

# **Determinants of cross-border mergers and acquisitions in the freight and logistics industry of South Africa: A qualitative approach**

**JC de Villiers**  
**21619565**

Dissertation submitted in partial fulfilment of the requirements for the degree Magister Commercii (M.Com) in International Trade at the Potchefstroom Campus of the North-West University

Supervisor: Prof Henri Bezuidenhout  
Co-supervisor: Dr Sonja Grater

November 2016

## ABSTRACT

International trade is important in today's modern, commercial world. International mergers and acquisitions (M&As) in the freight and logistics industry create companies with an international scale and effectively link the world's capitalist systems more firmly together. Firms are benefitting from expanded market opportunities across national borders; this provides prospects for companies not only to generate substantial revenues, but also for geographical growth and expansion of the business. The fast growing nature of the services sector, especially in developing and emerging economies at an infrastructure, policy and intercontinental level, may indicate important determinants of trade volumes, the distributional effects of trade, overall patterns of economic growth and development as well as Foreign Direct Investment (FDI) inflows. This dissertation examines the development of inorganic growth spurts in the freight and logistics industry through M&As in South Africa.

Extensive research has been conducted on FDI and specifically M&As globally, but less research exists on M&As in the services sector, and more specifically on the freight and logistics industry. It was therefore the objective of this study to analyse old and new data on M&As that have been collected in recent years from around 1995 to 2016, to determine what the drivers are that are motivating MNEs to pursue inorganic growth methods rather than organic growth methods. The global freight and logistics industry is a direct beneficiary of globalisation and has been growing at a fast pace, generating high amounts of returns on capital, thereby attracting both strategic and financial investors. It seems these investors are operating on the notion that "bigger is better", and consequently the world is seeing an upsurge in the number of M&As in this industry.

Identifying the drivers behind inorganic growth methods through M&As in the freight and logistics industry of South Africa is firstly done by means of a literature study that firstly examines FDI and M&As in detail, and secondly examines the literature on the services sector and freight and logistics industry in detail. The case study approach was adopted to explore and investigate the theoretical aspects of FDI such as motives for market entry, ownership and location and entry barriers within the context of Multinational Enterprises (MNEs) globally

After comparing the results of the three cases with each other, it can be summarised that corporate growth (market share, geographic reach or sales volume/financial growth), economies of scale, synergies, competitive advantage and exploiting an opportunity that arose were the most significant motivations/driving forces behind these MNEs choosing to pursue inorganic growth methods through mergers and acquisitions in the freight and logistics industry.

**Key terms:** Foreign direct investment, merger, acquisition, services, freight and logistics, inorganic growth, organic growth, multinational enterprise (MNE)

## OPSOMMING

Die belangrikheid van internasionale handel is onmiskenbaar in die moderne, kommersiële wêreld van vandag. Internasionale samesmeltings en verkrygings in die vrag- en logistieke industrie skep maatskappye met 'n internasionale skaal en skakel effektiewelik die wêreld se kapitalistiese stelsels meer stewig saam. Maatskappye trek voordeel uit uitgebreide markgeleenthede oor nasionale grense heen; dit bied vooruitsigte vir maatskappye om nie net aansienlike inkomste te genereer nie, maar ook vir geografiese groei en uitbreiding van die besigheid. Die vinnig groeiende aard van die dienstesektor, veral in ontwikkelende en opkomende ekonomieë op 'n infrastruktuur-, beleids- en interkontinentale vlak, mag belangrike determinante van handelsvolumes, die inkomste-effekte van handel, algehele patrone van ekonomiese groei en ontwikkeling en buitelandse direkte beleggingsinvloei aandui. Hierdie verhandeling ondersoek die anorganiese groeiversnelling deur samesmeltings en verkrygings in die vrag- en logistieke bedryf van Suid-Afrika.

Uitgebreide navorsing is al gedoen op buitelandse direkte beleggingsinvloei en samesmeltings en verkrygings wêreldwyd, maar aansienlik minder navorsing bestaan oor samesmeltings en verkrygings in die dienstesektor, en meer spesifiek op die vrag- en logistieke bedryf. Dit was dus die doel van hierdie studie om ou en nuwe inligting oor samesmeltings en verkrygings wat in die afgelope jare plaasgevind het, te neem om sodoende te probeer bepaal/analiseer wat die dryfkragte is wat groot multinasionale ondernemings motiveer om anorganiese groeimetodes soos samesmeltings en verkrygings, eerder as organiese groeimetodes, na te streef. Die globale vrag- en logistieke industrie is 'n direkte begunstigde van globalisering en groei teen 'n vinnige tempo; dit genereer hoë bedrae van opbrengs op kapitaal, en lok dus beide strategiese en finansiële beleggers. Dit blyk asof hierdie beleggers op die idee dat "groter is beter" werk, en gevolglik sien die wêreld 'n piek in die aantal samesmeltings en verkrygings in die bedryf.

Die identifisering van die drywers agter anorganiese groeimetodes deur samesmeltings en verkrygings in die vrag- en logistieke bedryf van Suid-Afrika is in die eerste plek gedoen deur middel van 'n literatuurstudie wat eerstens buitelandse direkte beleggingsinvloei en samesmeltings en verkrygings in detail ondersoek en tweedens ondersoek dit die literatuur oor die dienstesektor en vrag- en logistieke bedryf in detail. Die gevallestudiebenadering is gevolg om teoretiese aspekte van buitelandse direkte beleggingsinvloei, soos motiewe vir die mark inskrywing, eienaarskap en plek- en toegangstruikelblokke binne die konteks van multinasionale logistieke maatskappye wêreldwyd, te verken en te ondersoek.

Na die vergelyking van die resultate van die drie gevalle, kan dit opgesom word dat korporatiewe groei (markaandeel, geografiese teenwoordigheid of verkope volume/finansiële groei), skaalvoordele, sinergieë, mededingende voordeel en die ontginning van 'n geleentheid wat ontstaan het die mees beduidende motiverings/dryfkragte agter hierdie multinasionale ondernemings se keuse was om anorganiese groei metodes deur samesmeltings en verkrygings in die vrag en logistieke bedryf voort te sit.

**Sleuteltermes:** Direkte buitelandse belegging, samesmelting, verkryging, dienste, vrag en logistiek, anorganiese groei, organiese groei, multinasionale onderneming

## **PREFACE AND ACKNOWLEDGEMENTS**

This dissertation is submitted in partial fulfilment of the requirements for the degree Magister Commercii in International Trade. It has been an enduring process with many learning curves. The research described herein was conducted under the supervision of Prof Henri Bezuidenhout and Dr Sonja Grater from the Faculty of Economics and Management Sciences at the North-West University, Potchefstroom, South Africa between 2014 and 2016.

The data in this dissertation is to the best of my knowledge original, except for where acknowledgements and references are made to previous research.

This study is dedicated to the pursuit of knowledge, which has driven progress and enlightenment throughout the ages.

Many inspiring people have been involved in the work leading to the completion of my MCom dissertation. I would therefore like to acknowledge and extend my thanks to the following individuals and institutions, who all contributed and played an important role to the realisation of the study:

Firstly, I would like to thank my supervisor Prof Henri Bezuidenhout, and co-supervisor Dr Sonja Grater for their guidance, patience, enthusiastic mentorship, encouragement and constructive feedback throughout this process. Thank you to Ms. Cecile van Zyl for the language editing of the dissertation

Secondly, I would like to show my appreciation to Bureau van Dijk for the data on M&As in the transport sector globally, as well as the respondents of the three freight and logistics companies who contributed data and information about their companies' acquisitions.

I would also like to thank my family and friends for their on-going interest, encouragement and support throughout my studies: Mom, Dad, Gran, Sia, Werner, Sus, Lucks and Spokie; this study is a result of your love and support and I am grateful.

Finally, to God all the honour.

Ms JC de Villiers  
Potchefstroom  
2016

# TABLE OF CONTENTS

|                                   |      |
|-----------------------------------|------|
| Abstract.....                     | i    |
| Opsomming .....                   | iii  |
| Preface and acknowledgements..... | v    |
| Table of contents .....           | vi   |
| List of tables .....              | xiii |
| List of figures .....             | xv   |
| List of abbreviations.....        | xvi  |

## CHAPTER 1: INTRODUCTION, PROBLEM STATEMENT AND METHOD OF INVESTIGATION

|        |                                                                                                       |    |
|--------|-------------------------------------------------------------------------------------------------------|----|
| 1.1.   | Background .....                                                                                      | 17 |
| 1.1.1. | Examples of recent (2011-2015) cross-border M&As in the freight and logistics industry globally ..... | 18 |
| 1.1.2. | Reasons and influences of inorganic growth methods .....                                              | 19 |
| 1.1.3. | Importance of the literature and theory for the study .....                                           | 20 |
| 1.2.   | Problem statement .....                                                                               | 27 |
| 1.3.   | Motivation .....                                                                                      | 27 |
| 1.4.   | Research objectives .....                                                                             | 28 |
| 1.4.1. | General objective.....                                                                                | 28 |
| 1.4.2. | Specific objectives .....                                                                             | 28 |
| 1.5.   | Research method .....                                                                                 | 28 |
| 1.5.1. | Phase 1: Literature review .....                                                                      | 28 |
| 1.5.2. | Phase 2: Empirical study .....                                                                        | 29 |

|        |                            |    |
|--------|----------------------------|----|
| 1.5.3. | Research method .....      | 29 |
| 1.6.   | Outline of the study ..... | 31 |

## **CHAPTER 2: LITERATURE REVIEW: FOREIGN DIRECT INVESTMENT**

|        |                                                                              |    |
|--------|------------------------------------------------------------------------------|----|
| 2.1.   | Introduction.....                                                            | 34 |
| 2.2.   | Background on FDI.....                                                       | 35 |
| 2.3.   | Defining FDI .....                                                           | 37 |
| 2.4.   | Other important terms, concepts and definitions .....                        | 38 |
| 2.4.1. | Organic and inorganic growth .....                                           | 38 |
| 2.4.2. | Multinational enterprises (MNEs) and transnational corporations (TNCs) ..... | 39 |
| 2.4.3. | Host country vs home country .....                                           | 39 |
| 2.5.   | Structure and classification of FDI .....                                    | 40 |
| 2.5.1. | FDI flows: Inflow and outflow .....                                          | 41 |
| 2.5.2. | Entry modes of FDI.....                                                      | 42 |
| 2.5.3. | The different types of FDI .....                                             | 45 |
| 2.5.4. | Entry routes: Automatic and government.....                                  | 47 |
| 2.5.5. | Determinants .....                                                           | 47 |
| 2.6.   | Theoretical perspectives: FDI- and international trade theories .....        | 53 |
| 2.6.1. | International trade theories .....                                           | 54 |
| 2.6.2. | FDI theories.....                                                            | 56 |
| 2.7.   | Summary and Conclusion.....                                                  | 60 |

## CHAPTER 3: MERGERS AND ACQUISITIONS

|        |                                                       |    |
|--------|-------------------------------------------------------|----|
| 3.1.   | Introduction.....                                     | 62 |
| 3.2.   | Explaining mergers and acquisitions.....              | 63 |
| 3.2.1. | Mergers .....                                         | 64 |
| 3.2.2. | Acquisitions .....                                    | 65 |
| 3.3.   | A brief history of mergers and acquisitions .....     | 66 |
| 3.3.1. | Merger waves .....                                    | 66 |
| 3.4.   | Motivations for mergers and acquisitions .....        | 69 |
| 3.4.1. | Financial motives .....                               | 69 |
| 3.4.2. | Geographical motives .....                            | 71 |
| 3.4.3. | Operational motives.....                              | 73 |
| 3.5.   | The overall process of mergers and acquisitions ..... | 74 |
| 3.5.2. | Phase 1: M&A strategy .....                           | 76 |
| 3.5.3. | Phase 2: Target screening.....                        | 76 |
| 3.5.4. | Phase 3: Due diligence.....                           | 76 |
| 3.5.5. | Phase 4: Execution of the transaction.....            | 77 |
| 3.5.6. | Phase 5: Integration .....                            | 78 |
| 3.6.   | The success factors of mergers and acquisitions.....  | 80 |
| 3.6.2. | The business environment factor .....                 | 80 |
| 3.6.3. | Adequate management planning .....                    | 80 |
| 3.6.4. | Understand cultures.....                              | 80 |
| 3.6.5. | Proper deal structure .....                           | 81 |
| 3.7.   | Reasons M&As fail .....                               | 81 |

|        |                                                                                    |    |
|--------|------------------------------------------------------------------------------------|----|
| 3.7.2. | Strategic differences .....                                                        | 81 |
| 3.7.3. | Cultural differences.....                                                          | 81 |
| 3.7.4. | Incomplete and inadequate due diligence.....                                       | 82 |
| 3.7.5. | Insufficient integration.....                                                      | 82 |
| 3.7.6. | Exaggeratedly optimistic.....                                                      | 82 |
| 3.8.   | A review of the existing literature on the multidisciplinary aspects of M&As ..... | 82 |
| 3.8.2. | Economic aspects regarding M&As .....                                              | 83 |
| 3.8.3. | Political aspects regarding mergers and acquisitions.....                          | 83 |
| 3.8.4. | Strategic management of mergers and acquisitions .....                             | 84 |
| 3.8.5. | Legal and regulatory requirements regarding mergers and acquisitions .....         | 84 |
| 3.8.6. | Cultural aspects of mergers and acquisitions.....                                  | 85 |
| 3.8.7. | Financial aspects regarding M&As.....                                              | 86 |
| 3.9.   | Summary and Conclusion.....                                                        | 88 |

## **CHAPTER 4: LITERATURE STUDY: THE SERVICES SECTOR AND THE FREIGHT AND LOGISTICS INDUSTRY**

|        |                                                               |    |
|--------|---------------------------------------------------------------|----|
| 4.1.   | Introduction.....                                             | 90 |
| 4.2.   | Terms, concepts and definitions .....                         | 91 |
| 4.2.1. | Services sector .....                                         | 91 |
| 4.2.2. | Services.....                                                 | 92 |
| 4.2.3. | ISIC (International Standard Industrial Classification) ..... | 93 |
| 4.2.4. | GATS .....                                                    | 97 |
| 4.2.5. | Global value chains (GVCs).....                               | 98 |
| 4.2.6. | Value Chain.....                                              | 98 |

|        |                                                                                             |     |
|--------|---------------------------------------------------------------------------------------------|-----|
| 4.2.7. | Supply chain .....                                                                          | 99  |
| 4.2.8. | Freight and logistics industry .....                                                        | 99  |
| 4.3.   | Data on the global trade in services .....                                                  | 103 |
| 4.3.1. | Data on cross-border trade in services .....                                                | 104 |
| 4.4.   | Theoretical perspectives: Services sector and freight and logistics industry ....           | 106 |
| 4.5.   | The importance of services trade policies (GATS) to the freight and logistics industry..... | 107 |
| 4.6.   | Literature perspectives of services trade and freight and logistics.....                    | 109 |
| 4.6.1. | Trade in services: Literature perspective .....                                             | 109 |
| 4.6.2. | Freight and logistics literature .....                                                      | 112 |
| 4.3.   | Summary and Conclusion.....                                                                 | 115 |

## **CHAPTER 5: METHODOLOGY**

|        |                                                        |     |
|--------|--------------------------------------------------------|-----|
| 5.1.   | Introduction.....                                      | 117 |
| 5.2.   | The meaning of research and the process thereof .....  | 117 |
| 5.2.1. | Research .....                                         | 118 |
| 5.2.2. | Research design.....                                   | 118 |
| 5.2.3. | Research methods .....                                 | 118 |
| 5.3.   | The “research onion” .....                             | 122 |
| 5.3.1. | Stages of the “research onion” .....                   | 123 |
| 5.4.   | Data analysis .....                                    | 132 |
| 5.4.1. | Research design.....                                   | 132 |
| 5.4.2. | Population and sample population and sample frame..... | 134 |
| 5.4.3. | Sampling technique .....                               | 134 |

|        |                                                                    |     |
|--------|--------------------------------------------------------------------|-----|
| 5.5.   | Data processing: Identifying the companies to be interviewed ..... | 135 |
| 5.5.1. | Data sources .....                                                 | 135 |
| 5.5.2. | Variables/criteria .....                                           | 136 |
| 5.5.3. | Buro van Dijk's Zephyr and FDI markets data .....                  | 137 |
| 5.6.   | Application of the criteria .....                                  | 141 |
| 5.6.1. | Criteria for choosing the respondents .....                        | 143 |
| 5.7.   | Mixed-method study .....                                           | 143 |
| 5.7.1. | The questionnaire .....                                            | 144 |
| 5.7.2. | The interviews .....                                               | 145 |
| 5.8.   | Summary and Conclusion .....                                       | 148 |

## **CHAPTER 6 – RESEARCH FINDINGS, ANALYSIS AND DISCUSSION**

|        |                                                                                                               |     |
|--------|---------------------------------------------------------------------------------------------------------------|-----|
| 6.1.   | Introduction .....                                                                                            | 149 |
| 6.2.   | Analysis of the case studies .....                                                                            | 149 |
| 6.2.1. | Case study 1: A case study on the Glencore-Pacorini-Access acquisitions ....                                  | 149 |
| 6.2.2. | Case study 2: A case study on the CWT Group (CWT): Aquarius Shipping<br>International (ASI) acquisition ..... | 162 |
| 6.2.3. | Case study 3: A case study on the Aramex-Berco Express acquisition .....                                      | 175 |
| 6.3.   | Summary and Conclusion .....                                                                                  | 185 |
| 6.3.1. | Summarising and concluding of the motives for the acquisition: Cross-case<br>analysis .....                   | 186 |

## **CHAPTER 7: CONCLUSION, RECCOMENDATIONS AND LIMITATIONS**

|        |                                  |     |
|--------|----------------------------------|-----|
| 7.1.   | Introduction.....                | 189 |
| 7.2.   | Summary of the study.....        | 189 |
| 7.2.1. | Literature .....                 | 190 |
| 7.2.2. | Methodology.....                 | 192 |
| 7.2.3. | Analysis of the results.....     | 194 |
| 7.3.   | Conclusion.....                  | 195 |
| 7.5.   | Limitations .....                | 197 |
| 7.6.   | Contributions of the study ..... | 197 |

|                         |            |
|-------------------------|------------|
| <b>BIBLIOGRAPY.....</b> | <b>199</b> |
|-------------------------|------------|

|                        |            |
|------------------------|------------|
| <b>ANNEXURE A.....</b> | <b>231</b> |
|------------------------|------------|

|                        |            |
|------------------------|------------|
| <b>ANNEXURE B.....</b> | <b>233</b> |
|------------------------|------------|

|                        |            |
|------------------------|------------|
| <b>ANNEXURE C.....</b> | <b>245</b> |
|------------------------|------------|

|                        |            |
|------------------------|------------|
| <b>ANNEXURE D.....</b> | <b>247</b> |
|------------------------|------------|

# LIST OF TABLES

## CHAPTER 2

|                                                                                     |    |
|-------------------------------------------------------------------------------------|----|
| Table 2.1: Studies of micro-determinants of FDI                                     | 48 |
| Table 2.1: Studies of macro-determinants of FDI                                     | 51 |
| Table 2.1: John Dunning's Ownership, Location, Internalization (OLI) theory summary | 58 |

## CHAPTER 3

|                                                  |    |
|--------------------------------------------------|----|
| Table 3.1: Merger waves                          | 67 |
| Table 3.2: The industry's stage in its lifecycle | 73 |

## CHAPTER 4

|                                                                                                   |     |
|---------------------------------------------------------------------------------------------------|-----|
| Table 4.1: ISIC (International Standard Industrial Classification) (ISIC Rev.4)                   | 95  |
| Table 4.2: Breakdown of Section H Transport and Storage as part of the ISIC codes<br>for services | 97  |
| Table 4.3: Four modes of supply according to GATS Agreement                                       | 108 |

## CHAPTER 5

|                                                                                                                                                                              |     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Table 5.1: A comparison between quantitative research vs qualitative research                                                                                                | 121 |
| Table 5.2: The academic status of qualitative and quantitative research                                                                                                      | 122 |
| Table 5.3: Distinction between primary and secondary data                                                                                                                    | 130 |
| Table 5.4: Specific variables for the study                                                                                                                                  | 136 |
| Table 5.5: Data on the acquiring firm, target firm, publically-listed status of acquiring<br>company deal type, deal value mil US\$, market capitalisation of acquiring firm | 138 |
| Table 5.6: Acquiring firm, target firm, origin/source country, target/destination country<br>and industry/sector                                                             | 139 |
| Table 5.7: Acquiring firm, target firm, deal rationale                                                                                                                       | 139 |

|                                                                                  |     |
|----------------------------------------------------------------------------------|-----|
| Table 5.8: Top ten identified (acquiring and target) companies                   | 141 |
| Table 5.9: Top five (acquiring and target) identified companies                  | 142 |
| Table 5.10: The four (acquiring and target) companies that agreed to participate | 142 |

## **CHAPTER 6**

|                                                                        |     |
|------------------------------------------------------------------------|-----|
| Table 6.1: Macro-economic factors creating acquisition motives/drivers | 152 |
| Table 6.2: Motives/drivers for the acquisition                         | 153 |
| Table 6.3: Case study findings summary                                 | 160 |
| Table 6.4: Macro-economic factors creating acquisition motives         | 165 |
| Table 6.5: Motives for the acquisition                                 | 166 |
| Table 6.6: Summary of the case study findings                          | 174 |
| Table 6.7: Macro-economic factors creating acquisition motives         | 177 |
| Table 6.8: Motives for the acquisition                                 | 178 |
| Table 6.9: Summarising the case study findings                         | 184 |
| Table 6.10: Macro-economic factors creating acquisition motives        | 186 |
| Table 6.11: Motives for the acquisition                                | 187 |

