in South Africa since 1994. Operations were established in China to exploit ICBC Africa-China trade and infrastructural investments. The merger of Stanbic Kenya and Kenya CFC Bank with Standard into CFC Standard Bank anchors the group in East Africa.
Table 27: DVA analysis of Standard Bank Investment Corporation due to announcement of acquisitions by ICBC of a 20% stake in SBIC (R billion)

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<tbody>
<tr>
<td>Share Price Close</td>
<td>9420</td>
<td>9629</td>
<td>2.72</td>
<td>2.88%</td>
</tr>
<tr>
<td>Market Capitalisation R’ bn</td>
<td>143 673</td>
<td>146 861</td>
<td>3 188</td>
<td>2.22%</td>
</tr>
</tbody>
</table>

Source: INET BFA 2015

Table 27 showed the share price and market capitalisation relative to prior and post the transaction. The trading day means 3 March 2008 and the trading day after 3 March 2008 on 11 March 2008, excluding weekends, when trading is closed. Table 27 showed that when the Industrial and Commercial Bank of China (ICBC) acquired a 20% stake to the tune of about $5.5bn, a positive DVA of R3 188bn was added to the market capital of Standard Bank Investment Corporation. The share price moved by 3 basis points at 2.88% relative the market. The rise of China and the synergy anticipated from trade flows between the continent of Africa, where Standard Bank Group had major presence, resulted in the positive acceptance of the transaction. However, the economic recession, as a result of the sub-prime lending crisis and collapse of larger banks across the world, forced Standard Bank Group to scale back its global expansion in South America to focus on Africa affecting its subdued return.

As shown in Table 27, Standard Bank Group had been the most active of the South African banks in mergers and acquisitions as its core strategy for expansion both in Africa and the world, the ICBC deal being a watershed by size and in view of its timing, coinciding with the rise of China to rival the US as the economic giant of the new world order.

iii. The Case Study of Standard Bank and Nedcor – Hostile Takeover Bid

An interesting phenomenon was the infamous failed hostile takeover bid by Nedcor Group of the Standard Bank Group in the 1999-2000 period. Larsen (2012:31) wrote
that – supported by Old Mutual – Nedcor announced its intention to make a bid for Standard.

Nedcor (now Nedbank Group), through its associates, already held 26% of the issued shares in Nedbank Group, and wished ultimately to acquire all of the issued shares. Nedcor Group announced it would make an offer to the shareholders of Standard Bank Group, once the permission of the Minister of Finance had been obtained. The overriding reason put forward by the Nedcor Group for the intended merger was to create a fundamentally better banking group, for the benefit of South Africa and all stakeholders. The merged bank would have a stronger capital structure and a reduced risk profile. By eliminating duplicated costs, it would have a stronger free cash flow, allowing it to accelerate the development of state-of-the-art IT. Furthermore, they argued the intended merger would create a regional bank with sufficient scale and efficiency to compete with international banks. This would enhance trade across South Africa, while contributing to the enhancement of African banking and the development of the Southern African Development Community (SADC).

Nedcor Group argued that the merger was unlikely to reduce competition substantially, since the banks operated in the financial services industry generally, rather than just the retail banking market. It also asserted that globalisation, facilitated by IT developments, meant that South African banks effectively competed with other financial service providers worldwide. Nedcor Group also argued that the proposed merger had substantial public interest benefits, in that the merged entity’s lower cost base would enable it to extend banking services to the under-banked and provide BEE opportunities.

i. The case for and against the hostile takeover bid
Standard Bank Group responded by citing recent research, showing that the majority of bank mergers had not yielded the promised benefits. A Deloitte & Touche report had concluded that most mergers simply had not produced the benefits that were promised and in particular, experienced problems with integrating IT systems. BNP/Paribas had underperformed in comparison with its peers by 26% since its merger announcement. A review of the five largest US bank mergers in 1997 and 1998 indicated that estimated earnings for two years after completion were substantially
below initial expectations. Another South African bank had experienced a falling market share, reduced revenue and higher cost-to-income ratios after a merger. Furthermore, empirical research had demonstrated that bigger was not better; in the US between 1988 and 1997, the 10 largest banks had a lower than average return on assets. Implementation risks were high, as there was no experience of such large-scale integration, especially of IT systems, which could take up to six years. They argued that South African domestic banking was already concentrated, since the four large banks dominated the retail, small business and large corporate markets. Comparable mergers would not be allowed in Australia and Canada. They argued the merger would vastly increase systemic risk and concentration. They rejected the argument that the merged bank would have an increased global profile as emotive and illogical, pointing out it would be only number 144 in the world in terms of assets, and argued European-style regional expansion was not relevant to South African banks. Standard Bank Group also rejected the public interest argument. Its existing mass-market strategy would be jeopardised by a competitor with no interest or experience in this regard. There would be a permanent loss of 10 000 to 15 000 jobs, primarily at the clerical and branch level, probably within 12 months, mostly affecting people from previously disadvantaged communities, which could not be handled by attrition.

ii. Factors considered by the authorities in the hostile bid for Standard Bank by Nedcor

Marcus (2001:137) revealed that the authorities reviewed both the expected norms locally and the international best practice to reach a decision on whether to permit the hostile takeover or not.

Marcus (2001:137) argued that the environment in which banks operate underwent globalisation long before other industries. According to Marcus (2001:137), banks, in performing their pivotal role in the economy, influence the repo rate, participate in the payment system and influence the international banking scene through the international payment system. Marcus (2001:137) argued that it was therefore a further regulatory objective to cherish the national financial system jealously, in order to retain its systemic strength, and asserted that a balance must be struck between,
on the one hand, serving the national market and, on the other hand, the interest in competing internationally.

The international role of the South African financial system was to:

- Be a reliable member of the international financial community, engendering confidence in investors;
- Form a liaison with international financial systems;
- Play a leading role in Africa; and
- Lead by example in the East and Southern Africa Banking Supervisors’ Group.

Marcus (2001:137) contended that against this background, and being conscious of the principles applicable to competition, the regulator should adjudicate an application without falling into the trap of taking a commercial decision on behalf of the parties concerned. Although competition considerations were certainly in the interest of depositors, that interest might have had to yield, under appropriate circumstances, to the regulatory objectives set out above (Marcus, 2001:137). Furthermore, in considering a merger application, a number of regulatory principles had to be taken into account. With regard to the shareholding structure, Marcus (2001:137) observed that a bank must have appropriate regard for the interest of its depositors and strongly argued that no single shareholder (or group) should be in a position to exercise undue influence over the policies and operations of a bank. According to Marcus (2001:137), the shareholding structure should not be a source of weakness and should minimise the risk of contagion from non-bank activities conducted by shareholders in other entities within the conglomerate.

iii. Review of international best practice

According to Marcus (2001:138), the experience in nine countries was reviewed. The number of bank mergers had increased significantly during the previous two decades and created the impression that “big is beautiful”. Although there were some hostile takeover bids, most mergers were by agreement.