## **CHAPTER 7**

|                                 |     |
|---------------------------------|-----|
| Table 7.1: The chosen companies | 194 |
|---------------------------------|-----|

# LIST OF FIGURES

## CHAPTER 2

Figure 2.1: FDI inflows, global and by group of economies, 1995-2013 and projections, 2014-2016 (billions of US dollars) 35

Figure 2.1: Structure and classification of FDI 41

Figure 2.3: The product lifecycle illustration 54

## CHAPTER 3

Figure 3.1: Difference between mergers and acquisitions 64

Figure 3.2: Common motivations behind M&A activity 70

Figure 3.3. Five phases of the M&A process 76

## CHAPTER 4

Figure 4.1: Global cross border M&A trends 1985-2013 105

## CHAPTER 5

Figure 5.1: Qualitative research 120

Figure 5.2: The “research onion” 123

Figure 5.3: Representation of some published external secondary sources 129

Figure 5.4: Research design of the study 133

## CHAPTER 6

Figure 6.1: Model of competitive advantage 159

Figure 6.2: Model of competitive advantage 172

Figure 6.3: Model of competitive advantage 183

## LIST OF ABBREVIATIONS

|            |                                                                   |
|------------|-------------------------------------------------------------------|
| CD:        | Comprehensive description of the motive for the deal              |
| DC:        | Destination country                                               |
| DT:        | Deal type: Merger or acquisition                                  |
| DTI:       | Department of Trade and Industry                                  |
| DV (US\$): | Deal value in USD                                                 |
| EY:        | Ernst & Young                                                     |
| FDI:       | Foreign Direct Investment                                         |
| GATS:      | General Agreement on Trade in Services                            |
| GDP:       | Gross Domestic Product                                            |
| GVCs:      | Global Value Chains                                               |
| I/S:       | Industry/sector                                                   |
| IMAA:      | Institute of Mergers, Acquisitions and Alliances                  |
| IMF:       | International Monetary Fund                                       |
| IPC:       | Income Per Capita                                                 |
| ISIC:      | International Standard Industrial Classification                  |
| M&A:       | Mergers and Acquisitions                                          |
| MC:        | Market capitalisation                                             |
| MNE:       | Multinational Enterprise                                          |
| O/SC:      | Origin/source country                                             |
| OECD:      | Organisation for Economic Co-Operation and Development            |
| OLI:       | Ownership advantage, Location factor, Internationalisation factor |
| PLC:       | Publically listed company                                         |
| PWC:       | Price Waterhouse Coopers                                          |
| SA:        | South Africa                                                      |
| SEDA:      | Small Enterprise Development Agency                               |
| TNC:       | Transnational Corporation                                         |
| UNCTAD:    | United Nations Conference on Trade and Development                |
| WIR:       | World Investment Report                                           |
| WTO:       | World Trade Organisation                                          |

# CHAPTER 1: INTRODUCTION, PROBLEM STATEMENT AND METHOD OF INVESTIGATION

## 1.1. Background

This study aims to examine the development of inorganic growth (see definition in Section 2.4) spurts in the freight and logistics industry through mergers and acquisitions (M&As) in South Africa. Extensive research has been conducted on foreign direct investment (FDI) and specifically M&As globally, but less research exists on M&As in the services sector, and more specifically on the freight and logistics industry.

International M&As in the freight and logistics industry tend to create companies with an international scale and effectively link the world's capitalist systems more firmly together (Andersson, 2004). The fast growing nature of the services sector, especially in developing and emerging economies, at an infrastructure, policy and intercontinental level, may indicate important determinants of trade volumes, the distributional effects of trade, overall patterns of economic growth and development and FDI inflows (WTO, 2013).

FDI does not only drive productivity improvement, technological progress and growth in employment levels, but also fills the gaps that exist in emerging and developing countries with regard to development, investment, foreign exchange and tax revenues (Smith, 1997 & Quazi, 2007). The African continent consists of both developing and emerging economies, as well as some least developed countries, and FDI forms an integral part of supporting them in their efforts to grow and develop (Dupasquier & Osakwe, 2003; Anyanwu, 2006).

Africa has seen significant FDI inflows over the past decade and a half (2002-2017). According to the World Investment Report (2012), in 2012, a 32% decline in FDI inflows to developed economies was recorded, dropping from USD825bn to USD561bn. Over and above the growth recorded for Africa in 2011, the continent saw a 5% increase in FDI inflows, climbing from USD47.62bn to USD50bn in 2012. That made Africa one of the few regions worldwide to register year-on-year growth in 2012, proving that the continent had a rapid recovery after the economic crisis of 2008.

Since the economic downturn, multiple M&As, ranging from small to significant transactions, have taken place globally, and predictions are that this trend will continue to increase even more over the next decade (Notteboom & Rodrigue, 2009). This creates the opportunity to conduct new research in terms of research on this phenomenon. The following subsection

provides a few examples of such M&A transactions that have taken place in the freight and logistics industry globally.

#### 1.1.1. Examples of recent (2011-2015) cross-border M&As in the freight and logistics industry globally

In June 2012, C Steinweg Handelsveem BV, who is based in Rotterdam in The Netherlands, acquired the majority shareholding in Bridge Shipping (Pty) Ltd, which is a South African based company. According to the companies, the synergy between Bridge Shipping and C Steinweg allows them to provide the best-practice, tailored, total package freight and logistics solutions to their clients, making them stronger and more competitive globally.

On 7 April 2015, FedEx, which is headquartered in Memphis, Tennessee, United States, announced that it is in the process of acquiring the shares of TNT Express NV, which is based in Hoofddorp, in The Netherlands in an all-cash transaction. According to the companies, the deal is expected to increase FedEx's European capabilities and increase growth worldwide.

Berco Express, a freight and logistics provider, was established in South Africa in 1992 and acquired in December 2011 by the publicly traded freight and logistics company Aramex, which is based in Dubai, United Arab Emirates. The aim of the transaction was to expand their global network and geographic reach into high potential, least penetrated countries/economies.

On 9 October 2015, DSV, a global freight and logistics company with headquarters in Hedeusene (near Copenhagen), Denmark, signed an agreement to acquire the California-based freight and logistics company, UTI. According to the two companies' boards of directors, *"The combined company will be one of the world's strongest transport and logistics networks, and will be able to capitalise on business synergies as well as a greater global reach to the benefit of shareholders, customers and employees"*.

In March 2011, Aquarius Shipping International (Pty) Ltd, which is based in South Africa, joined the CWT group, which is headquartered in Tanjong Penjuru, Singapore, through a friendly acquisition. CWT bought Aquarius to further expand and strengthen the group's commodity logistics business in Southern and Eastern Africa, to escalate the business growth and to expand related value-added service in the African continent.

The above-mentioned M&As in the freight and logistics industry globally are only a few examples of the transactions that have taken place between 2011 and 2015, and it seems that most of them were driven by a desire by strategic investors to expand geographic reach and

improve efficiencies through inorganic growth (see definition in Section 2.4) approaches. However, there may be more behind these M&As. The following subsection will look at some of the reasons and/or influences of inorganic growth methods.

#### 1.1.2. Reasons and influences of inorganic growth methods

FDI through M&As can contribute a great deal of positive influences to a firm looking to grow and keep a competitive advantage in the sector they operate in (Asafo-Adjei, 2007). It can provide access to new markets, new technology, and cheaper production facilities as well as a wider range of products, marketing channels and finance options (Sun, 2002). The same progressive influences can be gained by the firm in the foreign country (Sun, 2002). In turn, it also offers a solid stimulus for economic growth, and global trade expansions that are desirable for both the host and target countries (Fortanier, 2007). There are also other reasons why companies turn to M&As as trade expansions.

Macmillan (2009) states that, as a general rule, firms turn to M&As to exploit synergies between rival operators and markets, capture economies of scale in production and increase management efficiencies. Alternative to internally generated corporate growth, inorganic growth methods such as M&As remain a prevalent form of corporate development and one of the best sources of FDI (Cartwright & Schoenberg, 2006). This is especially evident in the number of recorded M&As in the freight and logistics industry over the past two decades. These transactions indicate to some level how freight and logistics companies view inorganic growth approaches.

According to a study conducted by Dier *et al.*, (2012), freight and logistics companies view inorganic growth approaches as an imperative part of achieving their aggressive financial growth targets, improving their margins, and growing their global footprint. Inorganic growth offers three approaches to choose from, i.e. mergers and acquisitions, joint ventures or strategic alliances (Dier *et al.*, 2012). Even though joint ventures and strategic alliances are solid options in uncertain economic times, it seems that M&A activity in the freight and logistics industry keeps growing. Industrialisation might play a big part in the latter.

On-going industrialisation of markets and continued M&A transactions in the freight and logistics industry positively affects global economic growth and directs a great deal of attention to the services sector, because services are becoming more tradable due to global value chains (Cartwright & Schoenberg, 2006). Global economic growth is strongly correlated with global trade (Rangasamy & Visser, 2009). According to Mattoo and Stern (2008), the services sector is one of the largest contributors of global trade with approximately 60% of the world's

GDP. Between 2002 and 2006, South Africa's services sector increased with a percentage value of 56% (UP, 2008). The sector also had a 59% contribution in 2010 to the country's GDP (New Zealand Trade and Enterprise, 2011).

From the latter, it follows to see why services are important support influences for an efficient and resilient economy as a whole, and play a major role in international trade. According to Hoekman and Braga (1997), widespread availability and increased trade in services can grow an economy and have a ripple effect on other industries such as transport, freight and logistics, finance and communications to name but a few. They also found that this may happen because, even in a global and increasingly interlinked world, services are able to provide important intermediate inputs.

Taking cognisance of the above, the widespread availability and increased trade in services affect the competitive position of a company. A challenging and competitive economic climate adds pressure on the growth agendas of freight and logistics companies (Rodrigue, 2010). While organic growth (see definition in Section 2.4) was sufficient a few decades ago, the approaches that freight and logistics companies take today mostly include inorganic growth methods such as M&As to keep a competitive and credible value-creation programme running (Bruner, 2004).

The next subsection will provide a brief summary of the literature that supports this study. This will provide a wider overview and better understanding of not only FDI, and specifically mergers and acquisitions, but also a wider overview of the services sector and specifically the freight and logistics industry. As explained above, not many studies have been conducted on the topic of inorganic growth methods through M&As in the freight and logistics industry of South Africa. Therefore, the supporting literature was used as a foundation and as support for the new insights contributed by this study

#### 1.1.3. Importance of the literature and theory for the study

The literature chapters in this study will provide an interpretation of previous studies that have been conducted on similar topics; this will not only trace the intellectual progression of the field, but also highlight the developments and changes in certain areas of focus. The complexity and scope of the literature review also emphasise the credibility of the research study.

In this section, a brief literature review will be done firstly on FDI, secondly on M&As and finally on the services sector with specific reference to the freight and logistics industry in order to

explain the importance of this study. For ease of reference, the literature will be portrayed in tabular form.

#### 1.1.3.1. The theory on FDI

According to Morgan and Katsikeas (1997), international trade/global business requires FDI. Before going straight to the FDI theories, the benchmark definition of FDI provided by the OECD will offer a more comprehensive understanding of the term:

*"Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor"* (OECD, 2008).

The research in this chapter focuses on the effects of FDI on a country's economy using the OLI approach together with macro- and micro-determinants. Consequently, specific attention will be paid to the theoretical framework as well as the most recent (1995-2016) literature regarding M&As in the freight and logistics industry. A comprehensive understanding of the literature will provide a better structure to evaluate the possible FDI contribution to global, and more specifically to South Africa's trade and economic growth through these inorganic growth methods.

Since the early 1960s, many FDI trade theories have been developed and with that a number of determinants that could explain FDI inflows relating to the micro- and macro-dimension (Dunning & Lundan, 2008).

##### 1.1.3.1.1. Micro-determinants of FDI

According to Faeth (2009), the micro dimension includes determinants inherent to the firm itself. This is based on the firm specific advantage theory of FDI that was developed by Stephen Hymer (1976) and include factors such as economies of scale, access of raw materials, patents, ownership advantages, cost reduction, intangible assets and superior management.

Some of the theories that have been developed for the micro-dimension are the existence of firm-specific advantages (Hymer, 1976), FDI and oligopolistic markets, theory of internalisation, and eclectic FDI theory (John Dunning 1980, 1988), which describes factors such as locational advantage, good infrastructure, distance between the home and host countries, cultural relations and common government policies.

These micro-determinants will be explored further in Chapter 2. The next subsection will briefly discuss some of the important macro-determinants of FDI.

#### 1.1.3.1.2. Macro-determinants of FDI

Macro-dimension determinants, according to Faeth (2009), include the availability of resources, interest rates, economic growth rate, domestic investment, barriers to entry, exchange rate, GDP, productivity, country risk, openness, infrastructure, nature of labour force, political stability, market size, real exchange rate and local demand.

Macro-determinants of FDI are more likely to have an influence on the business on an economy wide level, rather than the business profitability (Naudé & Krugell, 2003). According to Woldemeskel (2008), the macro-level theories are the gravity approach to FDI, dynamic macro-economic theory, capital market theory, FDI theories based on exchange rates, FDI theories based on economic geography, and FDI theories based on institutional analysis.

According to a study conducted by Coan and Kugler (2008), economic growth is used in various studies as an indicator of FDI. Chen and Mohsin (1997) and Billington (1999) believe that growth may not only attract new FDI, but also changes older FDI dynamics. Chakrabarti (2001) and Onyeiwu and Shrestha (2004) have found in their research that a positive relationship between economic growth and development and FDI exists. Onyeiwu and Shrestha (2004) have, however, argued that the latter exists only if foreign investors believe that macro-economic policies exist.

The above-mentioned macro-determinants will be discussed in depth in Chapter 2. The following section of this study's literature review will focus on M&As specifically.

#### 1.1.3.2. Theory on M&As

Alternative to internally generated corporate growth, M&As remain a prevalent form of corporate development and one of the best sources of FDI to grow a country's economy (Cartwright & Schoenberg, 2006). M&As are often used as a combined term, where in fact they do differ from each other in meaning. Peng (2006) defines a merger as *"the combination of assets, operations, and management of two firms to establish a new legal entity"*, and an acquisition as *"the transfer of control of assets, operations, and management from one firm (target) to another (acquirer)"*.

M&As seem to be driving FDI inflows globally. These transactions take place where two existing companies in the host economy are being united to form one parent company (OECD,

2002, 2005; UNCTAD, 2005). This phenomenon has attracted a great deal of attention from researchers in different fields such as the behavioural, financial and strategic sectors (Cartwright & Schoenberg, 2006).

According to Martinez (2004), the need to keep a competitive position in the market in changing economic situations is a determinant that affects the decision of a company on which growth method to use. Inorganic growth approaches such as M&As are usually implemented when organic growth methods are not sufficient anymore Peng (2006). A company will therefore have to determine the factors driving them to pursue these inorganic growth methods. Some of these determinants will be discussed below.

#### 1.1.3.2.1. Determinants of mergers and acquisitions

In both a merger & acquisition, the business environment factor can be used to determine and define the potential benefits and restrictions to the transaction; these can include legislative restrictions, as well as the geopolitical, social, local, cultural and economic environment wherein the deal will occur (Erez-Rein *et al.*, 2004).

The following authors', Barkema and Vermeulen (1998), Brouthers and Brouthers (2000), Harzing (2002), and Brouthers (2002) and Larimo's (2003) studies on the relationship between the entry modes of FDI and economic growth suggest that the entry mode decision of an MNE is affected by company, industry and country-specific determinants. A survey showing the determinants of FDI entry mode choice was conducted by Slangen and Hennart (2007), confirming the previously mentioned authors' findings.

In a study conducted by Kogut and Singh (1988), aimed at determining whether cultural distance has an influence on the choice between using a joint venture, acquisition or a merger, the authors found that when the cultural difference is large, the company will most likely choose a merger or a joint venture over an acquisition. Caves and Mehra (1986) and Zejan (1990) considered additional factors specifically related to the company, such as research and development, the size of the company and the global experience of the company. In their study, they found evidence showing that large and diversified companies prefer to use acquisitions to joint ventures or mergers.

According to the research of Hennart and Park (1993) and Andersson and Svensson (1994), the most likely choice of investment for firms with high levels of research and development, is where market situations might also play an integral part in their decision, as rapidly growing or slow growing markets usually attract acquisitions.

Meyer (1998) conducted tests on various hypotheses based on previous research in global business literature for market entry, and found that wholly-owned <sup>1</sup>Greenfields investments rather than acquisitions are the main form of entry into fast growing industries. According to studies conducted by Scherer and Ross (1990), Carlton & Perlof, (1990), and Hay and Morris (1991), market power is one of the prominent motives for M&As.

As the focus of the study is to determine the drivers behind M&As in the freight and logistics industry, and FDI and specifically M&As have been discussed in the sections above, the next important step is to examine the services sector as a whole in order to create a full picture for the study.

#### 1.1.3.3. The services sector

The services sector (part of the tertiary sector) can be defined as the portion of the economy that earns revenue by producing intangible goods and services (Teece, 2010). Since services are diverse and in general classified as intangible goods, it makes the process of finding one globally agreed upon definition rather difficult (Jones & Kierzkowski, 2000).

Over the past few decades, a growth spurt in services trade has become eminent and governments have come to realise the importance of services trade in global commerce for the effective and sustainable growth of an economy (Fourie, 2010). One of the main factors that contributed to the ease of global services trade was the rise of global value chains. According to Johnston (2014), global value chains have transformed the way in which a firm operates, by providing new ways in which their goods and services are produced and distributed globally. With the ease of trading on a global basis, problems arise, and it is for that reason that trade policies carry a real significance for international trade between countries.

As a result of the combined efforts by the General Agreement on Trade in Services (GATS) and the World Trade Organisation (WTO) to lower trade barriers and information and communication technologies (ICTs), making trade more technically viable, tradability of services has seen a significant increase (Gibbs, Murray & Mashayekhi, 1998). With lower trade barriers and trade restrictions, local demand does not have to be the regulator of domestic suppliers' output levels. Trade policies can loosen market constraints or tighten them, depending on whether they want to boost output levels to international markets or to keep the local market safe from a surge of foreign supply (McGuire, 2002).

---

<sup>1</sup> Greenfield Investment: A green field investment is a form of foreign direct investment where a parent company builds its operations in a foreign country from the ground up. In addition to the construction of new production facilities, these projects can also include the building of new distribution hubs, offices and living quarters.

Services are important support influences for an efficient and resilient economy as a whole, and play a major role in international trade. According to Hoekman and Braga (1997), widespread availability and increased trade in services can grow an economy and have a ripple effect on other industries such as transport, logistics, finance and communications, to name but a few. Hoekman (2007) also found that this may happen because, even in a global and increasingly interlinked world, services are able to provide important intermediate inputs. Therefore, the importance and the role of the services sector will briefly be discussed in the subsection below.

#### 1.1.3.3.1. The role and importance of the services sector

The importance of using FDI as a mode of supplying services to a foreign market is discussed in a research paper conducted by Sauvart and Zimny (1987). Raff and Ruhr (2007) conducted research on where MNEs should locate their foreign business ventures. Other similar studies were conducted by Buch and Lipponer (2007), and Kolstad and Villanger (2008), where they found that firms should choose to gain a new business presence in a country where similar business services already exist in order to easily overcome possible barriers UNCTAD (2005).

Francois and Reinert (1997) found that value added from services positively links to per capita income creating a ripple effect to other factors to ultimately show a growth in the services sector. According to Oulton (2001), the expansion of stagnant services increases overall growth, Fixler and Siegel (1999) agree with the latter, stating that the outsourcing of services creates growth in the long-term.

The next important step is to examine the freight and logistics industry that falls within the services sector.

#### 1.1.3.4. Freight and logistics industry

The combined term 'freight and logistics' includes multiple genres within the transport section of the services sector. These may include: road, rail, air and ocean transport, warehousing, brokerage services, clearing and forwarding, supply chain and procurement.

The global freight and logistics industry is a direct beneficiary of globalisation and has been growing at a fast pace, generating high amounts of returns on capital, thereby attracting both strategic and financial investors (Maritime Economics and Logistics, 2009). According to the latter, it seems these investors are operating on the notion that "bigger is better", and consequently the world is seeing an upsurge in the number of M&As in this industry.

According to Awad and Nassar (2010), costs are taken into consideration in every part of a business to achieve maximum profit and growth. Therefore, the company will choose the quickest, most reliable and most cost effective solution to move their goods from one place to another. Awad and Nassar (2010) argue that the latter encouraged the rise of global supply chains. Today, we know that proper supply chains are an integral part of international trade.

The more supply chains expand globally, the more intricate they become and with that they become heavily reliant on the expertise and knowledge of parties such as freight and logistics companies that are experienced and competent transport intermediaries. The role and importance of the freight and logistics industry will therefore be briefly reviewed in the subsection below.