According to Marcus (2001:138), the following key observations were taken into account:
- Although bank regulators play an important role in the process of approving a merger, competition considerations would appear to be regarded as more important;
- European mergers and acquisitions surged during 1999 as the European monetary union heightened competition and forced banks to seek ways to cut costs and increase market share. Governments in many European countries welcomed the process of consolidation in their banking sectors and, in some cases, even urged their banks to merge as a way of creating formidable national champions and improving the international competitiveness of their banking sectors;
- Consolidation of the Japanese banking system was mainly due to an effort to restructure a struggling industry;
- Regulators and competition bodies in countries such as Australia and Canada maintain a tough stance on mergers. The Australian authorities maintain the “four-pillar policy” in order to prevent a merger of any two or more of the big four banks. In Canada, two proposed mergers were recently refused, mainly because of an unacceptable concentration of economic power. The US, with much less concentration, is reconsidering existing policy standards;
- Hostile bids were generally not well received by governments, regulators and competition agencies. Although the French government was in favour of a recently proposed three-way merger, it stated that the merger could take place only by agreement and in an ordered way. In Italy, the central bank had a strong aversion to hostile bids;
- The UBS/SBC merger in Switzerland had to be approved by two thirds of the shareholders, the Swiss regulators, the European Commission and the US Federal Reserve Board;
- In some cases, approval was granted for a merger to go ahead subject to certain conditions, for example in Australia, Switzerland and the US;
- The international movement towards the consolidation of banking systems had held promise for more efficient, better diversified banks, with more intense competition in local markets. In many cases, especially when acquirers paid a reasonable price and managed the resulting post-merger organisational problems effectively, this promise had certainly come true. There was, however,
accumulating evidence in surveys and empirical research that the promise had not always been fulfilled for retail customers in local banking markets. In many cases, neither greater efficiency nor substantial improvements in diversification appeared to have been realised, and bank profitability had fallen in 12 countries, despite the wave of consolidation. There was also some evidence of less, instead of more, competition resulting from the process of consolidation.

iv. Final decision by the South African authorities
Eventually, the South African authorities blocked the proposed takeover merger of Standard Bank by Nedcor, citing its hostility, the negative impact it would have on public interest, potential job losses, the stifling of competition, systematic risk and the impact it would have on the banking industry and the fledging South African economy as a whole. It is now history that this merger reinvigorated the leadership and management of Standard Bank Group, which had been lacklustre and unfocused, to turn around their business and successfully ward off the hostile take-over by Nedcor. On the other hand, the Nedcor Group lost focus on its core bank strategy and ventured into non-core activities, such as investments into untested information and communication technology activities and acquisition of legal firms that had no strategic fit internally and externally. Nedcor eventually performed poorly, resulting in a profit warning and lost market share, necessitating a surgical turnaround later to regain market share.

4.3.5 Comparing Case Studies
Bryman and Bell (2007:63) opined that multiple-case designs have become increasingly common in business and management research. Bryman and Bell (2007:63) submitted that multiple-case design allowed the researcher to compare and contrast the findings derived from each of the cases. According to Bryman and Bell (2007:63), comparing and contrasting case studies encourages the researcher to consider what is unique and what is common across cases to promote theoretical reflection on the findings. Cooper and Schindler (2011:182) submitted that while theoretical sampling seems to be common, a minimum of 4 (four) cases with a maximum of 15 (fifteen) seems to be favoured. This study selected 4 (four) case studies *inter alia*: Barclays Africa Group (‘Absa’), First Rand Group, Nedbank Group and Standard Bank Group.
This study compared and contrasted the 4(four) cases and observed what was common in cases by comparing and contrasting evidence, generalisation of evidence and general statements that arose from case studies in respect of the research objective and overarching themes.

### i. Common Elements

The case evidence revealed that Barclays Africa Group (‘Absa’), First Rand Group, Nedbank Group and Standard Bank were established at the turn of 19th century in South Africa. It was therefore observed that the socio-political environment both globally and domestically largely shaped and impacted upon their long-term vision and values. As evidenced, the South African banking sector was highly concentrated and dominated by the Big Four banks, which were the subject of the study.

Barclays Africa Group, in its original form as Absa, arose out of what was called “volskapitalisme”, meaning “people’s capitalism”, precipitated by both the Anglo-Boer War (1899-1902) and the Great Depression (1932) up to the dominant “apartheid” era, when it became dominant. The modern day FirstRand Group largely emerged out of the Barclays Bank Plc fortunes, when the latter decided to disinvest out of South Africa in 1986 due to anti-apartheid protest and South Africa’s isolation from the international community. Nedbank traced its roots to the Cape of Good Hope Bank, founded by John Bardwell Ebden in 1831 to serve the aspirations of the Cape Colony middle class made up of merchants, who were opposed to the monopoly of the Dutch East India Company. Standard Bank Group had its fortune tied to the British colonial rule in the 1890s, driven by discovery of gold and diamonds, the boom of the wool industry and railway construction for the British conquests led by Cecil John Rhodes. The four banks went through the Anglo-Boer Wars, Great Depression of 1932, the two World Wars, the rise of apartheid nationalism, sanctions and international isolation as a result of apartheid in South Africa and entered the era of the new democratic dispensation in 1994.
The origins and roots of these banks largely shaped the culture and values that affected their identity. Absa, through its predecessor building societies, for a long time was regarded as the bank for the “Afrikaner”, with a strong rural agricultural brand for farmers, serving mainly their interests to the exclusion of the largely majority black population. Absa itself had culture tension traced to Anglo-Saxon culture represented on one hand, by United Building Society and Allied, whilst on the other hand, Volkskas and Trustbank represented the Afrikaner culture. The merger fused these two cultures albeit with expected tensions, for many decades evidenced by the demise of Bankorp, its predecessor, and the fallout of the R3bn South African Reserve Bank lifeboat scandal. The emergence of the Absa brand identity in the backdrop of the new dispensation required transformation that challenged Absa to embrace the majority black population albeit with challenges.