#### 1.1.3.4.1. The role and importance of the freight and logistics industry

Korinek and Sourdin (2011) illustrate the strong impact of logistics quality on trade using indicators such as the World Economic Forum's Enabling Trade Index (ETI) and World Bank's Logistics Performance Index (LPI). According to the World Bank (2007, 2010), there are six indices that a country's performance is measured on the LPI, namely "customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing and timeliness". It seems that in developing countries export performance is affected by variation in infrastructure, more than it is affected by traditional trade barriers (Francois & Manchin, 2007). Levchenko (2004) studied trade patterns and found that an important determinant of trade patterns is institutional differences across countries.

The LPI Index improves general logistics' quality and shows a stronger trade-enhancing effect for exports compared to imports (Korinek & Sourdin, 2011). The literature has examined a variety of measures to measure the general or specific performance of logistics service providers regarding transport activities (Van Donselaar *et al.*, 1998), timeliness and accuracy (Bromley, 2001; Johnson, 2001), delivery performance (Stewart, 1995), personnel scheduling and safety measures (Crum & Morrow, 2002; Mejza *et al.*, 2003).

From the background and literature discussed in the chapter so far, it follows that the problem of determining the drivers of FDI through inorganic growth with a specific focus on M&As in the freight and logistics industry of South Africa using a case study approach, has not yet been addressed, and therefore creates a good opportunity to conduct new research in terms of research on this topic.

## 1.2. Problem statement

Considering the fast growing nature of the freight and logistics industry globally and the limited existing research in this field, it is important for South African firms in this industry to understand the role that M&As can play in future developments. Therefore, by understanding the determinants of these M&As, better strategic decisions are possible for South African freight and logistics firms.

The following questions with regard to the inorganic growth spurt in the freight and logistics industry were formulated based on the above-mentioned description of the research problem:

- What are the driving forces of FDI through M&As in the freight and logistics industry?
- Why are companies using inorganic growth methods rather than organic growth methods?
- Why are large MNEs in the services and transport sector specifically focusing on mergers and acquisitions?
- Why are these MNEs targeting Africa and South Africa?

It can be summarised by stating that the problem to be solved in this study is the identification of the drivers behind the inorganic growth spurt through M&As in the freight and logistics industry of South Africa.

## 1.3. Motivation

There are many reasons why this study is deemed important, but the main focus as mentioned in the problem statement is to identify the drivers of inorganic growth through M&As in the freight and logistics industry of South Africa. The motivations for this study can be summarised as follows:

- Extensive research has been conducted on FDI and M&As globally, but little research exists on the services sector, and more specifically on the freight and logistics industry.
- Due to the rising popularity of South Africa as the footprint into Africa, there is a growing need for research to be conducted and therefore this study provides data on M&As and the FDI they bring into South Africa.

In order to answer afore-mentioned research questions, the following research objectives are set.

#### 1.4. Research objectives

The research objectives are divided into general and specific objectives.

##### 1.4.1. General objective

The general objective of this research is to determine the drivers of FDI through inorganic growth with a specific focus on M&As in the freight and logistics industry of South Africa using a case study approach.

##### 1.4.2. Specific objectives

The specific objectives of this research are:

- To determine what the drivers of FDI through M&As in the freight and logistics industry are;
- To explore why companies are using inorganic growth methods rather than organic growth methods;
- To determine why large MNEs in the services and transport sector are specifically focusing on mergers and acquisitions;
- To determine the common mistakes made in freight and logistics mergers and acquisitions;
- To conduct case study research on three large mergers or acquisitions that took place between major players in the freight and logistics industry; and
- Make recommendations with regard to the companies that want to engage in a mergers or acquisition transaction in the freight forwarding industry of South Africa.

#### 1.5. Research method

This research, pertaining to the specific objectives, consists of two phases, namely a literature review and an empirical study.

##### 1.5.1. Phase 1: Literature review

The literature review section of the study describes previous research that has been conducted on a similar topic. According to Cresswell (2009), *“a literature study can be used*

*in three different ways; firstly to frame the problem in the introduction to the study, secondly as a separate section as a review of the literature and finally, at the end of the study as a way of comparing the empirical analysis' findings".*

In the literature section of this study, the research problem is addressed through a thorough review of FDI in general and the effects it has on international trade in Chapter 2. The literature and theories published on M&As is furthermore reviewed in Chapter 3. The literature and theory on the services sector both globally and in South Africa will be discussed in Chapter 4. To narrow the research down to an even more specific services industry, attention will be focused on the freight and logistics industry, also in Chapter 4. Aimed at making the information more applicable to the current economic situation, this study mainly focuses on studies published between 1980 and 2014 and it is compiled from sources such as books, journals and the electronic book copies (PDFs) obtained from the internet and Ferdinand Postma Library.

#### 1.5.2. Phase 2: Empirical study

The empirical study consists of the research method, selection of variables, collection of data and case study analysis

#### 1.5.3. Research method

According to Anderson (2006), qualitative methods involve a continual interplay between theory and analysis and do not draw statistical meanings like quantitative methods do. They focus more on collecting data that will describe meaning. There have been many critics against this method, but what qualitative analysis lack in reliability, it makes up for in validity, because it provides a broader, richer and deeper depiction than any statistical method can (Russell, 1996).

The main difference between the two methods is that where quantitative analysis is more objective using counts and measures of things, qualitative analysis takes a subjective route, which means that descriptions, characteristics, concepts, meanings, definitions, metaphors and symbols of things are used in the research (Anderson, 2006).

Because qualitative research is exploratory and open-ended and focuses mainly on collecting, analysing and interpreting data by observing what people do and say, collecting information can range from doing individual in-depth interviews to using focus groups (Tesch, 1990). The interviewer will obtain the information he/she needs by exploring the participants' responses, opinions, perceptions and feelings about a certain topic. The participants in the interviews will

also provide experienced answers to the questions they are asked with regard to their specific field of expertise.

The empirical analysis will consist of a case study conducted on three companies in the freight and logistics industry that were recently (between 2011 and 2015) involved in a merger or acquisition transaction. Empirical studies on FDI and M&As can usually be approached in three ways; firstly, by using econometric analysis; secondly, by means of micro-orientated econometric studies; and finally, with survey data analysis. The first and second methods will, however, not be applicable in the case of this study as the priority for this study is to simply identify the factors rather than having to specify them and test for their existence. The objectives and framework of this study prove to be the strongest determinants for the chosen empirical research method. According to Jun and Singh (1996), the multidisciplinary aspects such as legal, business and socio-political factors cannot be accurately assessed using an econometric model – it needs qualitative research methods.

In sectors where research is being done for the first time, data should be collected directly from the informants. If there is no indication in previous collected works of what to expect in terms of relative importance, applying econometric models will not work (Tatoglu & Glaister, 1998). The manner in which FDI theories are to be applied in this research is of significant importance, according to Boddewyn *et al.*, (1986). In a study conducted by Dunning (1993), it shows the significance of using field studies/research to better comprehend the determinants of foreign direct investment.

After the different methods that are available have been evaluated, the case study approach was chosen for this study as it offers the most benefits to achieve the research objectives set out earlier in this chapter.

Using this method will also prove to be valuable because of the limited research on the services industry and especially going deeper into the industry firstly looking at the transport and logistics sector and then even more specifically at the freight and logistics companies in the industry that have been involved in M&A activity. This means that obtaining comprehensive data may be more beneficial than trying to generalise on a wider population from a small sample.

The aim of the research method to be used in this study is to help examine the drivers motivating M&As in the freight and logistics industry through the study of three freight and logistics companies involved in either a merger or acquisition. The primary data was obtained

through an investigation that included personal and telephone interviews with people at top management level in each of these chosen companies.

According to Voss *et al.*, (2002), depending on what the research objectives of a study are, and what specific issues the researcher wants to address, the study may consist of one case study to multiple case studies – there is no set amount of cases that need to be studied in this type of method. However, Eisenhardt (1989) as well as Remenyi *et al.*, (1998) recommend using between three and 10 cases. Eisenhardt (1989) and Yin (1994) suggest that selecting the number of cases would be based on either sampling- or replication logic.

In the case of this study, the companies will be chosen based on a set of criteria determined through the secondary data collection process. Using valid, reliable as well as quality data is important for this research study, and therefore databases such as Bureau van Dijk and FDI Markets will be used to collect the data needed. Further to that, a structured questionnaire will be compiled using the UNIDO African Union Investors survey, World Bank Doing Business reports and the Columbia Centre for Sustainable Global Players' project survey.

The questions will be structured in an open-ended manner, where the interviewees are encouraged to discuss the financial, geographical and other motives, mode of entry, challenges, prospects and the underlying reasons for their choices. According to Voss *et al.*, (2002), the survey has to have a specific order to the questions to ensure the same themes will be covered in all interviews; this will improve the data reliability.

The final step after compiling the data was to analyse and summarise the views and statements of the interviewees on the main problems posed in this research study. The data was analysed on a case-by-case basis and compared to reveal any and all similarities and differences. Cross checking findings from the different case studies may improve the internal validity of the results. After the findings were summarised, it was sent as a follow-up questionnaire asking the interviewees to read through the answers and add any additional notes or remarks. This makes the internal and external validity of the paper much stronger.

## 1.6. Outline of the study

The following paragraphs show the outline of the study and will explain in short what each chapter is about. This will provide a logical flow to the research.

Chapter 1: Introduction. This chapter provides information on the following basic aspects of the study: the background of the study, some brief explanations on key aspects of the

research, the problem statement of the study, the motivation for this study, the research objectives discussed and finally the methodology that is applied in this study.

Chapter 2: Literature and theory: FDI: In Chapter 2, the emphasis is on FDI and international trade. The chapter provides an introduction and background as well as some important terms, concepts and definitions related to the topic of the chapter. Further to that, the structure of FDI is examined. In the final sections of the chapter, the various prevailing FDI and trade theories are discussed. Previous literature on FDI and international trade is also examined.

Chapter 3: Literature and theory: Mergers and acquisitions: In this chapter, a brief introduction will be provided, where after M&As will be defined and the history of merger waves will be explored. The motivations for M&As as well as the overall process of M&As are also covered. The chapter also investigates the multidisciplinary aspects of M&As and discusses the factors behind both successes and failures of mergers and acquisition transactions. Finally, the various prevailing theories and literature on M&As are discussed.

Chapter 4: Literature and theory: Services industry: An introduction provides some background and then the various terms, concepts and definitions on the services and freight and logistics industry are discussed in detail. Thereafter, the services industry and the importance thereof both globally and of South Africa are discussed. Finally, the various prevailing theories and literature on the services sector and the freight and logistics industry are discussed.

Chapter 5: Methodology. This chapter will provide a brief introduction to the methodology to be used, where after the meaning of research will be explored, and the “research onion” will – through in-depth analysis – provide the research design of the study. Data analysis and data processing will also be discussed. This chapter will list the criteria used for choosing the three case studies, and it will also show how the criteria were applied. It contains the desk research conducted from databases such as the Bureau van Dijk, and FDI markets databases. Three companies will be selected based on market capitalisation and this data will be obtained from the Columbia Centre for Sustainable Global Players’ project survey as well as from the UNIDO African Union Investors survey.

Chapter 6: Research findings, analysis and discussion. This chapter will list the criteria used for choosing the three case studies, and it will also show how the criteria were applied. Thereafter, the three companies’ case studies will be explored in much detail. The interview questions and answers will be presented in a manner such that comparisons and differences are easy to interpret. The results gained from the case studies will conclude this chapter.

Chapter 7: Conclusions, recommendations and limitations. This section firstly provides an introduction to the chapter, followed by a brief summary of the study, which includes summaries of the literature methodologies and analyses of the results. Finally, a conclusion of this study and recommendations for future research are made. The limitations of this study and contributions of the study conclude this dissertation.

## **CHAPTER 2: LITERATURE REVIEW: FOREIGN DIRECT INVESTMENT**

### **2.1. Introduction**

This chapter will provide the theoretical background and literature perspective on foreign direct investment (FDI) for the study. The research in this chapter focuses on the effects of FDI on a country's economy using the OLI (ownership, location and internalisation) approach together with macro- and micro-determinants. Consequently, specific attention will be given to the theoretical framework as well as the most recent (1995 and 2016) literature regarding mergers and acquisitions (M&As) in the freight and logistics industry. A comprehensive understanding of the literature will provide a better structure to evaluate the possible FDI contribution to global, and more specifically, to South Africa's economic growth through inorganic growth (see definition in Section 2.4) methods.

According to Cotton and Ramachandran (2001), FDI is mainly believed to be a positive mechanism for the host country, creating the opportunity for technology transfer and greener production methods, enhancing domestic investment, creating new job opportunities and growing the country's export competitiveness. In contrast to this, Xiaolun Sun (2002) argued in his paper that FDI (although comprising a few positive characteristics) might potentially bear negative impacts for the host economy, such as introducing inappropriate technologies, crowding out the host economy's investment, and harming the environment with too much pollution. FDI and its benefits and negative theories and other ideas on this topic have been a debatable subject for many years (Cotton & Ramachandran, 2001).

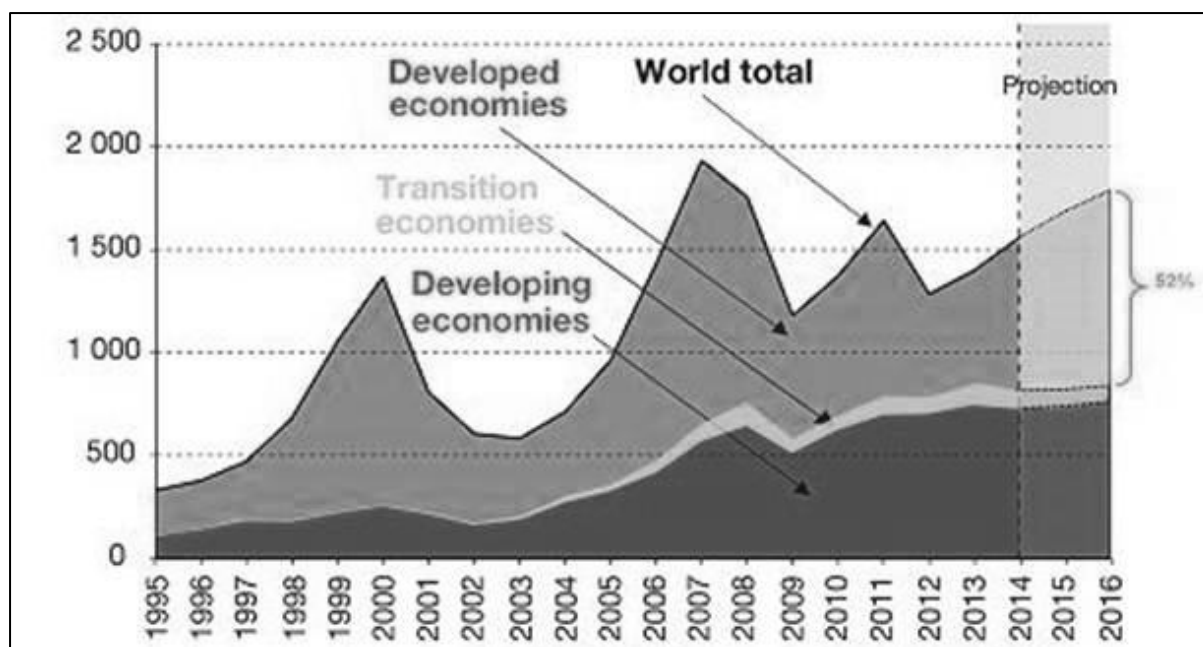
Having cognisance of the above, the way in which researchers perceive FDI has changed since the 1970s. During that period of time, the Heckscher-Ohlin theory was the mainstream way of thinking about FDI; this theory stated that FDI was the global movement of physical capital to grow profit margins (Mundell, 1956). The new standard that is being followed in FDI and international trade is the OLI approach, which was developed by John Dunning in 1977. The OLI (ownership, location and internalisation) approach, according to Dunning (1977), includes three approaches that may prove advantageous for a company considering becoming an MNE. 'Ownership' addresses the issue of some companies going abroad, while others do not, and also discusses the firm-specific benefits that help an MNE overthrow the high foreign operating costs. 'Location' places emphasis on the chosen geographical location of an MNE. In conclusion, 'internalisation' inspires the operating structure that an MNE will follow when operating in a foreign country (Dunning, 1977).

This chapter will consist of five sections each with a number of subsections. In section 2.2, some background of FDI will be discussed. Thereafter, in section 2.3, certain terms, concepts and definitions important to the topic of FDI will follow, and section 2.4 will depict the economic theories regarding to FDI. In section 2.5, the theoretical and literature perspectives on FDI and economic growth are discussed, and finally, the conclusion will be provided in section 2.6.

## 2.2. Background on FDI

The world's population has notably increased since the 1950s, and following the latter, global increases in gross domestic product (GDP) and income per capita (IPC) have been recorded (WTO, 2013). The numbers have especially increased more in developing countries than in developed countries (WIR, 2015). According to Te Velde (2006), the volume and importance of FDI varied from high in the early 2000s, to low in mid-2000s to high again in recent years. In the figure shown below, global FDI will be discussed with regard to the inflows of FDI to the various economic groups in the world from the early 1990s to 2013, and estimations will be done for the FDI inflows to these economic groups for 2014 to 2016. This will show the phenomenon of FDI inflows to developing and transition (emerging) economies.

Figure 2.1: FDI inflows, global and by group of economies, 1995-2013 and projections, 2014-2016 (billions of US dollars)



Source: UNCTAD, World Investment Report 2014

Figure 2.1 above illustrates the FDI inflows (in billions of US dollars), globally and by group of economies, starting with data from 1995 to 2013 and also provides the projections for 2014 to

2016. FDI grows faster than world production and trade (IMF, 1999). This is evidenced by the renowned growth spurt of FDI, which started in the 1990s, growing at a rate of approximately 20% per year in the first half of the decade to 40% per year in the last stretch of the decade (UNCTAD, 2014). In 2008, the global economic downturn affected every business sector, and growth stagnated for a while (UNCTAD, 2014). Since 2012, the situation has slowly improved to firms practising cautious optimism in revenue generation methods. In 2013, global FDI inflows rose by 9%, totalling \$1.45 trillion. According to UNCTAD (2014), FDI flows can rise by \$0.1 trillion per year to \$1.6 trillion in 2014, \$1.7 trillion in 2015 and \$1.8 trillion in 2016. Half of the top 20 ranked FDI inflows comprise developing and emerging markets (Sauvant, Maschek & McAllister, 2009). FDI outflows from developing and emerging economies have also seen an increase from 12% in the early 2000s to 39% in 2013 (UNCTAD, 2014). New data from UNCTAD, (2014) shows that, in 2013, FDI flows to developed countries rose by 9%, placing them at 39% of global flows, totalling \$566 billion. Developing countries saw record high FDI flows totalling 54% or \$778 billion of global FDI flows. Finally, 7% or \$108 billion in FDI flows went to emerging/transition economies.

Te Velde (2006) notes that the determining factors of FDI have not remained unchanged over time, as FDI keeps looking for countries with good infrastructure, economic growth, a skilled labour force, large market size, and respectable economic fundamentals. Of course, the previously stated factors fluctuate constantly and vary from country to country. Since FDI has presented many markets with invaluable contributions to their growth and development strategies, countries have started to compete to acquire more FDI over the past decade.

These higher levels of competition for more FDI, with the hope of achieving greater growth rates and reducing poverty levels, have led to the liberalisation of trade barriers and restrictions. The liberalisation of trade and general policies has led to better competitiveness and trade situations as well as better-quality investment climates. Increased FDI flows for the host country may be due to tax revenue increases and increased capital inflows, improving the economic growth of the said country. One-way host countries use FDI to increase their development to invest in new projects and infrastructure. New companies bring higher levels of competition to the host country, and this often leads to better trade governance, higher productivity levels and improved efficiency. Additionally, resources for research and development, employment opportunities and new technology transfers can be gained through FDI. As governments started to realise the importance of FDI, a remarkable shift towards a more liberalised trade environment started to evolve.

This chapter is centred on the idea of creating a comprehensive understanding of FDI; therefore, it includes a detailed analysis of the relevant terms, concepts and definitions of FDI,

the structure of FDI and relevant international trade and FDI theories. This will help to establish an appropriate framework, which will substantiate the case study analysis in Chapter 6.

### 2.3. Defining FDI

In the following subsections, a focus will be placed on providing a variety of definitions created by various researchers for the term FDI. This will allow the opportunity to gain a broad perspective on the topic and allow for the most suitable option to be chosen as the main FDI definition for the study.

According to Blomström and Kokko (2002), FDI can be used to stimulate growth in a domestic economy by providing the needed capital inflow, developing managerial skills, increasing employment levels and growing technology transfers in the host country.

The benchmark definition provided by the OECD (2008) for one of the most important terms in this study, FDI, is provided below;

*“Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.”*

UNCTAD defined FDI as follows:

*“FDI refers to an investment made to acquire a lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor’s purpose is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the ‘direct investor’. The unincorporated or incorporated enterprise – a branch or subsidiary, respectively, in which direct investment is made – is referred to as a ‘direct investment enterprise’. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise (or the equivalent thereof); the BPMS suggests a threshold of 10 percent of equity ownership to qualify an investor as a foreign direct investor” (UNCTAD, 2005).*

Further studies defined FDI as follows:

*“FDI is an investment made to acquire a long-term interest in a foreign enterprise with the purpose of having an effective voice in its management” (Bjorvatn, 2000); while Albuquerque (2000) noted that, theoretically, FDI is an extension of the corporate control a company has in*

its home country to that of international markets, and quintessentially it does not require a large volume of capital flows or investment.