FirstRand Group depicted an entrepreneurial culture and took advantage of South Africa’s emergence from international isolation. The founders of FirstRand Group became adept and completed a series of mergers and acquisitions evidenced in the study. Pursuing a multi-brand strategy, FirstRand Group embedded the culture of entrepreneurship, where brands in the same stable competed against one another. Initially, there were tensions with the democratic government, evidenced by political adverts that FNB supported in opposition to the ANC-led democratic government. Eventually, FirstRand Group made transformation its centrepiece that culminated to the appointment of its first black CE, Sizwe Nxasana, in 2010. An innovation-led culture emerged, when its bank arm First National Bank became the most innovative bank, embracing mobile and digital technology to reach and grow its customer base.

Nedbank’s origins in merchant banking and the middle class shaped its outlook, which it had to deal with, if it was to adapt and transform. Similar to the FirstRand Group, the culture was initially entrepreneurial and at one stage regarded as “elitist” due to its focus on the middle and high-end market segments.

However, Nedbank leadership in the 1990s were caught in the “technology bubble” as they had anticipated a convergence of IT and banking, and had made investments evidenced in the study that threatened its very existence in 2003 of what became
known as the “annus horribulus” of Nedcor. The energy spent on the intended hostile takeover bid exasperated Nedcor leadership focus, whilst it had unintended consequences of waking up Standard Bank Group leadership from its slumber to ward off the hostile takeover. Nedcor’s predecessor required recapitalisation of R5.2bn rights issue, underwritten by Old Mutual PLC. The dominant culture of “elitism” was replaced by a culture of a “vision-led and values-driven” culture, driven by its CE Tom Boardman to recover and rebuild a transformed bank that embraced Africa at its ambition. Nedbank led on empowering the black population through a series of mergers and acquisitions, in particular transactions around the Peoples Bank and the Permanent Building Society, led by the late Lot Ndlovu, a Black Economic Empowerment proponent. Nedbank dealt with its perceived elitism by transforming its leadership team and boards through its first black Chairman, Dr Reuel Khoza.

Standard Bank Group’s origins largely shaped its outward expansion and led the foray into the rest of the African continent, reminiscent of its related founding fathers. Standard Bank Group fortunes were tied to Lloyds Bank in London that reduced its stake in Standard Chartered Bank Plc due to its connection to isolated South Africa. Standard Bank Group acquired ANZ Grindlays’ network of eight banks across the African continent in Botswana, Ghana, Kenya, Nigeria, Uganda, the Zaire (now DRC), Zambia and Zimbabwe. Standard Bank Group became the largest bank operating on the continent in over 18 countries. The leadership style of its modern CEs, led by Jack Maree, emphasised following trade and flows to serve its mainly South African clients, who were also expanding outwards and to take on global trade and infrastructure.

This drive arose as an aftermath of the failed hostile takeover, which had been led by Nedcor under its CE, Richard Laubscher. Standard Bank arose from the slumber with great drive and energy. As evidenced in the study, this led to the bank looking beyond Africa under the “African Roots Global Reach” that saw expansion into Asia and Latin America and the eventual tie-up to the Industrial and Commercial Bank of China in 1998 to take advantage of the rise of China. However, the global economic meltdown of 2008 forced the Standard Bank Group to re-examine their expansionist policy as returns were subdued. The strategy reverted back to a focus on Africa and assets were sold globally to consolidate. Transformation was embraced as Standard Bank
attracted the former politician-turned businessman, Saki Macozoma, as Chair of its Board from the ruling ANC, who were taking advantage of the democratic government policies of black economic empowerment. However, generally, BEE policies continued to be challenged as they were perceived to be enriching only those at the top, who were close to the powerful political elite to the plight of the majority of the black population. Later, when changing leadership, the Standard Bank Group opted for Joint CEs, one black and one white, which was challenged by progressive civil society as being mere window-dressing.

The case study evidenced revealed that culture underpinned the vision of the Big Four and affected the exogenous macro-political factors over many decades. The mergers and acquisitions that the Big Four pursued largely stemmed out of artefacts of their cultures, visions, values and leadership styles of each of their CEs at a point in their history. The pursued strategies commonly embraced the endogenous environment that drove their effectiveness of their mergers and acquisitions strategies. By transforming, albeit challenged by their legacy and history, the Big Four banks made their pursuit of mergers and acquisitions largely acceptable to stakeholders with the exception of the failed hostile takeover of Standard Bank Group by Nedcor for reasons evidenced in the study.

The case study evidence revealed that acceptance of mergers and acquisitions by all stakeholders was key. Stakeholders included shareholders, staff, clients, regulators, unions, communities and the general public. However, the study also revealed that the banking sector was dominated by the Big Four; hence, the case evidence of a Panel of Banking Enquiry led by Justice Judge T. Jali in 2006 that investigated market power of the banks, costing and pricing, penalty fees charged, ATMs and direct charging, payment cards and interchange and access to the National Payment System.

On a global scale, the South African banking sector was resilient to withstand the impact of the sub-prime lending crisis in 2008 due to its robustness in risk management and sound governance. The South Africa banking sector was rated second out of 144 countries for soundness, whilst South Africa as a country was rated third overall for financial sector development by the World Economic Survey in 2012/13. The Big Four
largely contributed to such ratings. The Big Four continued to deliver exceptional results both in the short term as demonstrated by the DVA event analysis pre-and post-merger, and in the long term over a 10-year period. Whereas the evidence did not overwhelmingly show whether the Big Four were generating returns above the cost of capital or not, the mergers’ and acquisitions’ inorganic activities contributed to the healthy ROEs, capital adequacy, liquidity and substantive market capitalisation levels.

Figure 25: Comparison of Big Four banks by share price (2008 - 2013)
Source: Annual Report Nedbank Group 2014

As illustrated in Figure 25, the Big Four banks performed in share price over 1 year, 3 years and over 5 years. Although many factors affected the share price, over the 5-year period, FirstRand Limited and Nedbank Group Limited performed better compared to Barclays Africa Group Limited and Standard Bank Group Limited.

On the one hand, Absa had been challenged by the market, following the Barclays Africa PLC acquisition. The departure of some senior bank executives and loss of market in the critical retail segment impacted heavily on the institution. On the other hand, Standard Bank Group Limited had to refocus its acquisition strategy into Africa and as a result of the global economic recession, had to abandon its South American expansion and sold off assets compounded by a subdued ROE on its African operations.
FirstRand Group Limited had a strong domestic growth underpinned by the IT innovation and mobile technology, resulting in better growth in client numbers and transactional income; Nedbank Group Limited had a higher return on share price performance, underpinned by the long-term strategy on Africa that was seen to be bearing fruit through its strategic acquisition of Ecobank Transnational Incorporated, its alliance partner. However, the above share movements have continued to adjust downwards, driven by the 2015 global economy and slow economic growth in the South African domestic market and its downgrading by the rating agencies. However, overall, the Big Four banks have had a sustained performance since the merger and acquisition activities and generated value as per the figures above.