Another study defines FDI as the action taken by a company in the home country to acquire the ownership of foreign assets to be in the position to control the production, distribution and other activities of another company situated in the host country (Pugel, 1999).

According to Banga (2003), *“FDI is measured either as a flow (the amount of investment made in one year) or stock (the total investment accumulated at the end of a year)”*. The author has also found FDI to be known as the backbone of the development of international business of both a country and an MNE. Asafo-Adjei (2007) again defines FDI as one of the most valuable forms of private external funding for developing countries, and in contrast to other forms of private capital flows, is mostly driven by a company’s long-term goals of generating profits.

According to the WIR (2007), FDI can be defined as follows: *“FDI is an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)”*.

For the purposes of this study, the definition by UNCTAD (2005) (mentioned above) will be used as it has been the benchmark definition for many similar studies and it fully encompasses the essence of the term FDI.

In the following section, definitions and explanations will be provided to better understand some of the other relevant and main terms referred to in this chapter.

## 2.4. Other important terms, concepts and definitions

In the following subsections, some important terms, concepts and definitions to the study will be addressed and explained in detail to provide a good understanding of each.

### 2.4.1. Organic and inorganic growth

According to Martinez (2004), the need to keep a competitive position in the market in changing economic situations causes companies to be drawn to utilise inorganic growth approaches such as M&As when organic growth methods are not sufficient anymore.

Jacob (2006) defines organic growth as the traditional method used by companies to improve their growth and revenue margins. The main aim is to increase sales by offering more value

to the customer, building customer relationships and creating a larger demand in the market. With this method, the firm relies on its inherent skills and expertise to generate internal growth. Inorganic growth is defined by Jacob (2006) as a method for companies to create external growth in a short amount of time using, for example, M&As. There are plenty of benefits in using inorganic growth methods. These include economies of scale, immediate growth and reduced competition. According to Bruner (2002), the lucrativeness of M&As is perhaps the main advantage in using these inorganic growth methods.

#### 2.4.2. Multinational enterprises (MNEs) and transnational corporations (TNCs)

Companies that are using opportunities to invest in other countries/foreign economies are referred to as multinational enterprises (MNEs) or transnational corporations (TNCs) (Miller, 2008). These two types of enterprises differ in the manner that TNCs offer coordinated products in every market in which they operate, whereas MNEs do not (Miller, 2008).

When an MNE opens a foreign affiliate, it may positively affect its productivity in its home country and open new channels of market-related information, knowledge on foreign country conditions and international sourcing of new technologies. It will be able to exploit firm-level scales of economies and possibly apply a change to the composition of their production inputs through the specialisation effect. This will allow the MNE to take advantage of its internal labour division globally (Cohen & Levinthal, 1989).

An MNE or TNC may bring a knowledge transfer effect with its M&A deal. This may include knowledge on marketing, new technologies and useful foreign market information. This will have a positive spillover effect on other companies in the investor's home country. The information can also be used by these other national companies to become successful MNEs or TNCs (Cohen & Levinthal, 1989). The opposite is also true – firms that invested abroad and that are foreign affiliates themselves may attract even more of the external effects of FDI because of their global experience and ability to easily absorb the potential benefits through spillovers.

For the purposes of this study, the focus will be on MNEs instead of TNCs.

#### 2.4.3. Host country vs home country

According to Caves (1996), Markusen (2002), and Dunning (1988), under the theory of the host country effect, the multinational enterprise (MNE) should have some firm-specific advantages in comparison to the enterprises in the host economy for FDI to take place.

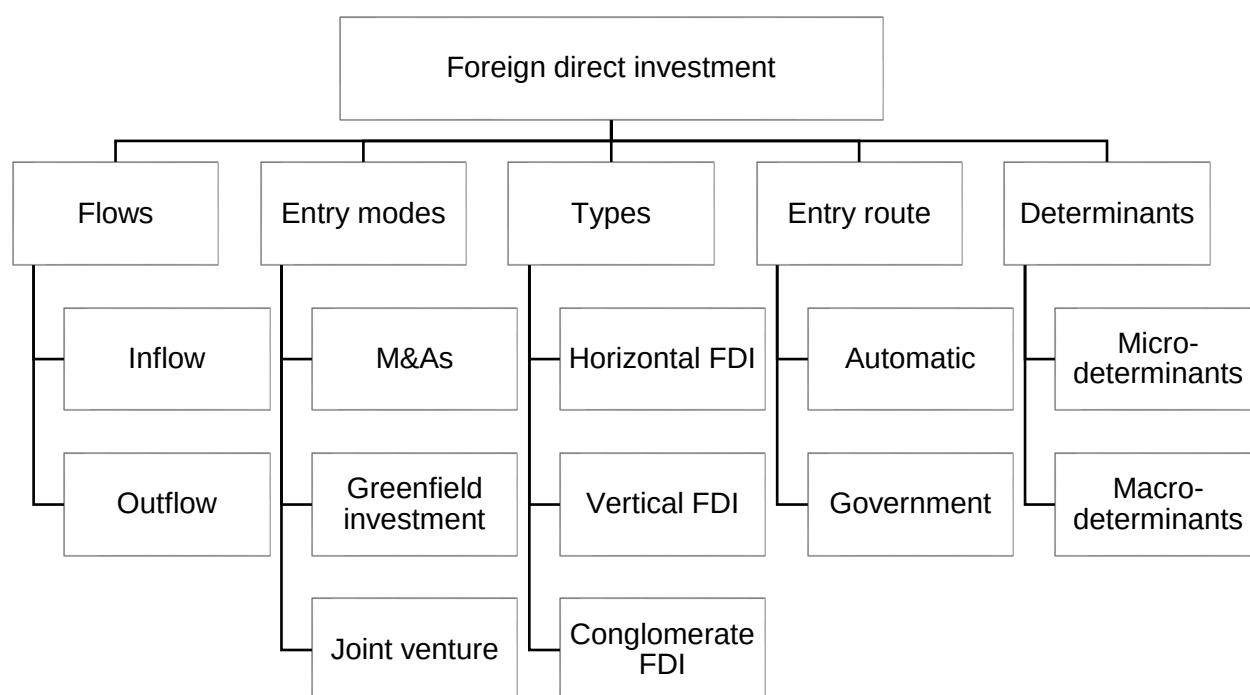
One of the firm-specific advantages transferred from the parent company to its partner in the host country is technology, and with that also comes other investment-related spillover effects (Blomström & Kokko 2003; Görg & Strobl 2001; Bellak 2004). The host country is the country where the firm that is to be merged with or acquired is situated; therefore, it is said that this country will host the investment (OECD, 2002). According to Baldwin and Winters (2014), these are normally less-developed or emerging countries as they are seen to be the new trade hubs and gateways to expanding the trade reach of a company. On the other hand, the home country is the country where the parent company is located and it is where the investment will come from (OECD, 2002).

The above paragraphs provided insight into the important terms, concepts and definitions of this chapter. This supports the following section, which will focus on the structure and classification of FDI.

## 2.5. Structure and classification of FDI

FDI can be structured and classified into various types and forms that relate to the reason why as well as the way the investment occurs. The figure below illustrates the structure of foreign direct investment (FDI). It includes the flows, entry modes, types and entry routes of FDI. It is important to view the structure of FDI with regard to the latter as it provides a comprehensive understanding of the elements of the term in relation to the context of the study.

Figure 2.2: Structure and classification of FDI



Source: Adapted from Bhandari (2014)

This figure is explained in more detail in the subsections below.

### 2.5.1. FDI flows: Inflow and outflow

FDI inflows are investments that flow from foreign investors in other countries to the home country, whereas FDI outflows are investments that flow from the home country to foreign external economies.

#### 2.5.1.1. FDI Inflows

Duce (2003) defined FDI inflows as: *“direct investments into the “reporting” economy which includes transfers of all of the liabilities and assets between “resident” direct investment companies and their direct investors and also transfers of assets and liabilities between resident and non-resident fellow companies”*.

Cloete (2013) defined FDI inflows as: *“FDI inflows includes all direct investment in the host country that is held by non-residents, stating that all FDI flows that come into the host country are inward FDI”*

FDI inflows are sought after by many countries, as they help to grow various aspects of their economies. It is especially developing and emerging economies that benefit most from FDI inflows, as it allows for various developments such as technological progression, better infrastructure, better telecommunication networks and more job opportunities. (OECD, 2002).

#### 2.5.1.2. FDI outflows

Duce (2003) also defined FDI outflows as *“direct investment abroad which includes assets and liabilities transferred between resident direct investors and their direct investment companies and also transfers of assets and liabilities between resident and non-resident fellow enterprises”*.

Cloete (2013) again defined FDI outflows as follows: *“Outward FDI refers to a home country investing abroad, thus FDI flowing out of the home country”*.

As shown in the information above, FDI outflows are more prominent from developed countries than from developing and emerging economies. According to Piana (2005), this is because MNEs in developed countries continuously look for ways to grow their business, and view foreign investments as an attractive solution. This can include various drivers such as keeping a competitive advantage, creating synergies or most commonly, reaching their financial targets (Piana, 2005).

#### 2.5.2. Entry modes of FDI

The MNE's chosen mode of entry to a foreign market will depend on the situation and what the investors feel will best satisfy their needs and realise their objectives. Entry modes of FDI include mergers and acquisitions, Greenfield investments and joint ventures. These will each be defined below.

##### 2.5.2.1. Mergers and acquisitions

A large portion of FDI is held by M&As, according to Bertrand (2004). Economic integration developed further as liberalisation lifted investment and trade barriers, making way for the global expansion of mergers and acquisitions. MNEs have seen global restructuring,

experienced improved performance, and met financial targets through mergers and acquisitions.

The reasoning behind M&As is thought to be that of the  $1 + 1 = 3$  hypothesis, where it is said that two companies combined are much more valuable than two separate companies operating on their own (Martinez, 2004). It is especially an attractive situation when times are tough for companies. Companies will enter into these negotiations with the hopes of gaining more market share, greater profits and better efficiency.

It is widely assumed that M&As are the same thing, and they are often used together as a phrase referring to the consolidation of companies, but in actual fact, M&As is only a general term that actually comprises two terms with very distinct differences between them (Chiplin & Wright, 1987).

#### 2.5.2.1.1. Merger

In the view of Bertrand (2004), a merger is a process where two firms are involved in a transaction with each other; they decide to combine their operations resulting in a combined new company where both previous companies cease to exist. Wanjialin (2004) provides a similar description of a merger, where he indicated that two separate companies will become one in order to form a new legal/economic unit, where the one company will obtain all of the assets of the other company in either a swap transaction for cash or stock.

According to the Oxford Paperback Dictionary Thesaurus and Wordpower Guide (2001), a merger can be defined as *“where two organisations combine to form one organisation”*, and Hart (2006), and Brigham and Ehrhardt (2005) both also described a merger as any two, three, four or more units being combined together to form one single economic unit.

#### 2.5.2.1.2. Acquisition

An acquisition, according to Bertrand (2004), is where one company takes over the operations of another company and the acquired company becomes a part of the acquiring company. The Oxford Paperback Dictionary Thesaurus and Wordpower Guide (2001) defines an acquisition by means of four controlling words: *“a purchase, addition, gain or accession, and in this paper’s context, the purchase, addition, gain or accession of another company”*.

According to Damodaran (2002), one company can sometimes plan to get hold of another company’s stock or inventory, so they will follow the route of an acquisition to form their own new entity. When both parties involved in an acquisition agree on the terms of the deal and both are happy to progress, an acquisition may sometimes be referred to as “a merger of

equals”, even though it is technically an acquisition. On the other hand, if one of the parties is not happy with the deal, it will only be referred to as an unfriendly acquisition.

#### 2.5.2.2. Greenfield

#### 2.5.2.3. investments

FDI can also be found in the form of a Greenfield entry. Greenfield investment indicates new entry to a host country assembling all the elements from scratch in the foreign market. The OECD (2002; 2005) and UNCTAD (2005) define it as a type of investment where a completely new business is created in a host economy.

Chatterjee (2009) describes a Greenfield entry as a foreign direct investment where a new company is established in the host country, and all the production, distribution and various other processes are taking place at that specific facility. Moosa (2002) agrees with this definition, and adds that it holds positive spillovers for the host country as the new facility/establishment is able to create value to the country's output and also generate more jobs.

The National Treasury (2011) defined Greenfield FDI as follows:

*“Greenfield investment involves the establishment of a new business and is often the preferred form of entry from the perspective of the host economy because of its impact on production and employment. The acquisition of existing domestic businesses is an alternative form of foreign entry and, here, the benefits of foreign investment must be balanced against possible risks for local employment and production as the domestic firm is integrated into the foreign parent company, as well as broader economic concerns that may arise from a shift in ownership and control of successful local firms”*

MNEs often choose Greenfield investments because, alternative to the other modes of entry, they offer increased control as well as the ability to use already existing marketing channels and also the opportunity to avoid intermediary (middle-man) costs (Terpstra & Sarathy, 2001).

#### 2.5.2.4. Joint ventures

Joint ventures offer firms the opportunities to access new markets, knowledge, capabilities and other resources, but because they are owned by two parent companies, it makes it a big challenge to manage (Twarowska & Kąkol, 2013)

According to a study conducted by Stewart (2011), a joint venture can be defined as: *“the joining together of two or more business partners from separate jurisdictions to exchange resources, share risks and divide rewards from a joint enterprise”*. Beamish (2008), states that *“firms enter into joint venture (JV) agreements in order to create new products and services, enter new and foreign markets, or potentially both”*.

According to Byrne and Popoff (2008), even though the advantages of joint ventures are manifold, there are also multiple drawbacks. These are subsequently discussed below.

#### 2.5.2.4.1. Advantages of joint ventures

- Companies can gain capacity, knowledge, expertise, entry to new geographical regions, technology, access to greater resources,
- Companies can also share risks and rewards and have the opportunity to exit from non-core businesses.

#### 2.5.2.4.2. Drawbacks of joint ventures

- Difference in levels of expertise, cultures and management styles, investment(s) or assets brought into the venture by the different companies may result in poor integration and co-operation.

#### 2.5.3. The different types of FDI

FDI strategically comes in three types, i.e. horizontal FDI, vertical FDI and conglomerate FDI. In short, horizontal FDI is where a firm reproduces its home country activities in the host country (Bezuidenhout, 2007; Slaughter, 2002). Vertical FDI is when a company utilises FDI to move upstream or downstream in its operating sector (Moosa, 2002). Conglomerate FDI happens when a company adds a completely unrelated entity to its assets (Shenkar, 2007). This is the most unusual type of FDI as it forces a firm to overcome new industry and foreign country and cultural barriers.

##### 2.5.3.1. Horizontal FDI

There are always various factors playing a part in a company's decision to engage in FDI. A firm can decide to either invest in market-seeking FDI or rent-seeking FDI. This is classified as horizontal FDI, which means the investor's current production processes are reproduced in the host economy (Sachwald, 2005; Slaughter, 2002).

The bulk of FDI is horizontal rather than vertical. If a company decides to invest in market-seeking FDI, it suggests that they are looking at gaining broader market access by investing in foreign markets, or they are looking for a way to avoid trade restrictions.

When finding available new markets is the only criterion an investor is considering, they will end up using market-seeking FDI (UNCTAD, 1998). The investor will, however, have to look at the cost and availability of skilled labourers, the growth and market size of the host country, as well as that of the neighbouring countries (Bierman, 2008).

If a company decides to invest in rent-seeking FDI, it would suggest that they saw an opportunity in the host country to capitalise on cheaper production factors (UNCTAD, 1998).

Since the early 1960s, various theories have been developed to try to explain FDI in detail – ultimately micro-determinants that are more the organisational aspects, and macro-determinants that are basically the resource allocation dimensions that were concluded as the main two categories that FDI can be divided into to provide a broader explanation and make better observations and research (Dunning & Lundan, 2008).

#### 2.5.3.2. Vertical FDI

Vertical FDI, in contrast to horizontal FDI, takes place when a company, located in a developed country, decides to relocate its production processes to developing/emerging countries that have low-wage labour costs. Forward vertical FDI helps the company get closer to the market, where backward vertical FDI moves international integration back to raw materials. Natural resource-seeking FDI, strategic asset-seeking FDI and efficiency-seeking FDI are all classified as vertical FDI (Sachwald, 2005; Slaughter, 2002).

Market-seeking vertical integration is a type of FDI that puts its focus on maintaining existing markets; the processes and assets are moved from the local firm to a foreign firm (Anon, 2009). When a company wants to increase its output by taking advantage of the natural resources the host country offers, it is seen as natural resource-seeking FDI (UNCTAD, 1998).

This type of FDI will usually occur when a company sees an opportunity to benefit from the host country's natural resources (Sachwald, 2005; Slaughter, 2002). Bierman (2008) indicated that with this type of FDI the main determinants that have to be taken into consideration will be the availability and quality of skilled labour vs unskilled or low-cost labour. On the other hand, when a company seeks access to strategic assets such as a highly valued brand and/or a productive workforce, it is called strategic asset-seeking FDI (UNCTAD, 1998).

When the investor seeks the strategic assets of a country, he will need to take factors such as the availability of knowledge-related assets and the geographical distribution of it into consideration (Bierman, 2008). A productive workforce and highly valued brands are also two of the determinants that the investor will need to consider (UNCTAD, 1998).

Ultimately, when a company is looking to combine the above-mentioned vertical FDIs to enhance their efficiency, they will choose efficiency-seeking FDI, which targets both the natural resources and cost effective regulations and workforces in the host country (UNCTAD, 1998).

Determinants that will play a role with efficiency-seeking FDI are the upgrading of human capital through training, the production cost of a firm, educational programmes facilitated by government, the availability of skilled labour and the cost thereof, and the last determinant is productivity adjusted labour cost (Bierman, 2008).

#### 2.5.3.3. Conglomerate FDI

A company that operates in a certain industry focusing mainly on a specific product might decide to buy a company that operates in a totally opposite sector (Herger & McCorriston, 2013). According to the authors, the reason for the purchase might be something simple and unrelated to business or it might be that the purchaser is looking at opportunities to enter a new market. This means that diversification and internationalisation are not only compliments, but it can also be alternative strategies (Herger & McCorriston, 2013).

#### 2.5.4. Entry routes: Automatic and government

According to Chatterjee, Singh and Goyal (2014), FDI can enter a country either automatically without any barriers and pre-approval or, in other instances, some activities might have to get pre-approval from government. FDI entry into most countries has, however, become more open through liberalisation over the past few decades.

Countries that are more liberalised are therefore seeing higher levels of FDI inflows, as there are fewer problems, holds and difficulties in the process of the FDI (Kaplinsky, 1998).

#### 2.5.5. Determinants

The determinants of FDI can be grouped in micro- and macro-determinants, each consisting of various factors. These factors influence FDI in- and outflows on both industry and economic level (Wilhelms, Stanley & Witter, 1998).

#### 2.5.5.1. Micro-determinants of FDI

According to Faeth (2009), micro-determinants have numerous factors that are inherent to the business itself. They also have a direct effect on an enterprise's profitability (Naudé & Krugell, 2003). It is necessary to take both the specific host country and the type of FDI into consideration when determining these factors (Shatz & Venables, 2000).

The market size and growth of a country still remain the two most common determinants to figure out how a country attracts FDI (Shatz & Venables, 2000). There are more opportunities and greater benefits for foreign investors in countries that have a large market size and a high growth rate (Naudé & Krugell, 2003).

There are different views on the effects of labour cost on FDI; some view a country with high labour costs as a weaker attraction for FDI, while a country with lower labour costs attracts more FDI because it can make production slightly more profitable (Shatz & Venables, 2000).

Naudé and Krugell (2003) found that when a country has a workforce that has a low level of education, the wages of those people will be relatively low, and therefore the wages of the workforce should be reflected by their productivity. When there are certain trade and tariff barriers in a host country, it may lead to an increase in FDI, because companies look for other ways to grow (Naudé & Krugell, 2003).

According to the product lifecycle, a new product is more likely to attract the majority of FDI, while a more matured product will most certainly attract much less FDI. When a product has a long lifecycle, it is expected to attract more FDI (Naudé & Krugell, 2003).

In the table below, a summary of some of the available and appropriate studies as well as studies with sufficient information on micro-determinants of FDI is included.