The cases further revealed overarching themes aligned to the research objectives. The main research question focused on “To what extent do critical success factors affect the effectiveness and efficiency of mergers and acquisitions?”. Case study evidence demonstrated that common among cases was the effect of the critical success factors that can be divided into exogenous and endogenous elements. Exogenous factors included political, economical, social, technological, regulatory and environmental factors. This corroborated the long established model of PESTLE, which evolved from the work of Francis J. Aguilar in 1967 and identified environmental factors that affected the business environment. The cases demonstrated how the endogenous factors impacted on their effectiveness and efficiency when executing mergers and acquisitions, and why they were significant in determining the effectiveness and efficiency of mergers and acquisitions.

Endogenous factors that emerged from the cases were the need for clear visions that are aligned to culture and values within these organisations. It was also evident that leadership and style of CEOs played a major role on how the Big Four performed in their strategies for mergers and acquisitions. Culture compatibility that was blended over many decades largely determined the behaviour of these entities in the modern
era. In some cases, a complete U-turn was required to create a platform for success, otherwise organisations would have faced failure and eventual demise.

The culture of and within these institutions was never static, but dynamic to align with the times and challenges of each era. However, this was largely depended on the leadership through the respective CEs and boards to steer the Big Four towards aligned visions. Undertaking mergers and acquisitions for the sake of deal-making and chasing short-term goals, as demonstrated by the aftermath of the tech-bubble, was not a recipe for success. The acceptability of mergers and acquisitions by all stakeholders was paramount, as evidenced by the case of the potential hostile takeover, where the issue of public acceptance and benefit trumped the claimed merits of the proposed hostile takeover.

4.4 CHAPTER SUMMARY

This study used a mixed methodology; namely, an exploratory qualitative survey design and the multiple case study design to answer the research questions. The exploratory survey of different organisations in the banking industry identified critical success factors that affect the effectiveness and efficiency of mergers and acquisitions such as regulatory approval, due diligence, vision and values, including culture, leadership buy-in, merger activity preparation, shareholders’ acceptance, choice of key executives, change management, clear synergies and positive returns in the long term. The inferential and descriptive statistics of the survey indicated the dependent variable of effective mergers and the above interdependent variables were positively related, albeit without implying a causal relationship of one variable on another. However, as the survey sample was small, the inferential and descriptive statistics were augmented through interviews to validate what the survey explored.

A multiple case study of the four big banks in South Africa complemented the survey design. The cross-case analysis of the Big Four banks placed the problems and issues generated in the survey in real life situations, where the phenomenon of mergers and acquisitions was studied on a longitudinal basis. The cross-case analysis confirmed
the interdependence of the variables identified in the survey and described through inferential statistics. The propositions were further confirmed as each case described the issues of visions and values, leadership, performance on returns, acceptability by stakeholders, and culture compatibility of merging parties.

The effect of the above resulted in a synthesis of the findings that laid a foundation for the suggested balanced framework, which challenged the current studies that are largely focused on financial determinants. This study revealed how and why the critical success factors that surfaced through the survey affected the effectiveness and efficiency of mergers and acquisitions as evidenced by the evolution of the Big Four banks.
CHAPTER 5: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The purpose of this chapter is to provide a summary of the findings of the research, draw conclusions in respect of the objectives of this study and submit recommendations, including areas of future research. Section 5.2 covers a summarised discussion in respect of the study results. Section 5.3 draws conclusions in respect of the objectives of the study and indicates to the extent to which each objective was achieved. Section 5.4 describes the original contribution to knowledge. Section 5.5 focuses on the limitations of the study and Section 5.6 discusses recommendations and areas of future research.

5.2 DISCUSSION IN RESPECT OF THE STUDY RESULTS

The aim of this study was to analyse the critical success factors that affected the effectiveness and efficiency of mergers and acquisition. The study attempted to confront the domain knowledge gap caused by a narrow focus on studies that rely mainly on financial evaluation of mergers and acquisitions, by providing a balanced perspective between non-financial and financial factors. Propositions were also tested by measuring levels of significance of the selected variables.

Two study design were applied in this study; namely, an explorative qualitative survey design and the multiple case study design, resulting in an overall mixed methodology. The explorative survey was used to collect data from a large number of organisations through mailed questionnaires and telephone interviews, which were analysed. Descriptive statistical techniques such as measures of central tendency, variability and shape; and inferential statistical techniques such as multiple regression techniques, ANOVA and Pearson’s Product Moment Coefficient correlation were used. The case study sought to understand the phenomenon of mergers and acquisitions by exploring and interpreting case evidence. The survey method was exploratory and complemented the case study research. The study design included: (1) A survey of
different organisations in the banking industry and (2) a multiple case study of the four big banks in South Africa.

The survey study found that when visions and values of merging banks were aligned and leadership support was greater, the chance of the mergers and acquisitions to be successful and effective was also greater. The study further found that culture compatibility of merging entities was critical. Stakeholder acceptance of a proposed merger and acquisition was also established to have a strong impact on chance of success or failure in mergers and acquisitions. This was corroborated by the inferential statistics data drawn from multiple regression techniques, ANOVA and Pearson’s Product Moment Coefficient. Leadership support, clear synergies and access to market of a proposed merger and acquisition, for instance, were variables found to be significant and positively related. However, not all variables were found to be significant, which was attributed to the small survey sample. Therefore, users of this study should take the limitation due to the small sample size into account.

To mitigate against any possible bias, the multiple case study evidence drawn from the Big Four banks complemented the survey results. The comparative case evidence, common among cases, established the effect of the critical success factors that can be divided into exogenous and endogenous elements. Exogenous factors include political, economical, social, technological, regulatory and environmental factors. The cases demonstrated how the exogenous factors impact on the effectiveness and efficiency of mergers and acquisitions, and why they were significant in determining the effectiveness and efficiency of mergers and acquisitions. Endogenous factors such as clear and communicated vision are aligned to culture and values within these organisations. It was also evident that leadership and style of CEOs played a major role on how the Big Four performed in their strategies for mergers and acquisitions. Culture compatibility that was blended over many decades largely determined the behaviour of these entities in the modern era. The case study evidence revealed that acceptance of mergers and acquisitions by all stakeholders was key. Stakeholders included shareholders, staff, clients, regulators, unions, communities and the general public. The case evidence demonstrated how regulatory authorities relied on
acceptability by stakeholders to approve or not approved a proposed merger and acquisition.

5.3 CONCLUSIONS

5.3.1 Objective One: To determine the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions

The results of this study determined the critical success factors that affect the effectiveness and efficiency of mergers and acquisitions as alignment of common visions and values, culture compatibility, leadership support, stakeholder acceptability, clear synergies, regulatory approval, due diligence, merger preparation, change management, choice of key executives, positive returns over the long term, access to markets and the state of the economy cycles.

The case evidence corroborated and substantiated the critical factors that impacted on the cycles of the Big Four mergers over the long term. The survey results found that 56% of the sampled CEOs indicated that an 80% majority of bank mergers in the South African banking sector had created value over the long term, evidenced by 10-year return trends. However, the results determined that there was a need to balance both the non-financial and financial factors’ impact on mergers and acquisitions. Therefore, policymakers and practitioners on mergers and acquisitions are advised to take into account both exogenous and endogenous critical factors, when assessing mergers and acquisitions instead of a narrow focus on financial valuations.

5.3.2 Objective Two: To determine the causal relationship between effective mergers and acquisitions, and the critical success factors.

The regression results found three variables that showed a strong positive relationship with the effective mergers and acquisitions. These were the factors of leadership support, clear synergies and access to capital markets. Although the independent variables of vision and values, culture compatibility, leadership, synergies, stakeholders and economy had lower p-values, the researcher strongly advises the users of this study not to generally rely on the cause-and-effect of variables, but take
into account both survey results and multiple case evidence. The multiple case studies provided ample evidence, which corroborated the overall statistical significance in the regression model.

The survey results were complemented by the multiple case studies that there was a causal relationship between effective mergers and acquisitions; and the critical success factors in the long term. However, the users of this study are also advised to take into account the impact of the economic cycles and the extent to which they could have an impact on mergers and acquisitions.

5.3.3 Objective Three: To generate multiple case evidence on the effect of critical success factors in the South African banking industry. The case studies of Barclays Africa Group (‘Absa’), First Rand Group, Nedbank Group and Standard Bank provided evidence that visions and values, culture compatibility, leadership support, stakeholder acceptability, clear synergies, regulatory approval, due diligence, merger preparation, change management and choice of key executives were critical success factors over the long term. In this study, the results of select Du Pont elements and DVA (Deal Value Added) models demonstrated, whether the value of the mergers and acquisitions had increased over the long term.

Case studies also provided evidence that all stakeholders and not just shareholders, but staff, unions, management, clients and regulators were critical determinants for effective and efficient mergers and acquisitions. The proposed merger ought to demonstrate social benefits to the public at large, and the market benefits and risks associated with the deal. Regulators and competition authorities place a premium on these key elements before any merger can be approved. The case evidence corroborated and substantiated findings by, among others, Petsa-Papanicolau (2007) on the key success factors that consulting firms such as McKinsey, Boston Consulting Group and Bain & Company consider critical for mergers to have a chance of success in the long term. The researcher advises users of this study to take into account the history and origins of the targeted entity, the influence of the leadership in driving change and action learning that should be factored into any merger preparation during due diligence.
Objective Four: To validate to the extent to which findings on the South African banking industry could be applicable globally

The results of this study provided evidence that the multiple case of the Big Four South African banks were on soundness and governance, benchmarked to the highest level with other banks in developed countries. On the authority of the Banking Association of South Africa (2012), the South African banking industry was deemed to be a well-regulated banking system that compared favourably with many industrialised economies. Furthermore and on the authority of the World Economic Competitive Survey 2012/13, South African banks were rated second out of 144 countries for soundness, while the country was rated third overall for financial sector development. On the authority of PricewaterhouseCoopers (2012), South Africa’s four major banks – Absa, Firststrand, Nedbank and Standard Bank – outperformed their Western global peers in areas such as return on equity. The PricewaterhouseCoopers (2012) firm reported that in the first half of 2012, the four banks with a combined headline earning of R21.3 billion and an average return on equity (RoE) of 15.9% outperformed a benchmark group of their Western peers, who recorded an average RoE of 2.1% for United States commercial banks and 14.7% for Canadian banks.

This study research also demonstrated how and why the South African banks, led by the Big Four, defied the impact of the 2008-2009 sub-prime lending crisis that shocked behemoths such as Lehman Brothers, Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford & Bingley, Fortis, Hypo and Alliance & Leicester. Therefore, the Big Four banks have set a world standard that demonstrated that critical success factors provide a strong foundation for effective mergers and acquisitions. The users of this study could compare and apply learnings out of the South African case in the region and global economies. The results also provided evidence that 2014-2015 was the beginning of the next wave of mergers and acquisitions. Therefore, the action learning of this study is applicable regionally and globally.
5.3.5 Objective Five: To provide recommendations to policy makers, regulators and business practitioners on how to assess mergers and acquisitions in a balanced way.

The survey results and multiple case studies provided evidence that policymakers should consider a holistic and comprehensive approach when assessing mergers and acquisitions. The DVA event analysis demonstrated that the value of the mergers and acquisitions were likely to be realised rather in the long term than in the short term. This study demonstrated that critical success factors such as vision and values, culture compatibility and stakeholders were equally important, if not more so than anticipated financial returns. The study further revealed through multiple case evidence that where little or minimal attention had been paid on such critical success factors, the results were devastating and threatened long-term value. In this study, it was demonstrated by case studies that consequences were dire, when banks were caught on the wrong side of economic cycles, while having poor leadership.

The policy implications arising out of this study were that policymakers need to establish plausible scenarios by anticipating forthcoming change and begin to adapt their policy responses. The study showed a clear relationship between the cycles in the economy and how the theory of waves had, over the years, been predicted and anticipated. Although it was accepted that the future was not often easy to predict, the wave trends on mergers and acquisitions provided ample evidence for policymakers to be proactive. The 2008-2009 sub-prime lending crisis and the anticipated merger wave from 2014-2015 onwards were clearly articulated. In this study, the Discontinuity Theory, buoyed by rise of internet and digital world, showed how industries were impacted. Therefore, this study challenged policymakers, regulators and business practitioners to pay more attention to all these elements and proactively develop policies that take into account the dynamic macro-environment.

5.3.6 The Proposed Theoretical Framework

It was the general conclusion of this study that both the financial and non-financial factors were key in providing a balanced assessment of any merger and acquisition. However, the researcher was aware of the challenge that some studies (for example, Petsa-Papanicolau, 2007; Gaplin & Herndon, 2000; Massoudi, 2006) faced, when attempting to consolidate the various critical success factors into applicable
frameworks. As a result of this study, an integrated assessment framework for mergers and acquisitions that categorises the critical success factors into three perspectives, *inter alia*: achievability factor perspective, acceptability factor perspective and feasibility factor perspective, was proposed.