Table 2.1: Studies on micro-determinants of FDI

| Author(s)            | Micro-determinant(s)                                                                                                               | Findings                                                                                                                                                      |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stephen Hymer (1976) | Economies of scale, access of raw materials, patents, ownership advantages, cost reduction, intangible assets, superior management | Hymer's main conclusion is that foreign direct investment can only succeed as long as there are market imperfections that can create advantages and conflicts |

|                                                                                                                                                     |                                                                                                                                         |                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| John Dunning (1979),                                                                                                                                | Locational advantage, good infrastructure, distance between the home and host countries, cultural relations, common government policies | The Eclectic Paradigm focuses on merging several isolated theories of international economics into one approach                                                                                                         |
| John Dunning (1998)                                                                                                                                 | Rent-seeking, market-seeking, efficiency-seeking and strategic assets                                                                   | He found that factors such as rent-seeking, market-seeking, efficiency-seeking and strategic assets motivate FDI inflows                                                                                                |
| Woldemeskel (2008)                                                                                                                                  | Studied MNEs choices for investment locations                                                                                           | The study found that various factors influence the MNE's decision to invest in certain locations; some of these factors include foreign market gaps, potential for growth, good infrastructure and political stability. |
| Markusen (1984); Horstmann and Markusen (1992); Brainard (1993); Markusen and Venables (1996a, b. 1998); Helpman (1984); Helpman and Krugman (1985) | Studied the distance between home and host countries                                                                                    | They found that the distance affects their ability to exploit lower production costs in order to serve both foreign and home market                                                                                     |
| Vernon (1966, 1971); Wells (1968, 1969)                                                                                                             | Production location                                                                                                                     | The location of production will be where the lowest costs are involved.                                                                                                                                                 |
| Buckley and Casson (1976); Hennart (1982); Hoenen and Hansen (2009)                                                                                 | Market imperfections                                                                                                                    | Found that firms can overcome market imperfections by internalising their own markets. The authors also found that FDI is a defensive move in oligopolistic markets.                                                    |

|                                                                                                                  |                                    |                                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Grier and Tullock (1989); Rodrik (1991); Aizenman and Marion (1993); Feng and Chen (1997)                        | Economic and political uncertainty | These authors' studies confirm that economic uncertainty causes a decrease in private investment, as does political uncertainty in the marketplace |
| Aseidu, (2002); Deichmann <i>et al.</i> , (2003), Dupasquier and Osakwe (2006); Mohamed and Sidiropoulos (2010). | Availability of raw materials      | Report that the availability of raw materials has a positive and significant effect on FDI inflows                                                 |
| Kojima and Ozawa (1985),                                                                                         | Technological and market factors   | State that technological and market factors motivate FDI inflows.                                                                                  |
| Noorbakhsh <i>et al.</i> , (2001); Miyamoto (2008); Khair-UZ-Zaman <i>et al.</i> , (2006); Jeon and Rhee (2008)  | Human capital and labour cost      | These studies have shown the positive effect of human capital compared with low labour costs generally on FDI inflows                              |

Source: Authors own compilation

#### 2.5.5.2. Macro-determinants of FDI

The macro-determinants of FDI include, for example, political stability, inflation rates, openness to exports, and other (Faeth, 2009). Macro-determinants of FDI are more likely to have an influence on the business on an economy-wide level, rather than the business' profitability (Naudé & Krugell, 2003).

There are different views on this topic for FDI; some economists say that when markets are too easily accessible it can be negative for the host country, whereas others claim that they have observed a positive relationship through experimental research between FDI and market openness (Nunnenkamp, 2001). Investors will most likely decline to invest their money in a country where there is continuous political unrest, government fraud or war to name but a few, and consequently such a country will have less FDI inflow than a country that has a politically stable environment (Naudé & Krugell, 2003). Trade will be higher in countries that have proper working infrastructural policies and facilities in place. This will make that country more attractive for potential investors, leading to a higher rate of FDI (Naudé & Krugell, 2003). Inflation rates are a crucial factor in determining how firm a country's macro-economic stability

is. When a country experiences high inflation rates, investors will avoid investing in that country, as signs of negative growth are already present (Naudé & Krugell, 2003).

Table 2.2: Studies on macro-determinants of FDI

| Author                                                                                                                                                   | Macro-determinant(s) studied                      | Findings                                                                                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Barrell and Pain (1996); Nigh (1986); Anyanwu (1998); Fedderke and Romm (2006); Tarzi (2005); Khair-UZ-Zaman <i>et al.</i> , (2006); Zhang (2001)        | Market size                                       | Found that the size of a country's market plays an important role in FDI inflows                                                                                                                               |
| Gholami <i>et al.</i> , (2006); Anyanwu and Erhijakpor (2004)                                                                                            | Openness, good infrastructure and economic growth | These authors found that determinants such as openness to trade, good infrastructure and economic growth increase FDI inflows.                                                                                 |
| Voyer and Beamish (2004); Zhao and Du (2003); Habib and Zurawicki (2002); Kersan-Skabic and Orlic (2007)                                                 | Corruption and low transparency                   | The authors all found that high levels of corruption and levels low transparency in government hinder FDI inflows to a great extent.                                                                           |
| Kapuria-Foreman (2007); Fedderke and Romm (2006)                                                                                                         | Corruption, infrastructure and low transparency   | In these studies, the focus was on developing countries, and the results showed that weak infrastructure, low transparency levels and high corruption levels are found to hinder FDI inflows to these regions. |
| Arbetman-Rabinowitz and Johnson (2008); Arbetman and Kugler (1997); Kugler and Tammen (2012); Organski (1958); Organski and Kugler (1981); Tammen (2000) | Taxes                                             | These studies researched government's extractive capability of resources, such as taxes. They found a negative link between FDI and                                                                            |

|                                                                                                                                                                                           |                                                              |                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                           |                                                              | tax if taxes are high and positive when taxes are low.                                                                                                                       |
| Jordaan (2004); Asiedu (2002); Ancharaz (2003)                                                                                                                                            | Infrastructure                                               | Claim that good quality and well-developed infrastructure increases the productivity potential of investments in a country and therefore stimulates FDI inflows.             |
| Musila and Sique (2006); Dupasquier and Osakwe (2006); Mengistu and Adams (2007); Cotton and Ramachandran (2001); Zhang (2001); Kersan-Skabic and Orlic (2007); Botric and Škuflic (2006) | Infrastructure development in Africa                         | These authors determined that the development of good infrastructure is important to attract the inflow of FDI                                                               |
| Jaspersen <i>et al.</i> , (2000); Hausmann and Fernandez-Arias (2000)                                                                                                                     | Political stability                                          | In their research, they found a negative impact on political instability and FDI                                                                                             |
| Liargovas and Skandalis (2012)                                                                                                                                                            | Political stability, exchange rate stability and market size | The authors found political stability, exchange rate stability and market size as positive influences on FDI inflows                                                         |
| Goldsbrough (1979); Saunders (1982); Flamm (1984); Schneider and Frey (1985); Culem (1988); Shamsuddin (1994); Charkrabarti (2001); Tsai (1994)                                           | Wages                                                        | The authors determined that higher wages discourage FDI                                                                                                                      |
| Charkrabarti (2001)                                                                                                                                                                       | Openness to trade                                            | Found that the type of investment is affected by the openness of a country to FDI; when investments are market-seeking, trade restrictions can have a positive impact on FDI |

|                                                                                                                              |                   |                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kravis and Lipsey (1982); Culem (1988); Edwards (1990); Asiedu (2002); Arslan and Wijnbergen (1993); Joshi and Little (1996) | Openness to trade | Found a strong positive link between openness to trade and FDI; they also found that trade liberalisation in developing countries caused improvements in economic performance |
|------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: Author's own compilation

The elements within the structure and classification of FDI discussed above provided the theoretical background that supports the theories of FDI. In the next section, various researchers' concepts, ideas and theories on both international trade and FDI will be discussed to provide insight into the role they play in economic growth and development.

## 2.6. Theoretical perspectives: FDI- and international trade theories

Even though certain linkages between FDI and international trade can easily be explained, others such as the reason why a company chooses a specific mode of entry into international commerce over another require more research. Exploring theories of FDI and international trade as well as the relationship between the two might be a helpful solution for the latter.

*“The relationship between FDI and international trade is at the core of globalisation”* (Fontagné, 1999). Ever since FDI flows have become a global phenomenon, many researchers have taken to this subject to study the diverse range of FDI topics, both at micro- and macro-level, focusing on various types, reasons, benefits and negatives, theories, determinants, and many other aspects of the term. It is said to have acquired its importance in the beginning of the modern era (Dunning, 1993; Jones, 1996). In contrast, however, international business activity by MNEs is by no means a new phenomenon and can be dated back to the Middle Ages (Moore & Lewis, 1999). The industrial revolution, which started in the nineteenth century, however, introduced more modern business activities by these MNEs (Dunning, 1993).

Many researchers, including Hymer (1960), Kindleberger (1969), Vernon (1966) and Caves (1971) have placed the focus of their studies on cross-border business activities such as FDI, portfolio investments, product trade and services trade. Researchers such as Buckley and Casson (1985), Cantwell (1991), Dunning (1993; 1997; 2000), and Grosse and Behrman (1992) have also conducted studies on FDI and trade as the two most basic ways to engage in international business ventures. In a study done by Bezuidenhout and Naudé (2008), they

investigated the relationship between FDI and foreign trade, and found that the more trade a country does, the higher the FDI inflows to that country will be. Positive spillovers will continue the dependence on trade and larger volumes of trade will, in turn, also affect the growth and development of that country.

## 2.6.1. International trade theories

### 2.6.1.1. Factor proportion theories

Eli Heckscher and Bertil Ohlin created a theory that builds on the comparative advantage theory developed by David Richardo in 1817 (Trefler, 1995). This theory is called the Heckscher-Ohlin model (H-O model). It is *“a general equilibrium mathematical model of international trade”*, which predicts business productions and patterns of a trading region, established from factor endowments (Leamer, 1995). The Heckscher-Ohlin model states that *“a country will export goods and services which use their abundant and cheap factor(s) of production and import products that use the countries’ scarce factor(s)”*

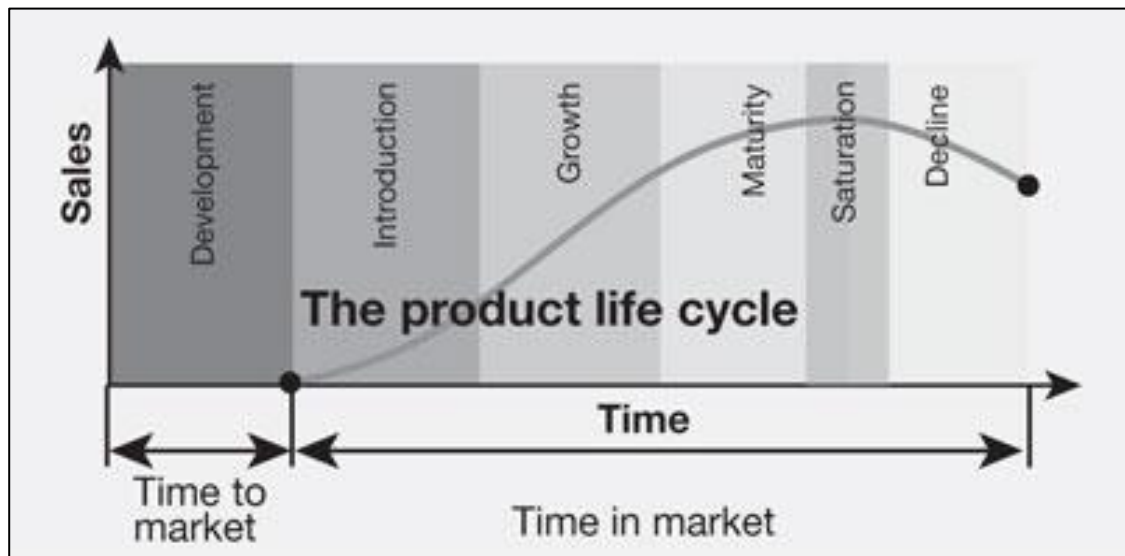
The Heckscher-Ohlin model contains four essential intentions, including factor endowments and trade patterns, factor price equalisation, distribution of income, factor growth and output patterns (Jones, 1965). Where there is an abundance of inputs available in a country, all products and services that are produced out of those inputs will be cheaper, while inputs that are scarce in a country will make the production of goods and services more expensive. Relative endowments of the factors of production (land, labour and capital) determine a country’s comparative advantage.

### 2.6.1.2. Product lifecycle theory

The economic theory developed by Raymond Vernon, measuring the pattern of global trade, is called the product lifecycle theory. Raymond Vernon developed this theory as he believed that Eli Heckscher and Bertil Ohlin’s Heckscher-Ohlin model failed to include the pattern/lifecycle of a product in the trade process.

The following graph shows an illustration of this theory and each factor will be explained below.

Figure 2.3: The product lifecycle illustration



Source: Adapted from Gardner (1986)

In the illustration above, it follows that there are certain stages a product will go through, namely the development, introduction, growth, maturity and decline stages. These stages affect certain characteristics in the process, namely sales, costs, profits and customers.

**Stage 1: Development:** This is the start of the whole process. New goods are in the development stages; this is the period before the product gets introduced to the market.

**Stage 2: Introduction:** After the goods have been developed, they get introduced to the market. At this stage, the goods are first released to the local market to meet local demands and only exported to countries that fall into the same income, needs and preferences class as the home country.

**Stage 3: Growth:** This is where production of the goods starts to expand. A copy of the original product is produced in another country, usually one where the cost of producing the goods is much lower and it then gets re-introduced to the home country of the original good to try and capitalise on growth in this market.

**Stage 4: Maturity:** The product is now entering a phase where it is maturing. This means that, due to the concentrated nature of the good, the producer who can produce the good at the lowest cost will succeed and gain majority revenue. Competition gets tough in this stage.

**Stage 5: Decline:** At the final stage, the goods have now lost most of their attractiveness in the home country. Most of the production of these goods will take place in developing countries and some of the emerging markets globally, due to cheap labour and production costs.

Both trade and FDI are explained in Vernon's product lifecycle theory. He added a time dimension to the monopolistic advantage theory, showing how companies go from exporting a product to foreign direct investment. When a company invents a good and sells it in the home country, it will relish the monopolistic advantage and over time turn to FDI to keep its monopolistic advantage.

#### 2.6.1.3. New trade theory

The new trade theory, focusing on the intra-industry trade phenomenon, was created by the new trade theorists. It challenges the assumption of diminishing returns to scale. These theorists argue that allowing strong protectionist measures in trade it may create a network effect that allows only certain sectors to control global business markets.

#### 2.6.1.4. New new trade theory

Theorists created the new new trade theory to build on the classical Heckscher-Ohlin theory. They argue that the diversity of firms should be acknowledged, as there are firms that export and some that do not. Some engage in FDI and others do not. These theorists noted that it is imperative to determine why such differences are present, and should be continually observed and improved as new data arises.

#### 2.6.1.5. Gravity model of trade

By using factors such as distance between two countries and the sizes of those two countries, the gravity model of trade attempts to forecast the bilateral movements of trade flows between these two countries.

The model attempts to explain multi-country interactions, for example:

*"The more country X trades with country Y, the less is left over for trade with country Z. Frictions between Y and Z thus affect X's trade with either Y or Z".*

Now that the international trade theories have been explained, subsection 2.6.2 will explain the FDI theories in more detail.

#### 2.6.2. FDI theories

FDI has gained a valuable place in the global trade economy. The behaviour of economies has become more comprehensible due to theoretical FDI research studies making way for even further areas of research in economic theory.

By identifying what the leading trends in FDI theory are, how they were developed and motivations behind why these new theories were developed, one can grasp the concept of FDI better. The term FDI, as mentioned before, is so wide and each new piece of research adds to the complexity of generating one globally agreed upon theory.

#### 2.6.2.1. Ownership, location, internalisation (OLI) theory

The OLI theory is also referred to as the eclectic theory and was developed by Johan Dunning in 1977 and was an approach to the study of FDI. Many researchers have used this theory in their work in economic and international business. The following table summarises the theory.

Table 2.3: John Dunning's ownership, location, internalisation (OLI) theory summary

| Ownership of specific advantages<br>(O)                                                                                                                                                                     | Location advantages<br>(L)                                                                                                                                                         | Internalisation advantages<br>(I)                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Ownership rights, tangible or intangible</li> <li>• Innovation capacity</li> <li>• Accumulated experience</li> <li>• Exclusive access to certain inputs</li> </ul> | <ul style="list-style-type: none"> <li>• Inputs price</li> <li>• Quality and productivity</li> <li>• Transports costs</li> <li>• Infrastructures</li> <li>• Legislation</li> </ul> | <ul style="list-style-type: none"> <li>• Markets control</li> <li>• Externalities internalisation</li> <li>• Avoid government barriers</li> </ul> |

Source: Adopted from Dunning and Lundan (2003)

The OLI provides a framework for an MNE to base its decision on when choosing to engage in FDI. It is a theory that builds further on the internationalisation theory.

The OLI/eclectic paradigm theory explains the presence of MNEs. The O factor answers the 'why?' question; that is, why the firm goes abroad. The reason is to exploit its firm-specific advantages in other markets and countries; these firm-specific advantages allow the firm to overcome the costs of transacting and producing in a foreign location. The L factor answers the 'where?' question of location. Since international production requires the use of foreign factors in conjunction with the firm's specific advantages, the MNE chooses where to locate its foreign operations by comparing each country's locational attractiveness in terms of country-specific economic, social/cultural and political factors. The I factor answers the 'how?' question as to what mode of entry the firm uses to penetrate the foreign location. The MNE has a variety of alternative contractual arrangements, ranging from arm's length international trade through the wholly-owned foreign subsidiary, and weighs its relative benefits and costs

to determine how the enterprise enters the foreign market and expands its operations over time. The successful MNE simultaneously combines these ownership, location and internalisation advantages to design its network of activities and affiliates in ways that maximise its market shares and growth.

The market versus hierarchy organisation of production (internalisation) was further expanded by the eclectic paradigm of Dunning (1980; 1988; 1988), who attempted to analyse the pattern and determinants of FDI in terms of ownership, location and internalisation (OLI). Ownership advantages are those that are specific to a particular firm and enable it to take advantage of investment opportunities abroad. Location advantages are those advantages specific to a country, which dictate the choice of production site. Internalisation advantages determine the market vs. hierarchy (FDI) organisation of production as explained above.

A number of studies have sought to associate the chosen mode of market entry with the OLI framework (Agarwal & Ramaswani, 1992; Caves, 1982; Davidson & McFetridge, 1985; Kimura, 1989; Kogut & Singh, 1988; Terpstra & Yu, 1988).

Various other studies have sought to identify additional and more specific determinants of FDI as they would apply to certain industries or host countries. Oxelheim *et al.*, (2001), for instance, argue that the FDI literature and the OLI paradigm in particular would be enriched if finance-specific factors are explicitly incorporated as drivers of FDI.

#### 2.6.2.2. Modernisation theory

Out of the neoclassical and endogenous theories, the second FDI theory, the modernisation theory, came to be. Adams (2009) noted that capital investments are necessary for economic growth to emerge. Developed and developing countries both need capital for economic growth, and FDI provides that possibility for them.

Considering the neoclassical framework, FDI can be positive to a country's economic growth. For a company to achieve its goal of increased output, they need a flow of capitals that will positively adjust the capital-labour ratio. This can be achieved by means of FDI (Adams, 2009). The Solow model, which was developed in 1956, supports the neoclassical economic growth theory, and is probably the most well known.

According to the economic growth model that Solow created, output per worker depends on the amount of capital available per worker. Each worker will be in a position to produce more when there is an increase in capital, which will happen when depreciation is less than the amount of savings. With that said, when savings increase and become more than what is

needed to offer workers the capital they need, and then only will the capital per worker increase. The capital-labour ratio of a country can be increased by growing the amount of savings in that economy and, because it gives the workers more capital to use, the output-labour ratio also grows.

Because capital is bound by the law of diminishing returns, an economy will, however, reach a steady state situation, which means that capital and output per worker grow at the same rate (Solow, 1956).

#### 2.6.2.3. Economic geography

Another increasingly important field in analysing FDI growth and trade is economic geography, within the context of modernisation theory. According to Fujita and Krugman (2004), the impact that agglomerations have on the host economy can be explained by the new economic geography theory. When there is more FDI flowing into a specific region, economic growth will be stimulated by agglomerations. This will increase consumption externalities and establish economies of scale and scope (Willoughby, 2007).

One of the key determinants that can be used for FDI location would be agglomeration. Data from 25 transition economies over the period starting 1990 to 1998 were used in a panel study conducted by Campos and Kinoshita (2002). The study concluded that locations that have agglomerate economies are more desirable to MNEs looking to invest than economies that are non-agglomerate.

#### 2.6.2.4. Market imperfections theory

This theory explains that market imperfections exist in global trade, which might make a transaction less efficient. According to Hymer (1970), a company can eliminate the imperfection by internalising the investment using FDI.

The model of perfect competition was challenged in a research study piloted by Hymer (1960). He aimed at creating the first comprehensive theory for FDI, by concentrating on a firm's capability to delay opposition in a market. The market imperfections model designed by Kindleberger (1969) builds further on the study of Hymer (1960). In his research, Kindleberger (1969) explained that the foreign company receiving the FDI must have imperfect advantages that completely outweigh the disadvantages of being foreign. Some of these advantages he listed were: product differentiation, economies of scale and knowledge.

A market failure occurs when the free market does not utilise goods efficiently or does not allocate production functions properly. Anything that might interfere with trade is seen as a market imperfection. Deviations from the preferred risk-level and market portfolio by the market participant can be caused by market imperfections (Hymer, 1976; Kindleberger, 1969; Caves, 1971).

McManus (1972), Buckley and Casson (1976), Brown (1976) and Hennart (1977; 1982), independently and simultaneously developed the contrast to Hymer, Kindleberger and Caves' (1976) theory by developing insights into transaction costs of MNEs in the 1970s. Their studies show that market imperfections are inherent traits of markets and MNEs merely have to attempt to avoid or deal with these natural imperfections.

#### 2.6.2.5. Internationalisation theory

The concept of internationalisation links to the market imperfections theory and refers to the increased involvement of companies in global markets (Casson, 1985). The theory suggests that companies should extend their direct operations to markets that are able to better link the company to consumers. By doing that, they can better manage the activities steered by intermediates. This will bring a significant reduction in costs for the company (Buckley, 1976).

Williamson (1975; 1985) conducted a study to find out why cross-border transactions are not affected by market forces, as it is the most likely influencing factor. Instead, he found that cross-border transactions are organised in the form of FDI pyramids. He used the internationalisation theory that is based on transaction cost economics as his research method.

According to the internalisation model, the reason for MNEs engaging in FDI arises from market failures stemming from the existence of transaction costs that make direct investment in subsidiaries more feasible than market contracting (Buckley, 1988).

#### 2.7. Summary and Conclusion

Chapter 2's main goal was to introduce the concept of FDI and all the elements it consists of. The first part of the chapter provided an introduction and background and in-depth explanations of the key terms for this study. There is a vast range of studies that focus their attention on FDI. Research papers that investigated the old method of thinking about FDI were compared to the new (OLI) approach that was created by Dunning (1977).

As can be seen, most studies on the relationship between trade and FDI undertaken by trade theorists and international business academics have focused on the issue of 'substitutability or complementarity' between trade and FDI. Most studies are empirical studies. Results from these studies are mixed: some studies conclude that trade and FDI are generally supportive of each other; some conclude that they are substitutes for each other; and some maintain that the result is inconclusive.

Based on the observations in this chapter, and the understanding of international business and the relationship between trade and FDI, the literature in Chapter 2 showed that these studies have the following major shortcomings:

The conventional approach of treating trade and FDI as two parallel and comparable business modes is inappropriate. As observed, FDI is capital or capital flow that underpins both international production and independent intra-firm trade. Although FDI takes place concurrently with international production and independent intra-firm trade, it is not a parallel business practice with either international production or independent intra-firm trade. Rather, it is a neutral capital flow underpinning international production and independent intra-firm trade.

Most studies thus far have been empirical studies that were based on one fundamental misconception: FDI is a business mode that is comparable to trade. A few studies such as the one conducted by Hejazi and Safarian used traditional trade theory to test the link between trade and FDI. Even the limited theoretical studies were focused on the 'substitutability or complementarity' issue. They overlooked other important aspects of the relationship between trade and FDI. Moreover, no one has undertaken a comprehensive study on the relationship between trade and FDI at the firm level from the international production and distribution perspective. The inadequacy of the theoretical literature calls for us to develop a sound international business theory under which the relationship between trade and FDI can be properly addressed.

Economic geography also supports the idea of positive spillovers resulting due to the formation of agglomerations. It suggests that it can be one of the most important determinants of FDI location. By internalising an investment using FDI, a firm can cut out the market imperfections, which will, in turn, result in a more efficient transaction. The international production theory, which links to the market imperfections and internationalisation theories, explains that a country will most likely seek more resources in another country if its own country does not have the needed resources.

In conclusion, a country needs investment for its economy to grow and FDI is one of the most valuable forms of capital for developing countries. Increased investment is thought to be subject to diminishing returns according to the neoclassical literature available. Endogenous growth theories, on the other hand, state that long-term growth can be achieved if positive spill-overs from FDI results in the effect of diminishing returns.

## **CHAPTER 3: MERGERS AND ACQUISITIONS**

### **3.1. Introduction**

The previous chapter focused specifically on foreign direct investment (FDI) and international trade concepts, theories and literature. Chapter 3 will focus on the concepts, literature and theory regarding mergers and acquisitions (M&As) in the freight and logistics industry.

M&As seem to be driving a large portion of FDI inflows globally. These transactions take place where two existing companies in the host economy are being united to form one parent company (OECD, 2002; 2005; UNCTAD, 2005). This phenomenon has attracted a great deal of attention from researchers in different fields such as international trade, as well as the economic, behavioural, financial and strategic sectors (Cartwright & Schoenberg, 2006). The latter is partially the reason for this study.

The freight and logistics industry is highly capital intensive, and because of large numbers of M&As arising, some firms lean towards inorganic growth (see definition in Section 2.4) methods such as M&As to keep a competitive advantage or grow their global footprint (Samitas & Kenourgios, 2007). Due to the steep competition in this industry, companies try to minimise their financial risks, reduce costs, create significant economies of scale and rationalise their activities (Meersman *et al.*, 1999).

The global freight forwarding industry is a direct beneficiary of globalisation and has been growing at a fast pace, generating high amounts of returns on capital, thereby attracting both strategic and financial investors. It seems these investors are operating on the notion that 'bigger is better', and consequently the world is seeing an upsurge in the number of M&As in this industry.

This chapter aims to demonstrate the impact of M&As in the freight forwarding sector in South Africa. Section 3.2 explains M&As in detail. Section 3.3 will describe the motivations behind mergers and acquisitions, followed by an explanation of the success factors of M&As in section

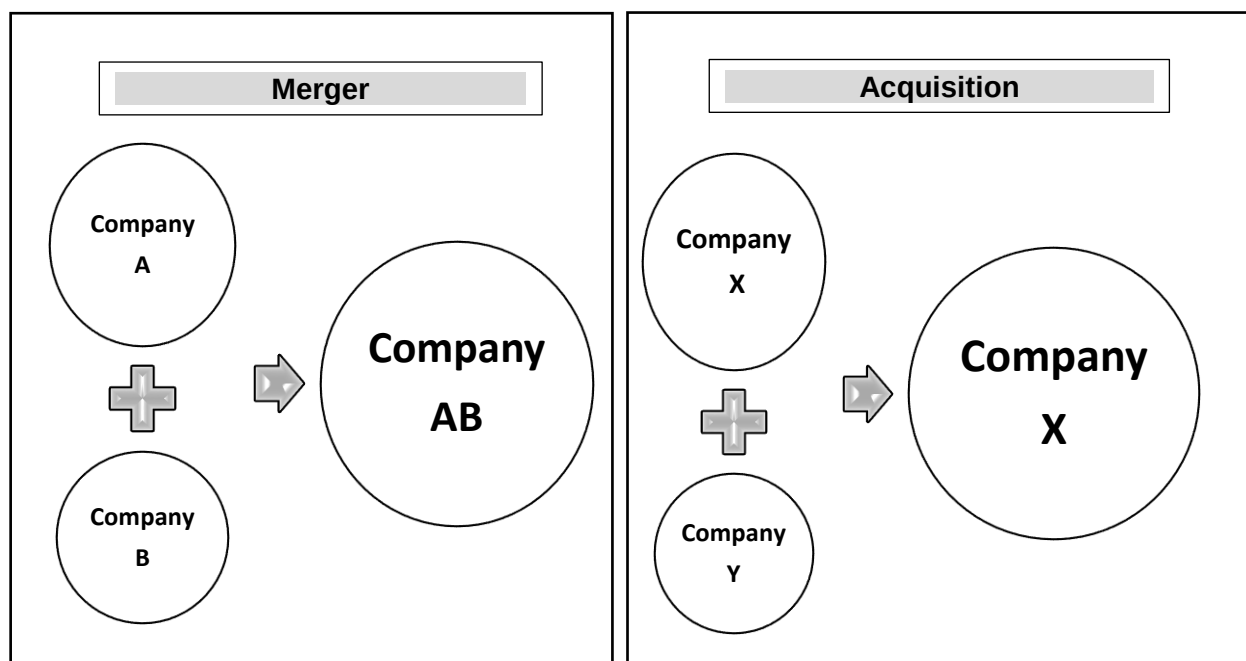
3.4. Section 3.5 will list and explain the multidisciplinary aspects of mergers and acquisitions. Thereafter, multinational enterprises (MNEs) and transnational corporations (TNCs) are discussed in section 3.6, followed by the literature perspectives on mergers and acquisitions. The chapter will conclude with section 3.4, concluding the literature discussion of this study.

### 3.2. Explaining mergers and acquisitions

Mergers and acquisitions deal with aspects such as corporate finance, corporate strategy and management focusing their attention on buying, selling and/or combining different companies to help a company grow and be more competitive in a certain industry without having to create another business entity (Anon, 2008).

These two words are more often than not used together as one term where, in fact, they do have quite distinct separate meanings. In section 3.2.1, mergers will be discussed in detail followed by an in-depth discussion on acquisitions in section 3.2.2; however, firstly, Figure 3.1 below will show the difference between a merger and acquisition.

Figure 3.1: Difference between mergers and acquisitions



Source: Adapted from Jurevicius (2013)

### 3.2.1. Mergers

When two or more firms combine to form one larger firm, it is classified as a merger. A merger is usually a voluntary action that may involve either a cash payment or stock exchange between the firms involved. When the shareholders of the firms decide to share the risk involved in the transaction, they would use the stock swapping option. A merger often results in a new name and brand.

According to Saxena (2012), mergers can be defined as follows: *“Merger means blending of two or more existing undertakings into one, consequent to which each undertaking would lose their separate identity. The most common reasons for mergers are, operating synergies, market expansion, diversification, growth, consolidation of production capacities and tax savings”*.

A distinction can be made between two types of mergers, namely a purchase merger and a consolidation merger (Damodaran, 2002). The way the merger is being financed is the only differentiator between these two types. They have the exact same implications for both the investors and companies involved.

When one company purchases another through some kind of debt issue or cash, it is known as a purchase merger. With this type of merger taxes are charged on the sale of the firm and because of this it makes it a favourable type of merger for many acquiring firms. The second type is known as a consolidation merger, and occurs when two companies are bought and joint together under a new entity (Damodaran, 2002).

Mergers can be categorised into five groups, namely a horizontal merger, vertical merger, market-extension merger, product-extension merger and a conglomerate merger. When two companies that are in direct competition with each other, because they have the same products and product lines and they conduct business in the same markets, combine through a merger, it is classified as a horizontal merger (Sherman & Hart, 2006).

A vertical merger will take place between two companies that are not in direct competition with each other. One company will buy the other one, which is either upstream or downstream, because that company can add value to the first company, for example a soft drink manufacturer merges with a plastic bottle manufacturer so they can produce the soft drinks and bottle them themselves (Sherman & Hart, 2006).

Two companies that have the same product but operate in different markets might decide to merge; this is known as a market-extension merger. In addition to that, when two companies sell different, but related products in the same market decide to merge, it is called a product-extension merger (Sherman & Hart, 2006).

It can also happen that two companies that have no common business interests decide to merge; this is known as a conglomerate merger (Sherman & Hart, 2006).

### 3.2.2. Acquisitions

An acquisition is the term used to describe one firm taking over another. Most of the time an acquisition occurs when a larger firm buys out a smaller one. According to Hunt (2009), this transaction can be either friendly, where both parties involved agree and co-operate in the negotiations, or it can be hostile, where the target firm does not agree with the terms and conditions or is just unwilling to co-operate, making it a hostile situation. There are situations where, through equity ownership, a smaller company will acquire a larger one; this is called a reverse takeover.

According to Saxena (2012), an acquisition can be defined as follows: *“Generally speaking, acquisitions involve acquiring ownership in a properly (tangible and/ or intangible). In the context of business combinations, an acquisition is the purchase by one company, of controlling interest in the share capital of an existing company”*.

Companies that are looking for economies of scale as well as enhanced and efficient markets will use an acquisition rather than a merger. An acquisition will enable that company to form a whole new firm, keeping very little to nothing from the initial companies (Sherman & Hart, 2006).

There are many ways in which firms can be acquired. One way is through a tender offer, which suggests that the shareholders will agree on a price to buy either all, or some of the inventory of the target firm (DePamphilis, 2009), and usually, when this transaction is successful, a tender offer can start to lean towards becoming a merger (Damodaran, 2002 & Carney, 2009).

A company, which is in the process of acquiring another firm, can use a method called purchase of assets to buy the assets of the other company. There will always have to be a formal vote by all the stakeholders of the company to reach an agreement pertaining to all the terms and conditions of the transaction (Miller, 2008).

When one company is a publically traded firm, and the acquirer wants to transform that company into a private business, they are most likely to use a tender offer (Gaughan, 2007).

Another type of acquisition that can take place is a management buyout, where the managers are actively involved in every step of the acquisition. The acquisition can also stem out of mainly debt, where it is then known as a leveraged buyout (Correia, Flynn, Uliana & Wormald, 2007).

### 3.3. A brief history of mergers and acquisitions

#### 3.3.1. Merger waves

Mergers are known to occur in waves, and there have been a total of five different waves, each with their own characteristics that were generated by various combinations of events from the end of the 19<sup>th</sup> century up until the present (Mullerin & Boone, 2000). It was, however, discovered that the current wave (the fifth wave) has significant similarities to that of the first wave (Nouwen, 2011). The importance of understanding the patterns of these merger waves is crucial, as it may provide us valuable indications on how this wave might evolve.

M&As are mostly driven and influenced by various external forces, such as variations in the world economy (Martynova & Renneboog, 2008). The next few paragraphs will explain the merger waves and how they evolved over the years.

Table 3.1: Merger waves

| Wave                 | Period       | Nature                                                   |
|----------------------|--------------|----------------------------------------------------------|
| 1 <sup>st</sup> wave | 1890s-1903   | Horizontal mergers                                       |
| 2 <sup>nd</sup> wave | 1910s-1929   | Vertical mergers                                         |
| 3 <sup>rd</sup> wave | 1950s-1973   | Diversified conglomerate mergers                         |
| 4 <sup>th</sup> wave | 1981-1989    | Co-generic mergers, hostile takeovers, corporate raiders |
| 5 <sup>th</sup> wave | 1993-2001    | Cross-border, mega-mergers                               |
| 6 <sup>th</sup> wave | 2003-onwards | Globalisation, private equity, shareholder activism      |

Source: Adapted from Wadivkar (2011) and Martynova and Renneboog (2008)

The first merger wave started around 1890, and was characterised by major horizontal mergers (Wadivkar, 2011; Martynova & Renneboog, 2008). The transportation and manufacturing sector's major railroad, oil, steel, mining, telephone and other large corporations were created in this wave (Mokyr, 1998). Global brand names such as Coca-Cola and General Electric are examples of the horizontal integration of some of the world's

leading producers in this wave (Du Boff & Herman, 2001). World War I ended the first merger wave.

Around the late 1910s, the second merger wave started, and there were even more mergers that were started by the first wave in the same principal sectors (Wadivkar, 2011; Martynova & Renneboog, 2008). This wave is also known and referred to as the automobile wave and saw the rising of big names such as Ford and FIAT (KPMG, 2016). Again, it was characterised by a great level of horizontal and vertical integration among secondary producers in the financial as well as heavy industry sectors. The second merger wave ended as a result of the 1929 crash and the great depression (KPMG, 2016).

The third wave that was recorded in the history of the global economy is sometimes referred to as the conglomerate wave (Wadivkar, 2011). It was characterised by expansion and diversification driven by the obsession of corporate management to enter new market sectors (Martynova & Renneboog, 2008). Because of the mismanagement of the newly acquired assets, and the share prices of these conglomerates crashing, this wave came to an end (Aggoud, 2012).

From around 1981, the fourth wave started, and marked an era of highly leveraged takeovers (Martynova & Renneboog, 2008). A large number of hostile takeovers were facilitated by major investment banks on behalf of their corporate raiding clients (Hideaki, 2007). According to the author, the mega-merger wave was characterised by a flexible economy with rising share prices and low interest rates. Firms had no problem in obtaining cash finance for their planned acquisitions, leading to large-scale horizontal mergers (Damodaran, 2005). This aggressive lending was not a sustainable situation and eventually the banks' capital structures collapsed.

When the fifth wave hit the economy, it started the mega-deals era, where everyone assumed that they will achieve a competitive advantage through gaining 'size' (Martynova & Renneboog, 2008). Firms showed enthusiasm towards larger economies of scale, creating MNEs of unparalleled sizes. Between 1998 and 2001, six of the world's biggest M&As occurred (KPMG, 2016). Global M&As grew from US\$342 billion in 1992 to a staggering US\$3.3 trillion in 2000 (KPMG, 2016). The millennium bubble burst and so the end of the fifth merger wave came about.

Globalisation was introduced in the sixth wave from approximately 2003 (Wadivkar, 2011, Martynova & Renneboog, 2008). MNEs were looking to broaden their multi-national reach. This wave saw an increase in private equity as a result of ownership of the companies

spreading out between the shareholders, management and institutional investors (Alexandridis, 2012). This wave carried important characteristics, such as slow market growth, and very low interest rates, which led to the ability, for firms, to take out large loans at significantly low interest rates (Alexandridis, Mavrovitis & Travlos, 2011). The authors also noted that more and more firms entered into M&A transactions because of the low cost of finance. Supply was exceeding demand in the majority of industries globally around the late 1990s, and therefore economies of scale needed to be generated through successful M&As to reduce costs and pressure on prices (Alexandridis, 2012).

The internet, computers and technology advanced greatly, and had a significant impact on operations in companies (Alexandridis, 2012). Traditional trade borders became a thing of the past as geographical separation was no longer a factor (Alexandridis, Mavrovitis & Travlos, 2011). As global markets opened up, firms were being exposed to competitors globally. Some of the former trade barriers disappeared and countries had to privatise some of their public utilities in order to deregulate financial institutions and competition in certain sectors (Alexandridis, 2012). The author also noted that firms experienced constant pressure to adapt and change to fit the changing global business sector.

Economists believe the seventh merger wave started around 2011, and like to refer to this as “*the rise of the BRICS*” (KPMG, 2016). Brazil, Russia, India, China and South Africa together form the elite league of the world’s leading emerging economies. Africa as a whole is expected to grow from having a population of approximately 1 billion today to 2 billion by 2050 (UN, 2015). M&A activity is also presumed to rise significantly over the same period (UN, 2015).

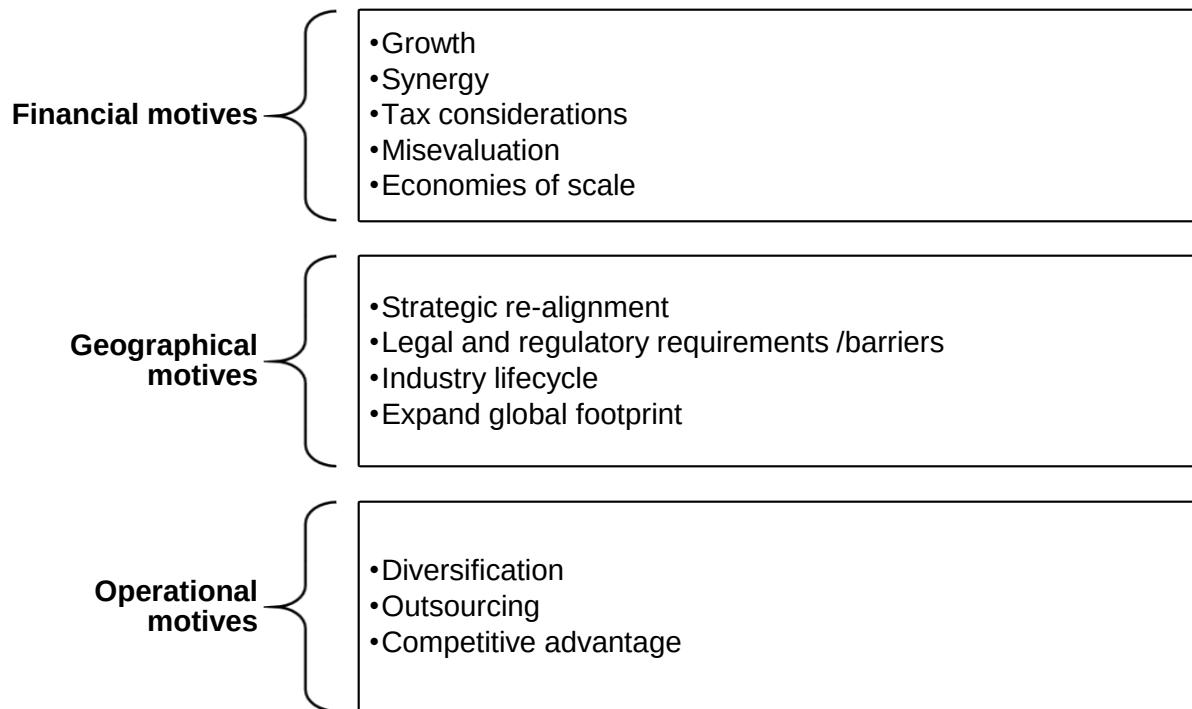
Since 2011, there have been a few major M&As from global companies to the African continent (KPMG, 2016). Walmart, which is the 14<sup>th</sup> largest company globally by market capitalisation, wanted to gain a footprint in Africa, and therefore bought a 51% stake in Massmart Ltd for an estimated R16 billion (KPMG, 2016). Another example is the 100% acquisition of Dimension Data Plc by Nippon Telegraph and Telephone (NTT) Corporation of Japan. NTT paid £2.1 billion for this deal, providing them access to one of the fastest emerging markets with a growing market for new IT and infrastructure (Reuters, 2010).

From 2009 to 2010, South Africa’s M&A activity grew by 133% (Osae, 2011). Data from Reuters (2010) showed a large increase in M&A activity in Africa. They said that at the end of 2010 it had reached a record high of US\$53 billion, which was 69% higher than in 2008. This shows the growing popularity of M&As; but what are the motivating factors behind these M&As?

### 3.4. Motivations for mergers and acquisitions

According to Moeller and Brady (2007), M&As take place because of various reasons. These reasons may vary from deal to deal and will depend on the short- and long-term objectives of a company. Some of the most commonly identified motives for M&As are shown in Figure 3.2 below, and then discussed in depth in the subsections to follow.