The proposed framework drew on the works of, among others, Kaplan and Norton (1996). Kaplan and Norton (1996), in grappling with assessing performance of companies in how they should measure performance, proposed a balanced scorecard. The Balanced Scorecard ("BSC") provided a framework to obtain a "balanced" view of the financial perspective, the learning perspective, the internal perspective and organisational development perspective. Weighted scores were allocated, depending on the set targets and stretch targets to achieve results. The theory brought to the fore that not only financial factors are important, but instead, a balanced review of performance that takes into account both financial and non-financial factors is the ultimate. Companies and organisations worldwide adopted balanced score cards, and there is evidence of improved end-results.

This study concluded that it was paramount to provide a balanced assessment framework of critical success factors when assessing mergers and acquisitions. The findings of the survey and multiple case study evidence demonstrated that not only numbers were critical as the deals were equally impacted upon by non-financial factors in the long term.

This study therefore proposed a framework that incorporated three perspectives that need to be taken into account when applied in practice. The framework included predictors relevant to mergers and acquisitions as collated in the quantitative analysis. These variables were combined to demonstrate an integrated assessment model depicted in Figure 26 as follows:
As illustrated, Figure 26 included key variables that were aggregated under the suitability factor dimension. These included deal objective, vision, values, culture entropy, strategy fit and synergy. The model would then apportion pre-determined predictive scores and weightings per variable under the suitability factor dimension. The second element of the framework focussed on the acceptability factor dimension generated from survey results. A stakeholder map was depicted to identify all the key stakeholders that should be taken into account, when a merger was being consummated. The acceptability factor dimension took into account stakeholders’ interest, strategic benefits, the integration process and communication, among other variables.

The study revealed the importance of the loyalty of the stakeholders to either promote or reject any proposed merger. The proposed framework was corroborated and substantiated by the work of Reichheld (2003), who measured loyalty of customers using the net promoter score (NPS) framework and established that there was direct correlation of having more promoters to the growth of a company. Reichheld (2003:48) defined loyalty as the willingness of someone – a customer, an employee or a friend
– to make an investment in order to strengthen a relationship. Reichheld’s model was developed in surveying 400 companies in 28 industries, drawing from 130 000 customer survey responses gathered over 2 (two) years. It found that loyal customers talk up the company and that loyalty drives top-line growth.

In Reichheld’s model, a survey was run, asking customers the question: “How likely is it that you would recommend company X to a friend or a colleague?” Reichheld (2003:53) applied a consistent scale of responses that ranged from zero to ten, where zero meant not likely, five neutral and ten meant extremely likely. The range of responses from 9 (nine) to 10 (ten) were regarded as “promoters”; responses from 7 (seven) to 8 (eight) were regarded as “passively satisfied”; and 0 (zero) to 6 (six) deemed as “detractors”. The model was derived by calculating the percentage of customers, who responded with 9 or 10 (“promoters”) and the percentage of those, who responded with 0 to 6 (“detractors”). To obtain the net promoter score, the percentage of detractors was subtracted from the percentage of promoters. Reichheld (2003) asserted that companies needed more promoters than detractors. His work focused mainly on customers.

In this study, it is proposed that the net promoter score element be included to assess whether key stakeholders such employees, unions, shareholders, retired staff, communities, investing public and customers would be likely to recommend such a proposed merger or acquisition of or with company X to a friend or colleague. This could be done by surveying a valid sample of stakeholders during and after the merger process.

As illustrated in Figure 18, key stakeholders such as shareholders were selected by the participants at 17.54%, followed by regulators at 16.96%, competition authorities at 14.62%, staff at 12.87%, unions at 11.11%, clients at 9.94%, government at 6.43% and other competitors at 4.09%. Reichheld (2003:54) concluded that the path to sustainable profit growth begins with creating more promoters and fewer detractors and making the net promoter number transparent. The proposed framework sought to create more stakeholders, who would promote the proposed merger / acquisition as compared to detractors of such undertaking.
The last element of the proposed framework was the feasibility factor (FF) dimension. The feasibility factor perspective took into account the key financial determinants as proposed through Du Pont and DVA analysis, focusing on growth and value ratios. Other key variables were management skills, operational capabilities and human resources. The various variables were identified and assessed in terms of outcomes and commented upon.

The proposed framework can be applied during both pre-merger and post-merger transaction activity. The framework added to the work of other scholars, including the work of DePamphilis (2008) that looked at mergers, acquisitions and other restructuring activities. DePamphilis drew mainly on elements of financial perspective and began to introduce non-financial factors, albeit with a limited framework on how these would be incorporated. This framework established a comprehensive application of balancing the financial and non-financial anchors.

The framework added into the corpus of knowledge as corroborated and substantiated by what Ashkenas, DeMonaco and Francis (1998) termed the Pathfinder framework in their study of how GE Capital integrated acquisitions. Ashkenas et al. (1998) spent three years as part of a GE Capital team that learnt from its extensive acquisition-integration experience to build a replicable process. Ashkenas et al. (1998:03) observed that the model divides the process into four “action stages”, starting with the work that goes on before the acquisition is completed and continuing all the way through assimilation.
The related GE Capital Pathfinder model is depicted in Figure 27 below.

![Figure 27: The GE Capital Pathfinder Model](image)


### 5.3.7 Original Contribution to Knowledge

This study was predicated by studies such as Petsa-Papanicolau (2007), Gaplin and Herndon (2000), and Massoudi (2006). However, the contribution of this study was distinguishable from the related previous studies in a variety of ways. In this study, two
study designs were applied; namely, an exploratory qualitative survey design and the multiple case study design. This resulted in the use of a mixed methodology. The study identified the relevance of a number of theories that impact on mergers and acquisitions. The economic cycle and merger waves demonstrated the motives of why mergers and acquisitions took place and how such forces affected them in the long term. The study contributed by proposing a balanced framework that can be applied in real-life case situations. The study combined quantitative and qualitative methods by generating useful data that were complemented by multiple case studies. The study also used more than one case in a single study, which is a major contribution to the field of knowledge and case study methodology. The use of a case study research model strengthened the need to apply the model by also building case studies, when business practitioners undertake transactions.

This study contributed through the “Balanced Critical Success Factor Framework” that seeks to provide a balance between hard and soft critical elements. This model emphasised that the key anchors and variables should always be weighed and assessed in a holistic and balanced manner. The model can be used by practitioners in the banking industry; general professionals involved in mergers and acquisitions through adaptation to specific industries; competition and regulatory authorities; and any investor seeking to acquire or expand through mergers and acquisitions.