Figure 3.2: Common motivations behind M&A activity



Source: Author's own compilation

#### 3.4.1. Financial motives

##### 3.4.1.1. Growth

The growth of a company refers to a company growing in size and market share, thereby improving its ability to set prices at and above competitive levels and reduce competition. Inorganic growth (see definition in Section 2.4) methods allow companies to choose how they want to achieve growth in the least risky and most inexpensive manner. Organic growth (see definition in Section 2.4) methods, however, might carry more of a risk and slower growth levels. Companies might feel pressure to grow/expand their global reach/footprint when their competitors start venturing into new markets, countries or continents through either inorganic or fast growth methods such as mergers and acquisitions.

These types of M&As should be entered into with much needed legal knowledge and caution because they are subject to anti-collusion and anti-competition. In a cross-border situation where the legal framework of the two countries involved and the competition regulations that they have to adhere to, differ significantly from one another, complications are a definite possibility (DePhampilis, 2008).

#### 3.4.1.2. Financial- and operational synergy

By combining two separate companies, a firm can improve the operating efficiency and create more shareholder value. It is often cheaper to combine two or more production lines in one company rather than producing them in two separate companies. Operating synergy firstly consists of economies of scope, which suggests using a specific asset or set of skills that is already producing a specific product to produce related products. Secondly, it consists of economies of scale, where fixed costs are spread over increasing production levels.

Financial synergy refers to the impact that M&As have on the minimum return that lenders and investors need. When a company that has an excess of cashflow combines with a company that does not, it may result in a lower cost of borrowing. A firm operating in a mature industry might not have as many growth opportunities as a company operating in a high-growth industry, and therefore combining the two companies may result in more growth opportunities and a lower cost of capital for these firms (DePhampilis, 2008).

#### 3.4.1.3. Tax considerations

Investment tax credits and loss carried forward are some of the tax benefits that companies might look at when considering a merger or acquisition, because it can offset the combined companies' taxable income. If the acquisition is logged under the purchase method of accounting, an added tax shelter is created. The reason for this would be to re-value and get the current market value of the assets owned by the company. The ultimate outcome would be for the future taxable income that is generated by the combined companies to be reduced because of the depreciation of these asset values (DePhampilis, 2008).

#### 3.4.1.4. Misvaluation

Because of the misperception of markets always being efficient, the true economic value of a company is not accurately reflected by its share price (DePamphilis, 2008). By using cash or equity, some companies will periodically profit by buying undervalued targets for less than what their actual worth is (Shleifer & Vishny, 2003).

#### 3.4.1.5. Economies of scale

M&As may offer a company the benefits of economies of scale. This might be attractive to a company as it will be able to create economies of scale, which, in turn, generate cost efficiency. As the firms combine their business activities, production activities are more and output is larger, and therefore there is a strong chance that the cost of production per unit of output will be reduced. Strictly speaking, economies of scale are reached when production is higher, and marginal cost lower.

#### 3.4.2. Geographical motives

##### 3.4.2.1. Strategic re-alignment

When changes occur in either one or more of the economic, political, social, technological or legal/regulatory sectors, M&As can be used to help the company adjust to these changes. Technology is changing rapidly and, to keep up, firms might have to consider a merger in order to enter new markets or to obtain new technology in current product offerings (DePhampilis, 2008).

##### 3.4.2.2. Legal and regulatory framework

It is sometimes difficult to enter into new markets, due to the legal and regulatory frameworks that some countries have. There are bilateral agreements and trading blocs between certain countries. If a country wants to enter into a new market, but from the home country it is not possible either financially or politically, M&As are a good option to consider.

By merging with or acquiring a target firm, a company can obtain access to that country, its resources and its other business/trade partners. This will promote revenue growth and global reach for the company (DePhampilis, 2008).

##### 3.4.2.3. The industry's stage in its lifecycle

It has been proven that the motives for a merger or acquisition are influenced, in part, by the industry's stage in its lifecycle. Some of these factors include:

- the need for capital
- the need for resources
- degree of competition and the number of competitors
- growth opportunities (organic or inorganic)

- opportunities for synergy

The table below explains the factors of each stage in the industry's lifecycle in depth.

Table 3.2: The industry's stage in its life cycle

| Industry lifecycle stage           | Industry description                                                                              | Motives for merger                                                                                                                                                                                                                                                                                     | Types of mergers                               |
|------------------------------------|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| Pioneering development             | Industry exhibits substantial development costs and has low, but slowly increasing, sales growth. | Younger, smaller companies may sell themselves to larger companies in mature or declining industries and look for ways to enter into a new growth industry.<br><br>Young companies may look to merge with companies that allow them to pool management and capital resources.                          | Conglomerate<br><br>Horizontal                 |
| Rapid accelerating growth          | Industry exhibits high profit margins caused by few participants in the market.                   | Explosive growth in sales may require large capital requirements to expand existing capacity.                                                                                                                                                                                                          | Conglomerate<br><br>Horizontal                 |
| Mature growth                      | Industry experiences a drop in the entry of new competitors, but growth potential remains.        | Mergers may be undertaken to achieve economies of scale, savings and operational efficiencies.                                                                                                                                                                                                         | Horizontal<br><br>Vertical                     |
| Stabilisation and market maturity  | Industry faces increasing competition and capacity constraints.                                   | Mergers may be undertaken to achieve economies of scale in research, production, and marketing to match the low cost and price performance of other companies (domestic and foreign).<br><br>Large companies may acquire smaller companies to improve management and provide a broader financial base. | Horizontal                                     |
| Deceleration of growth and decline | Industry faces overcapacity and eroding profit margins.                                           | Horizontal mergers may be undertaken to ensure survival.<br><br>Vertical mergers may be carried out to increase efficiency and profit margins.<br><br>Companies in related industries may merge to exploit synergy.<br><br>Companies in this industry may acquire companies in young industries.       | Horizontal<br><br>Vertical<br><br>Conglomerate |

Source: Author's own compilation

### 3.4.3. Operational motives

#### 3.4.3.1. Diversification

When M&As take place in a different geographical area, or even just outside of a firm's primary business operations, it refers to the strategy of diversification. For example, a tobacco producer that specialises in cigarettes might decide to diversify into other commodities such as cigars or chewing tobacco. This helps a company to diversify its risks into different commodities and track better opportunities to grow.

A company can get a larger global footprint when deciding to diversify. They are able to access a multitude of resources and more favourable labour and political environments. Even with these benefits, management may be faced with numerous difficult challenges depending on the extent of diversification and sudden political and economic challenges that might arise (DePhampilis, 2008).

#### 3.4.3.2. Outsourcing

Freight and logistics companies provide supply chain efficiency to their customers. Outsourcing of procurement, distribution and return logistics can all be handled by these freight and logistics companies and end up saving the customer considerable amounts of money.

Outsourcing has been trending since the 1970s and can be defined as follows: *“to deliberately move business processes on to a third party who can manage them on behalf of your company”*. The commercial risks and assets are then passed along to the outsourcing company. Since technology has increased the accessibility to shared electronic data, outsourcing companies have been in a position to offer an even wider variety of services (Waters, 2007)

There are three possible reasons why a company might want to consider outsourcing:

- Financial flexibility and -accessibility
- Technology advancement
- Resource management

Financial flexibility can ensure a certain level of independence in the use and management of resources. A company needs accessibility to investment funds and more often than not the outsourcing partner can borrow at a better rate, predominantly because the outsourcing company has a lower risk through better focus (Waters 2007).

Over the past 20 years, it has been noticeable how many technological factors in outsourcing accelerated, giving those companies that indulged in integrating these new technologies a competitive edge.

With regard to resource management, a company will have to consider all the health and safety aspects, the legislation involved as well as the requirements made by the insurance industry when engaging in international trade. *“This makes outsourcing more attractive option because specialization of service and knowledge leads to lower costs and risk”* (Waters 2007).

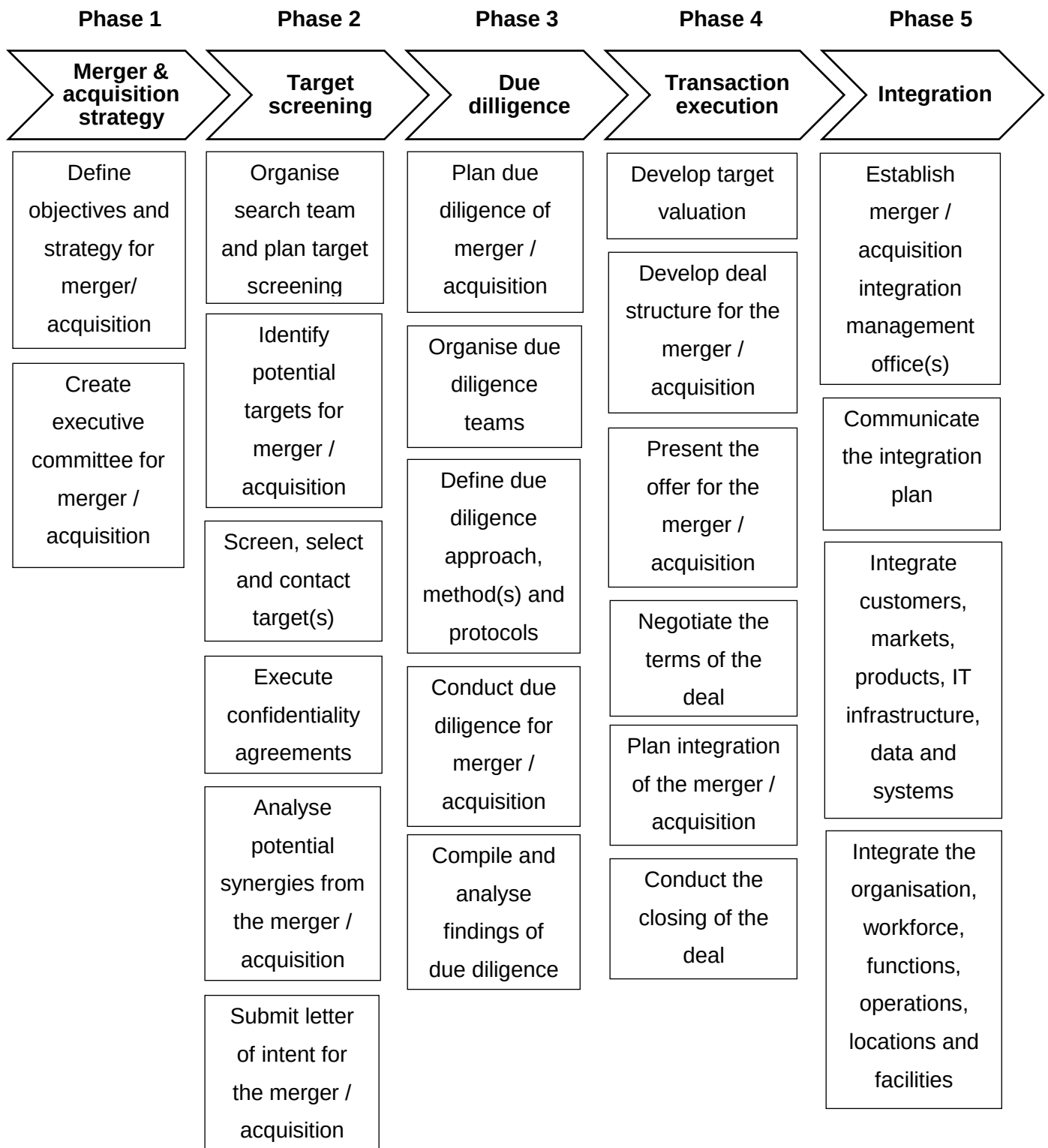
#### 3.4.3.3. Competitive advantage

In a continuously changing global competitive business environment, companies turn to M&As to survive. By increasing the company's market power through M&As, it may help to limit the severity of the competition.

#### 4.2. The overall process of mergers and acquisitions

The M&A process is a combination of various activities, including strategy, evaluation, negotiation, and the combining of corporate assets with the goal of preserving and building business value (Roberts *et al.*, 2003). The overall process can be divided into five phases, as shown in the figure below.

Figure 3.3: Five phases of the M&A process



Source: Adapted from Ray (2012)

#### 3.4.3. Phase 1: M&A strategy

The first step in the process is to define and develop a decent, successful strategy (Roberts *et al.*, 2003). The acquirer may start by looking at questions such as:

- *“What business, sector and industry are we in?”*
- *“What is the scope of our business*
- *“How much do we want to expand?”*
- *“Where do we want to expand to?”*
- *“What is the overall progression required, and at what speed is this to be achieved?”*

The aim is to create an M&A strategy that is essentially parallel with the existing company strategy, to support the overall mission and vision of the company

Secondly, an executive M&A committee has to be developed. This committee will be in charge of all proceedings pre- and post-merger or acquisition. One of the main duties of this committee will be to establish a set of criteria whereby the company can grow through this merger or acquisition and assure this is followed through (Roberts *et al.*, 2003).

#### 3.4.4. Phase 2: Target screening

The second phase is kicked off with the establishment of a search team that will be in charge of the identification and screening of potential targets. A set of criteria is determined, and the search team will have to determine to what degree the identified targets meet the criteria in order to move forward with the option(s) that would be the best strategic fit. The set of criteria can vary from company to company and from deal to deal, but some of the most common factors taken into consideration in the criteria are the nature of the business, structural, organisational and managerial strengths, relative size, market reach/footprint, capital structure and fundamental skills. (Evans, 2000). After identifying possible targets, a meeting is arranged and the possibility of a merger or acquisition transaction is discussed with the parties involved. When both parties agree on the deal, a confidentiality agreement is drawn up protecting both parties.

#### 3.4.5. Phase 3: Due diligence

In the third phase of the process, a thorough, in-depth investigation and evaluation are to be conducted on the identified target company to ensure the compatibility of the acquirer and the target firms. This is crucial to the success of the transaction (Davies, 2009). The analysis will

have to include a structured review of financials, operations, corporate culture, strategic issues and other aspects of the target firm to identify the possible synergies that may arise from this deal. They also need to identify any risks or other issues that accompany the deal with the specific target firm. A valuation of the deal is to be conducted in this phase with the help of investment banks. The valuation, in simple terms, as explained by Evans (2000), can be calculated in (US\$ mil) as follows:

|                                                            |               |
|------------------------------------------------------------|---------------|
| Value of acquiring company                                 | \$ 375        |
| Value of target company                                    | 101           |
| Value of synergies per due diligence                       | 19            |
| Less merger/acquisition costs (legal, and investment bank) | <u>7</u>      |
| Total value of combined company                            | \$ <u>488</u> |

The findings of the due diligence can be used to define negotiating terms, offering price and integration issues (Evans, 2000).

#### 3.4.6. Phase 4: Execution of the transaction

After the due diligence is completed and the acquirer is happy with the chosen target firm, the M&A committee will have to develop a negotiation plan. As mentioned previously, no company, committee, and merger or acquisition deal are alike, and therefore each negotiation plan will differ; however, a few key questions have been identified that could be useful for structuring a well-designed negotiation plan. These include (Evans, 2000):

- *“Will we encounter resistance from the target firm, and if so to what extent”?*
- *“Does the transaction hold benefits for the target firm, if so, what, where and how much”?*
- *“What route of bidding strategy would be best to follow, aggressive or non-aggressive”?*
- *“At what price do we start and stop the bidding”?*

A merger or acquisition transaction can be either friendly or hostile. Friendly acquisitions involve both parties wilfully entering into the deal, accepting all terms and conditions of the deal. On the other hand, when the deal is hostile, it will make it more difficult for the acquirer to seal the deal, but there are various ways to achieve their goal of acquiring the specific target. According to Greenberg and Guinan (2004), there are various factors that might influence the target company to be hostile towards the transaction, such as:

- The target firm wants to stay independent
- Managers may feel threatened by the deal as it may result in their retrenchment if they are not needed anymore due to the large number of management from the acquiring firm
- Shareholders might argue that the deal could result in a decrease in the value of the company, which would affect their dividends
- The board of directors and shareholders might feel that the deal could put the company in danger of going out of business

As mentioned above, there are various ways in which the acquirer can proceed with the deal; for example, if the target firm is showing any form of resistance towards the deal, the acquiring firm can acquire a partial interest in the target firm. This tactic places a certain degree of pressure on the target firm to negotiate with the acquirer without causing big controversy (Evans, 2000).

In other cases, where the target firm is completely resisting the deal, the acquirer will bypass the management and directly make a tender offer to the public shareholders. A tender offer usually stands for a limited period of time and aims at acquiring 100% of the target firm's outstanding shares of stock. The offer/buying price is typically much higher than the normal market price of the target firm (Evans, 2000).

#### 3.4.7. Phase 5: Integration

The final phase of integration will follow the concluding announcement and finalisation of the merger or acquisition deal by both parties in a formal M&A agreement (Grant, 1996; Birkinshaw *et al.*, 2000). The integration of the two firms is said to be the most challenging part of the process, as it involves extensive planning and design to be executed successfully. According to Ranft and Lord (2002), a strategic integration plan can be structured around the following questions:

- *“How much should be integrated / How far should the integration go”?*
- *“At what pace should the integration take place, fast or slow”?*
- *“What would be the best method to use for the integration of the deal”?*
- *“Is there a way to protect both the employees and customers in this process”?*
- *“How can the daily processes and operations be sustained”?*

- *“What would be the most effective way to explain the integration plans to the parties involved”?*
- *“How will the progress of the integration be monitored, analysed, reported and communicated to the parties involved”?*

According to Weber, Tarba and Reichel (2009), integration can be applied in three levels; to all functional areas complete from a-z, to certain functions and processes, and only to a few human resources (personnel) in the company. As explained earlier, it all depends on the specific deal structure, company procedures and cultures, management, strategic objectives, and the agreement between the two parties.

#### 3.4.7.1. Level 1: High level of integration

In some cases, a complete integration of all functional areas within the two companies is done to form one cohesive operation for the new company. This is useful when the aim is to achieve high levels of synergy over the shortest period of time, as a result of low levels of cultural and operational variances (Ranft & Lord, 2002; Grant, 1996).

#### 3.4.7.2. Level 2: Medium level of integration

Integration on level two falls between the two extremes of high- and low levels of integration. To have a successful merger or acquisition deal, this might be the most appropriate option to choose (Pablo & Javidan, 2004). The medium level of integration means that only certain areas in the companies will be affected. Most of the main strategic decisions will be made by the acquirer; however, the target firm will still have autonomy in the day-to-day decisions in the company. This results in moderate levels of synergies being achieved within a moderate time frame (Leonard-Barton, 1992).

#### 3.4.7.3. Level 3: Low level of integration

When there are low levels of integration, it means that very little to no redundancies might take place and the target firm will still have high levels of autonomy (Leonard-Barton, 1992). However, this might not be the best option to ensure the success of a merger or acquisition transaction as the levels of synergy will be low, due to the variances in cultural and operational fit (Ranft & Lord, 2002).

#### 4.3. The success factors of mergers and acquisitions

M&As succeed when proper planning, research, structures and procedures are followed and adhered to. Even though it is referred to as a merger or acquisition transaction or deal, it is a process. There are multiple reasons for companies succeeding at mergers and acquisitions, and a few of the main reasons will be discussed in the subsections below.

##### 3.4.8. The business environment factor

In both an M&A, the business environment factor can be used to determine and define the potential benefits and restrictions to the transaction; these can include legislative restrictions, as well as the geopolitical, social, local, cultural and economic environment, wherein the deal will occur (Erez-Rein *et al.*, 2004). Knowing the potential benefits as well as the potential restrictions will allow a company to plan and structure the deal to both play in their favour and avoid the restrictions.

##### 3.4.9. Adequate management planning

Management should decide and stick to a deal motive. They should lay out certain goals they want to achieve or complete at certain stages in the transaction. The transaction can only be successful when the stipulated motives of the deal are met by management (Erez-Rein *et al.*, 2004). The leadership role during an M&A is crucial. There are many people in different managerial roles that are all affected by the process and they have to design, implement and regulate the transaction (Evans, 2000). The characteristics of the individual and the teams they choose to help them will have an effect on the progress and success of the deal (Kruger & Dunning 1999).

##### 3.4.10. Understand cultures

The latter leads to cultural factors that a company has to take into consideration when participating in either a merger or acquisition. Two parties who are in the process of a cross-border acquisition may differ significantly in personal culture (ethnicity, language, age or religion) or business culture (managerial methods, business language and business processes) (Kogut & Singh, 1988; Very & Schweiger, 2001). For a successful merger or acquisition, the parties involved will have to understand and effectively handle the cultural differences, if any, in an ethnic and appropriate way (Erez-Rein *et al.*, 2004).

#### 3.4.11. Proper deal structure

The deal strategy should be set up in such a way that both parties involved in the transaction will be aware of the potential benefits and restrictions of the deal. The deal should also be structured in such a way that the motives for this deal are understood by both parties involved to avoid any complications (Roberts *et al.*, 2003).

There are also various reasons why M&As fail, and these reasons will be discussed in subsection 3.8 below.

#### 4.4. Reasons M&As fail

M&As are challenging transactions and have high failure rates globally (Weber & Camerer 2003). Such a transaction may be seen as successful from one perspective and a failure from another. The reasons why M&As fail depend on the goals the companies aimed to achieve, but failed at. According to Weber and Camerer (2003), each deal is different; however, according to previous studies conducted on the failure of M&As, the following seemed to be the most prevalent reasons:

#### 3.4.12. Strategic differences

When companies' strategies, mission, vision and objectives are not in line with one another, it may lead to the failure of a merger or acquisition. Danbolt (2004) suggests that this is one of the main reasons these transactions fail.