It was hoped the application of the proposed framework would contribute to knowledge and theory to transform and improve general practice in business. Due to the volatile macro-economic environment that is dynamic as evidenced in Chapter 2 of this study, practitioners should apply the same model in tandem to the prevailing macro-economic environment. The model was not a fool-proof formula to achieve an effective merger and acquisition, but it added to the corpus of knowledge by articulating a balanced framework for consolidating the critical success factors in mergers and acquisitions.

It was also a framework designed to accommodate predictors of the future that impact on any merger and acquisition, so that leadership and management were fully prepared and aligned to the strategic intent of the proposed merger. The variables proposed in the model were inter-dependant and intertwined with one another, thus
bringing a balanced framework of assessing mergers and acquisitions in a comprehensive manner.

This study also attempted to close the knowledge gap by paying attention to non-financial factors, which affect mergers and acquisitions. It also generated further areas of future research.

5.3.8 Limitations
In this study, the survey enquiry was impacted upon by the smaller sample of CEs, who participated. About 72 CEs were targeted, including foreign-represented institutions in the South African banking sector. A total of 32 CEs participated, which was 44% of the targeted sample in the survey. This was largely attributed to the time constraints of the CEs of banks as it is one of the highly pressured roles. It also took longer for the targeted banks to accept the validity and the reputation of the initial MonkeySurvey online tool due to IT policies that prevented research software, which could compromise bank security information through cyber-attacks. The study only progressed after an online research tool had been accepted by most banks (industry approved).

The lack of readily available documented bank mergers and acquisition data and dates of particular transactions presented a challenge to the researcher. There was limited information on deals as a result of limited public repository from the early 1990s. The study would have been more enriched through case evidence, if it was carried over a longer-term observation. Therefore, users of the study have to exercise caution, when generalising its outcomes outside of the South African context.

5.4 RECOMMENDATIONS
Given that this study was largely complemented by case evidence that was action research, it is highly recommended that the CEs of banks or in any other industry should use case study methodology when engaged in merger and acquisition transactions. There are a number of available databases and longitudinal studies
available on mergers and acquisitions that could become a source of benchmarks. This study demonstrated that reliance solely on numbers to make decisions did not provide sufficient insights required by CEs to make decisions. Such decisions, in the long term, might either destroy, conserve or create value for firms.

The recommended corrective action for boards and their CEs is to strengthen their Investment Committees with requisite expertise, experience and knowledge, spanning the areas of human resource specialists, industrial psychologists, sociologists and generalists with case-writing skills to generate useful insights for decision-making. Although Investment Committees were still dominated by financial engineers and chartered accountants, this study recommended a balanced approach, based on these findings. Based on the multiple case studies, the researcher safely concluded that mergers and acquisitions were in the main largely influenced by human behaviour.

Further areas of research recommended are studies of multiple case studies on critical success factors across a number of industries, using a larger population sample over a longer term. The context of this study was largely South Africa. Further studies on the banking sector across the African continent on critical success factors could benefit the industry as a whole. It would also be beneficial, if the proposed framework could be considered for further development of a research software tool, which could be used in practice, similar to Barrett Entropy and Net Promoter Scoring research software. Such an innovation would enhance the utility and value of the proposed framework. However, the researcher cautions, notwithstanding such a tool being developed, intangible variables as culture would require judgement and observation.

As this study demonstrated, Africa had better prospects for growth than other regions; therefore, policymakers are implored to develop policy that takes into account non-financial factors, when assessing benefits of such mergers and acquisitions for the good of the public.
5.5 CHAPTER SUMMARY

Section 5.2 began by recapitulating the discussion in respect of the study results and what emerged as golden thread. This was followed by section 5.3, which focused on the conclusions that demonstrated the extent to which the research objectives were achieved. Section 5.3 also covered the proposed theoretical framework, original contribution to knowledge and general evaluation of the study, including the limitations of the study. The chapter ended with section 5.4, which covered the main recommendations that policymakers and specifically CEs of banks and/or in other industries would require as action research for corrective measures when engaged in mergers and acquisitions. The section also included areas of further research.
LIST OF REFERENCES


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ANNEXURE A: RESEARCH QUESTIONNAIRE

Dear Sir/Madam

May I take this opportunity to introduce myself and the objectives of the survey that you are about to complete.

I am Thulani Vilakazi, Executive Head: Institutional Business Development, Nedbank Rest of Africa. I am currently conducting a short survey as part of the completion of my Doctor of Business Leadership at the UNISA School of Business Leadership. My research study is intended to develop a holistic and integrated assessment framework in M&A that applies both non-financial and financial parameters in the case of the South African banking industry. The proposed assessment framework can be applied in business practice to execute meaningful strategy management of M&A and will benefit the banking industry.

Your participation is highly welcomed and appreciated. As a key stakeholder associated with the banking industry, your insights and opinions are highly valued. I hereby seek your consent to spend 15-20 minutes completing the attached survey. Participation is voluntary and all responses will be kept strictly confidential. You may withdraw your consent at any time if you choose not to participate, without any obligations.

Permission to run the survey has been granted by Nedbank as per Group guidelines and requirements on research.

Regards,

Dennis Thulani Vilakazi
DBL Candidate No. 35664517
UNISA School of Business Leadership
PART A: ASSESSMENT OF SUITABILITY FACTORS

1. Does your business have a clearly defined M&A business plan as part of achieving its growth strategy? Please select the most suitable answer.

   No
   Yes
   Unsure

2. To what extent do you agree or disagree that there are more M&A opportunities for your business NOW than there were say 3 years ago? Please select the most suitable answer.

   Strongly Disagree
   Disagree
   Slightly Agree
   Agree
   Strongly Agree

3. In which of the following global markets do you see M&A growth opportunities for your organisation? Please select the most suitable answer.

   Asia
   China
   Africa
   Europe
   North America
   Latin America
   Australasia

4. When visions and values of M&A actors are aligned, there is a greater chance of success for the M&A activity. To what extent do you agree or disagree with this statement? Please select the most suitable answer.

   Strongly Disagree
   Disagree
   Neither Agree nor Disagree
   Agree
   Strongly Agree
5. **Drawing from your knowledge and insights into merger activity in the South African banking industry since 1990 to present, what conclusions can be drawn on the extent to which M&As have conserved, destroyed or created value?** *Please select the most suitable answer.*

- Majority of Bank Mergers (80%) conserved value
- Majority of Bank Mergers (80%) destroyed value
- Majority of Bank Mergers (80%) created value
- Undecided
- Minority of Bank Mergers (20%) conserved value
- Minority of Bank Mergers (20%) destroyed value
- Minority of Bank Mergers (20%) created value

6. **RSA bank mergers since 1990 and until recently have achieved their predetermined outcomes, expectations and parameters, both financial and non-financial. To what extent do you agree or disagree with this statement?** *Please select the most suitable answer.*

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

7. **Culture compatibility between M&A actors is paramount for a merger to take place. To what extent do you agree or disagree with this statement?** *Please select the most suitable answer.*

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree
8. Openness between M&A actors helps to communicate and align their vision of the firm’s future. To what extent do you agree or disagree with this statement? Please select the most suitable answer below.

Strongly Disagree
Disagree
Neither Agree nor Disagree
Agree
Strongly Agree

9. In your view, describe the key factors, both financial and non-financial, that should be taken into account when assessing a potential M&A bank transaction. Please comment below.

Non-Financial

Financial

PART B: ASSESSMENT OF ACCEPTABILITY FACTORS

10. In your view, how important is it for top management ("executive leadership") to support a planned M&A activity? Please select the most suitable answer below.
11. **Which of the following stakeholders do you think impact strongly on the acceptability of a proposed M&A? Please tick as many as apply.**

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12. **Describe the challenges you or your organisation have faced that influence the approval of M&A by the regulatory and competition authorities within and outside the borders of South Africa? Please comment briefly below.**

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**PART C: ASSESSMENT OF FEASIBILITY FACTORS**

13. **Banks involved in M&A deal better with integration management issues such as merger preparation, due diligence, choice of key executives, IT systems**
and cultural change. To what extent do you agree or disagree with this statement? Please select the most suitable answer

Strongly Disagree
Disagree
Neither Agree nor Disagree
Agree
Strongly Agree

14. Please rank the following according to their impact on your organisations’, to “walk away” from any M&A deal. Please select “1” for the Most Important and “5” for the Least Important.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Leadership</td>
<td></td>
</tr>
<tr>
<td>Poor Risk Governance</td>
<td></td>
</tr>
<tr>
<td>Unmatched Vision and Values</td>
<td></td>
</tr>
<tr>
<td>Excessive Premium</td>
<td></td>
</tr>
<tr>
<td>Political Instability</td>
<td></td>
</tr>
<tr>
<td>Highly Impaired Book</td>
<td></td>
</tr>
<tr>
<td>Weak IT system</td>
<td></td>
</tr>
<tr>
<td>Low Staff Morale</td>
<td></td>
</tr>
<tr>
<td>Poor Brand Reputation</td>
<td></td>
</tr>
<tr>
<td>Recurring Market Share Losses</td>
<td></td>
</tr>
</tbody>
</table>
15. Please rank the following according to their impact to improve the chance of success of M&A. Please use “1” for the Most Important and “5” for the “Least Important”.

<table>
<thead>
<tr>
<th>Item</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Buy-In</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clear Synergies</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Shareholder Acceptance</td>
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<td></td>
<td></td>
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<tr>
<td>Regulatory Approval</td>
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<td></td>
<td></td>
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<tr>
<td>Growing Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Vision and Values</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Positive Returns Above Cost of Capital</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Public Interest Is Served</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to capital markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovative Brand</td>
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</tr>
</tbody>
</table>

16. In your experience, do M&A deals in general create value for shareholders? To what extent do you agree or disagree with this statement? Please select the most suitable answer.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

17. How confident are you about your business’ prospects to reap value out of its recent M&A activities? Please tick the most suitable answer.

- Highly Unlikely
- Unlikely
- Undecided
- Confident
- Highly Confident
18. In your view, what conclusions can be drawn on the extent to which mergers have created value to achieve their strategic management objectives? Please name key learnings based on your views in the comment box below.

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19. In your view, what conclusions can be drawn on the extent to which mergers that are perceived to have created value achieve their strategic management objectives? Please comment briefly below.

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……………………………………………………………………………………………………
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20. In your view, which of the following predictive statements best characterised the RSA bank mergers in the recent past? Please tick as many as apply.

| Alignment of vision and strategies of merging parties increases the chance of success of M&A |
| The CEO leadership style has a direct impact on the chances of success or failure of M&A |
| Top management buy-in and cultural suitability increases the chance of success. |
| Stakeholders’ interests determine the acceptability of the merger. |
| Financial resources to merge and the maximising synergy benefits in the merger deliver results. |
Acquirers tend to pay excessive premiums for bank targets in growing markets, i.e. Sub Saharan Africa.

Acquirers with experience in M&A tend to improve the long-term performance of the merged entity.

The larger the banks involved in the merger, the smaller the chances of success.

The larger the acquirer of a smaller target, the greater is the chance of success.

The smaller the banks involved, the greater is a chance of success.
PART D: PARTICIPANT DEMOGRAPHIC DETAILS

Your biographical information in this study is important to assess your experience, expertise and know-how of M&A. This information as well as your responses will not be revealed to any person other than the researcher.

21. **Which of the following best describes your primary role or responsibility?**

*Please tick or describe below*

- Non-Executive
- Chief Executive Officer
- Managing Director/Managing Executive
- Divisional Executive/Business Manager/Account Executive
- Other (Please describe): [ ]

22. **In your current or past role, what is/was your level of participation in M&A assessment and decision-making processes in your business?**

*Please tick the most suitable answer below.*

- **None** (I have/had never participated in M & A case decisions.) [ ]
- **Limited** (I have/had participated in M & A case decision perhaps one to three times totals.) [ ]
- **Moderate** (I have/had participated in M & A case decision from time to time as necessary.) [ ]
- **Extensive** (I have/had participated in M & A case decisions often, they are/were integral part of work experience.) [ ]

23. **Please check the box that describes your age?**

<table>
<thead>
<tr>
<th>Age</th>
<th>20-30</th>
<th>30-40</th>
<th>40-50</th>
<th>&gt;50</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>
24. Please check the box that describes your gender?

[ ] Female
[ ] Male

25. Please check the box that describes your total banking/financial industry experience?

[ ] Less than 5yrs
[ ] 5-10yrs
[ ] 10-20yrs
[ ] 20-30yrs
[ ] >30yrs

5yrs

THANK YOU FOR YOUR PARTICIPATION
Figure 28: Share price of Standard Bank, FNB, Nedbank and Capitec

Source: SANLAM Financial Market Analytics
ANNEXURE C: Comparative ROCE and Market Value Equity

Figure 29: Return on common equity of Standard Bank, FNB, Nedbank and Capitec
Source: SANLAM Financial Analytics
Figure 30: Market value equity of Standard Bank, FNB, Nedbank and Capitec

Source: SANLAM Financial Analytics
Figure 31: Operating Return on Equity of Standard Bank, Fnb, Nedbank and Capitec

Source: SANLAM Financial Analytics
ANNEXURE E:

Figure 32: Total shareholders' equity of Standard Bank, FNB, Nedbank and Captitec

Source: SANLAM Financial Analytics