#### 3.4.13. Cultural differences

According to Ranft and Lord (2002), cultural and social differences in companies that have been involved in cross-border M&As are not easy to solve. Even with integration of processes and systems, the 'human element' still remains an issue. For example, when a company based in Japan acquires a company based in South Africa, there are going to be cultural and social differences, because they are two very different countries, from two different continents and with two different economies (developed economy and emerging economy). Synergy can be difficult to achieve in such a scenario, thereby leading to failure (Ranft & Lord, 2002).

#### 3.4.14. Incomplete and inadequate due diligence

According to Evans (2000), failure to conduct in-depth, comprehensive and adequate due diligence will lead to the failure of the merger or acquisition transaction. Due diligence ensures that the correct target company gets chosen, and includes a valuation of the target company and the synergies to be gained from the merger or acquisition transaction. It also investigates and ensures that the strategic, operational, functional, cultural and managerial objectives of the acquirer and target company are in line. This proves that when a merger or acquisition transaction is unsuccessful, the problem can be tracked back to the due diligence phase (Evans, 2000),

#### 3.4.15. Insufficient integration

Insufficient integration will lead to the failure of the transaction (Ranft & Lord, 2002). As discussed in subsection 3.5.5, sufficient integration is required to achieve synergies and successes with M&A transactions. Without the adequate integration of various business segments, the autonomy issue is still there as well as cultural, organisational and other differences triggering complications.

#### 3.4.16. Exaggeratedly optimistic

In the current growth spurt of M&As globally, companies feel pressured to also engage in inorganic growth methods such as M&As when they see their competitors venturing into new markets. According to Böhmer and Netter (1997), if the correct procedures are not followed, and steps are skipped due to over optimism and hasty decisions, the merger or acquisition transaction may fail.

The next part of the chapter will focus on the existing literature on M&As, which will provide a good framework that will enable the new findings resulting from this study to relate to the existing findings from other studies. This is important because, by establishing the state of the existing research on M&As, it makes it possible to establish how the research from this study will advance or add to the already existing research (Gall, Borg & Gall, 1996).

#### 4.5. A review of the existing literature on the multidisciplinary aspects of M&As

The previous sections created an overview of various important aspects of M&As. In this section, the aim is to examine previous similar studies conducted on some important multidisciplinary aspects of M&As. The aim is to get an idea of how researchers have

approached the theme of M&As, what exactly they aimed at determining, and what the results were. This will provide a good framework for this study.

Firms are influenced to engage in M&As by a number of motives, reasons, institutional factors and economic forces. M&As have grown at a considerable pace over the last few years and, like mentioned before, this growth spurt was fuelled by factors such as the growing international competition caused by technological advances. Other factors include higher economic and political integration, widespread economic growth and development and financial innovation (Abel, Bernake & Croushore, 2008).

Companies that want to broaden their geographic reach or their product range also consider M&As to be a good opportunity to diversify their operations and spread their risks. There is, however, always the issue of cultural differences or similarities that might also steer the transaction to or away from a certain continent or country. Finally, legal and economic regulations, tax considerations, privatisation and foreign property have been known to regulate the number of M&As that take place on a global level.

The abovementioned five multidisciplinary aspects of a successful FDI through an M&A will be discussed in more detail from the points of view of various researchers.

#### 3.4.17. Economic aspects regarding M&As

The economic aspects affecting the number and type of M&As that take place are mostly macro-economic principles. These include government policies, economic growth, inflation, levels of unemployment and finally the international economic system.

#### 3.4.18. Political aspects regarding mergers and acquisitions

When political aspects are considered in going into a merger or acquisition transaction, many first-world countries fear political risk when entering new markets in third-world countries. According to the Multilateral Investment Guarantee Agency of World Bank (MIGA), along with political institutions and governments, separatist movements and minority groups, transfer and convertibility restrictions and expropriation all bear a political burden for firms that are looking to do a cross-border investment.

When the possibility of the risk of not being able to convert the local currency into foreign exchange so a can transfer can be made outside of the host country due to political unrests, firms might choose a different route than investing their money in a country with such situations. A firm might also be discouraged to invest in a certain country when any act of government reduces control or ownership through the accumulation of acts by government.

In South Africa, the government implemented a system called broad-based black economic empowerment (BBBEE) to try and overwrite the actions of the previous government in the apartheid era. The auditing firm Ernst and Young (2007) found that BBBEE stood at 29% with a value of R52.9billion in 2004, just 10 years after implementation of this act. BBBEE has become the core factor in South African corporate activity. Government legislation such as BBBEE affects M&As in South Africa.

#### 3.4.19. Strategic management of mergers and acquisitions

The management in a firm has to have a strategic approach to reach higher profits and gain a competitive advantage through a merger or acquisition. It will involve making commitments, decisions and taking actions to reach the goals they set out to achieve (Hitt, Ireland & Hoskisson, 1995). In an M&A, both parties involved should be fully briefed on and actively involved in any decision-making or negotiations for the transaction to be beneficial for both parties and to cancel out any misunderstandings (Abel, Bernake & Croushore, 2008).

Miller (2008) found that managers who own an equity stake in the company they work for will be motivated to commence more value-adding M&As and put more effort into the strategic management of the transactions. Whereas managers who do not own any equity in the firm they work for will have little enthusiasm towards strategically planning value-adding M&As and this may lead to the company entering into value-destroying transactions because of the lack of motivation from management.

*“[...] managers generally want a company that is fully staffed, with a general manager and all functional heads and, since it takes three to five years to develop a good operating team, they want assurance that these key people will stay on the job” (Paine, 2000).*

The latter will play an integral part in the decision-making process within an M&A transaction.

A company's business, organisational and corporate strategy can benefit from M&As (Rappaport, 1986). For a company to gain more market advantage, it needs to create shareholder value. Many organisations believe that one big company is far more valuable than two separate companies, and that is why M&As play such a prominent role in today's business economies (Investopedia, 2006).

#### 3.4.20. Legal and regulatory requirements regarding mergers and acquisitions

M&As are complex transactions and have a number of rules, regulations and laws governing them. The Companies Act, no 71 of 2008 brought a number of new challenges for market participants (Els & Watson, 2011). Certain companies, according to Tuomi (2011), perceive

bureaucracy and heavy regulation as “*public thorns*”. M&As may encounter difficulties throughout the process, which may include reviewing both the minority shareholder rights, and the rules in the takeover, and in the case of an intra-group financial business deal, review the necessary investor’s approvals (Els & Watson, 2011).

A big decision-making factor for investors with regard to a merger or acquisition deal will be the level of FDI regulation and governing in the host country (Els & Watson, 2011). In South Africa, FDI is governed and regulated by the Exchange Control Department of the South African Reserve Bank as well as the Competition Tribunal of South Africa. Emerging and developing countries have to implement more flexible and accommodative legal and regulatory requirements if they want to receive more FDI, according to Els and Sibanda (2006).

If an investor from a foreign country wants to merge or acquire a company in South Africa that is listed on the Johannesburg Stock Exchange (JSE), both parties will have to comply with the rules set out by the JSE Ltd as well as the Securities Regulation Code and Rules of the South African Securities Regulation Panel (Els & Sibanda, 2006).

#### 3.4.21. Cultural aspects of mergers and acquisitions

According to Hofstede (2001), the cultural differences between the home country and the host country may differ significantly and will play a crucial role in the success of the merger or acquisition. When entering into a cross-border transaction with the possibility of cultural misunderstandings, the management should investigate, regulate on a regular basis and put measures of control into place if need be (Kogut & Singh, 1988; Very & Schweiger, 2001).

Culture can be defined as follows: “*Culture is the collective programming of the mind that distinguishes one human group from another*” (Hofstede, 1984; McLeod & Hanks, 1985).

The World Investment Report of 2007 showed that, in 2006, there were continuous increases in cross-border acquisitions, with a value of \$880 billion (UNCATD, 2007). This growth in cross-border acquisition activity was also confirmed by Montecon (2009), who focused his research on cross-border M&As. The author specifically looked at the growth of cross-border acquisitions over the past 20 years. He found that even though the cultural and financial challenges for cross-border acquisitions are much more than that of domestic acquisitions, the figures increased by triple the amount of domestic acquisitions in the same period of time.

### 3.4.22. Financial aspects regarding M&As

Most of the time, M&As are initiated by the acquirer. In a study conducted by Mayers and Majluf (1984), they observed that a company that continuously hunts for a buyer might lose its value in the eyes of potential investors. Therefore, the acquiring firm will be able to purchase the target firm for a much lower price than what it is actually worth. The authors also found that a company that has a large financial slack will merge with or acquire a company with the opposite financial slack situation. Mayers and Majluf (1984) also found that companies with good investment opportunities, limited financial slack and that lack information by their investors usually make good merger opportunities.

In the next study, the author, Owen (1997), used the age variable to determine whether or not it has any impact on M&A transactions. Kumar (1984) and Evans (1987) also studied the age variable through other means such as size of the firm, the growth rate and investment opportunities over time. Owen (1997), however, found in his study that age was the first proven significant variable, showing that older firms are more likely to be the acquirers of younger and/or non-involved firms. This may be due to younger firms not being able to cope financially and the older firms seeing it as a good investment.

Camerlynck and Ooghe focused their study on the same principle, but approached it from another angle. They studied the hypothesis of acquiring companies being superior to target companies in factors such as liquidity, profit, solvency, added value, performance and their risk of failure. These authors attempted to find matches in the financial profiles of acquiring and acquired firms. These firms' performance statistics compared to that of the industry average were also measured. Their findings suggest that the acquiring companies were performing well above industry averages and the acquired companies were not those in need of financial aid, but rather companies that showed lower long-term failure risk. Underperformance and financial problems were therefore not the main driving forces behind an acquisition, according to Camerlynck and Ooghe's study.

In a study conducted by Black, Carnes, Jandik and Henderson (2007), the significance of accounting legislation and procedures based in the target's country was investigated using prediction models specifically developed for international markets. They focused on the number of long-term abnormal returns after the merger has taken place associated with international accounting diversity. The authors found an inverse relationship between the latter. This suggests that there is a higher cost of capital, especially because cash flow and

future earnings are more difficult to predict when companies are based in certain countries that have less value-relevant accounting information available

Using accounting based data, Camerlynck, Ooghe and De Langhe (2005) wanted to test whether there are any pre-acquisition characteristics that might be viewed as discriminant in the financial profile of two companies involved in either a merger or acquisition. For this they used accounting-based data and they pre-divided the companies they used into sub-groups according to their size, assets and growth. Their conclusion showed that the acquiring companies had a significant advantage over the companies they acquired in terms of their number of assets and employees working for them, as well as in their sales and growth rates.

Older companies may also acquire younger firms due to maturity level. A company may not reach high rates of growth anymore if it has reached its maturity level, and therefore acquiring a new firm provides the necessary growth opportunities. The opportunity of new and maintained development and growth makes M&As so attractive for MNEs and TNCs. Owen found that the companies that get targeted sometimes have financial strains and will see a merger or acquisition as the only way to keep going. The study's conclusion supports the findings of Penrose (1995), stating that as time progresses and companies get older and bigger they struggle to maintain their initial high growth rates.

One of the main hypotheses studied by various authors such as Agrawal and Jaffe (2003) and Camerlynck and Ooghe (2002) was that of targets being underperformers. Agrawal and Jaffe (2003) studied more than 2 000 target companies while using those companies' pre-M&A return on operations and stock data from the period 1926 to 1996. Their study concluded negatively to the hypothesis showing that it was not merely firms who were underperformers that were being targeted.

Ravenscraft and Scherer (1987) found that after an acquisition, smaller companies have faster growth rates than larger companies. In contrast to the latter's study, Camerlynck, Ooghe and De Langhe (2005) found that before the acquisition, smaller companies had lower growth rates compared to larger ones. Smith and Kim (1994) support the latter, concluding that large firms with good investment opportunities will mostly lean towards acquiring firms who have smaller growth rates.

#### 4.6. Summary and Conclusion

From the theory and literature in this chapter, it follows that M&As have become the most prevailing form of inorganic growth methods globally. Companies are using these transactions as strategic tools for survival, looking for cheaper and quicker modes of entry into new markets to improve their financial, economic and geographic situations, and this is exactly what M&As offer them. The potential of synergies and economies of scale is another benefit that M&As offer companies. M&As can also be used to get tax benefits and higher market power. They provide companies the opportunity to work as one to increase their overall market value/share.

M&As are complicated transactions and can either be a great success or a complete failure. Firms have to identify key success factors as well as the most risky factors. They can then decide whether these risks are worth taking and whether they are manageable through integration. The five phases of the M&A process are imperative to the success of a merger or acquisition.

A firm must know how to identify and control the success factors. There are a few important success factors namely deal motives, leadership, the key success factors in cross-border acquisitions are the business environment, deal motives, deal strategy, processing of the deal, national culture and organisational culture. If there are critical success factors present in the firm it can really minimise the failures and challenges that are accompanied by a merger or an acquisition. Performance indicators can be used to assess the process. Performance indicators can be created by critical success factors.

Geographically speaking, merger and acquisitions opportunities in some segments are more constrained in mature markets, which could result in more pronounced cross-border or cross-regional merger and acquisition activity. This would reverse the trend evident over the past few years, when domestic deals dominated the landscape.

On-going industrialisation of markets, continued manufacturing offshoring to new emerging countries, and rising domestic consumer demand will create a high cargo demand profile for top emerging markets for at least the forthcoming decade. It is thus expected to see particularly high merger and acquisition activity among freight forwarders and contract logistics providers from developed markets targeting emerging/developing markets as they seek to:

- Acquire knowledge of local customer requirements and a strong geographical platform
- Boost their market share on emerging-market trade lanes

- Anticipate and take advantage of customer movements to shift production and sourcing decision-making power toward emerging and developing markets, as well as supplier migration toward those markets
- Capitalise on massively promising growth prospects for contract logistics in these underpenetrated markets.

While there are ample opportunities for freight and logistics companies to strengthen their footprint in emerging markets, it is important to invest in the right trade lanes in terms of shipper and commodity mix and margins appropriate to the individual business.

## **CHAPTER 4: LITERATURE STUDY: THE SERVICES SECTOR AND THE FREIGHT AND LOGISTICS INDUSTRY**

### **4.1. Introduction**

This chapter will provide a theoretical background and literature perspective on the services sector, with a specific focus on the freight and logistics industry. This research focuses on determining the drivers of inorganic growth (see definition in Section 2.4) methods through mergers and acquisitions (M&As) in the freight and logistics industry of South Africa. This will serve to highlight not only the importance of services in overall trade, but also the importance of these linkages for the development and growth of the services sector. A comprehensive understanding of the literature and theory will provide a better structure to evaluate the possible drivers of inorganic growth in the freight and logistics industry.

According to United Nations Conference on Trade and Development (UNCTAD) (2006), a remarkable move towards services in global trade is evidenced through their increased importance in competition between companies in various sectors. This increase in competition caused an influx in inorganic growth methods being pursued by companies to keep a competitive advantage and meet high financial targets.

According to Bernard, Jensen and Schott (2009), there are various reasons why multinational enterprises (MNEs) merge with or acquire other service providers. These include, among others, to become a leader in the industry, to benefit from economies of scale, to penetrate new markets in different continents and through that grow their global presence. It may also be to create a certain image of the company, whether it is that of a leader in the industry or maybe an aggressive competitor. Sometimes, it may be for reasons such as reducing the business uncertainty through improving the company's service/product portfolio, and/or profiting from tax advantages.

Which of the above-mentioned and/or other additional factors are driving inorganic growth through M&As in the freight and logistics industry globally, but more specifically in South Africa? The basis from which this question can be answered is formed by the theoretical foundation and the literature overview set out in this chapter.

This study is important because national and global policy agendas are putting a great deal of focus on services in the form of liberalisation as well as promotional efforts because they have come to realise the importance of a more efficient, effective and sustainable infrastructure and services sector.

This chapter will be arranged as follows: Section 4.2 will explain important terms, concepts and definitions relevant to the study. Section 4.3 will show data on cross-border trade in services and section 4.4 will explain some of the theories regarding trade in the services sector and the freight and logistics industry. In section 4.5, the importance that trade in services policies with specific reference to General Agreement on Trade in Services (GATS) has on the freight and logistics industry will be explained. Section 4.6 will firstly discuss the literature on services, followed by a discussion of the literature on the freight and logistics industry. Section 4.7 will conclude this chapter.

## 4.2. Terms, concepts and definitions

In the following subsections, some important terms, concepts and definitions on the services sector and freight and logistics industry will be addressed and explained in detail to provide a good understanding of each.

### 4.2.1. Services sector

The services sector is that part of the economy that produces intangible goods. According to the US Census Bureau (2014),

*“The service sector primarily consists of truck transportation, messenger services and warehousing; information sector services; securities, commodities and other financial investment services; rental and leasing services; professional, scientific and technical services; administrative and support services; waste management and remediation; health care and social assistance; and arts, entertainment and recreation services”.*

The India Budget Economic Survey of 2012-2013 had a similar definition for services, stating that the services sector covers many services activities from some of the simplest activities such as *“the barber, the carpenter, and the plumber”*, to the most sophisticated activities such as *“telecommunications, satellite mapping, and computer software”*. It also offers highly capital intensive activities such as *“civil aviation and shipping”*, infrastructure-related activities such as *“railways, roadways, and ports”*, employment-oriented activities such as *“tourism, real estate, and housing”* and social sector related activities such as *“health and education”*. *“Thus, there is no one-size-fits-all definition of services resulting in some overlapping and some borderline inclusions”* (India Budget Economic Survey, 2012-2013)

#### 4.2.2. Services

Because services are diverse and in general classified as intangible goods, the idea of services trade has been a discouraging subject for many researchers in the past and therefore mostly avoided in international trade research (Jones & Kierzkowski, 2000). However, over the past three decades, technology has advanced and liberalisation came about, resulting in remarkable interest on the topic of growth in the services trade sector globally (Jansen van Rensburg, 2000).

To encapsulate the term services within one definition is not possible due to its wide range of intangible activities. Services can be described as being the result of transformation services or margin services covering transport, telecommunication and computer services, construction, financial services, wholesale and retail distribution, hotel and catering, insurance, real estate, health and education, professional, marketing and other business support, government, community, audio-visual, recreational, and domestic services (Adlung & Morrison, 2010).

According to the OEDC (2000), *“Services are a diverse group of economic activities that include high technology, knowledge-intensive sub-sectors, as well as labour-intensive, low skill areas”*.

In a study conducted by Mattoo and Payton (2007), a broad yet concise definition of services can be explained as follows:

*“A service is a set of one time consumable, intangible and perishable benefits;”*

- supplied by the responsible service provider, generally in collaboration with the internal and external service suppliers,
- managed by distinct functions of technical systems as well as by distinct actions by entities in the company
- commissioned by the service provider in line with the requirements of the clients

Service industries such as transport, telecommunications and financial services not only have an impact on the growth and efficiency of the economy, but are also key determinants of the conditions in which persons, merchandise, services and capital flow (Borchert, Gootiiz & Mattoo, 2012).

As mentioned above, services entail very diverse sectors and different characteristics; therefore, the term should not be analysed as a homogeneous group (Hodge, 1997). To be able to analyse the services sector from a macro-economic perspective, services can be

divided into three main groups, namely consumer services, producer services and community services (Hodge, 1997).

Consumer services can be characterised as being mostly income inelastic and having a high labour intensity, but seem to have low labour productivity and do not necessarily require high skillsets (WTO, 2010). Examples of this classification are wholesale and retail traders, personal services such as hairdressers and domestic services along with entertainment and leisure services resembling restaurants and hotels (Philippa & Findlay, 2007).

The characteristics of producer services differ completely from the former consumer services, as it is income elastic, has high labour productivity and it also has high skill requirements, which gives it a high capital intensity (WTO, 2010). Examples of producer services are transport, design, insurance, marketing finance, legal and accounting services.

Community/social services are known to have high income elasticity, have high skill requirements and are also mostly capital intensive, but seem to have low labour and capital productivity (WTO, 2010). Examples of these services are educational services, sanitation, defence activities, health services and public administration.

#### 4.2.3. ISIC (International Standard Industrial Classification)

ISIC (International Standard Industrial Classification) is the United Nations' code classification system of all the productive economic activities, and its main purpose is to classify each economic activity under a standard set of codes.

According to the United Nations' Statistic Division (UNSD) (2014),

*“The ISIC classification combines the statistical units according to their character, technology, organisation and financing of production. The ISIC is used widely, both nationally and internationally, in classifying economic activity data in the fields of population, production, employment, gross domestic product and other economic activities. It is a basic tool for studying economic phenomena, fostering international comparability of data and for promoting the development of sound national statistical systems”*

ISIC (ISIC Rev.4) is the current version that was approved in 2006 by the United Nations Statistics Commission (UNSC). Table 4.1 below is an example from the United Nations Statistical Division's website, which sets out the main classification of the overall ISIC (Rev. 4):

Table 4.1: ISIC (International Standard Industrial Classification) (ISIC Rev.4)

| Section | Divisions | Description                                                                                                                |
|---------|-----------|----------------------------------------------------------------------------------------------------------------------------|
| A       | 01–03     | Forestry and fishing                                                                                                       |
| B       | 05–09     | Mining and quarrying                                                                                                       |
| C       | 10–33     | Manufacturing                                                                                                              |
| D       | 35        | Electricity, gas, steam and air conditioning supply                                                                        |
| E       | 36–39     | Water supply; sewerage, waste management and remediation activities                                                        |
| F       | 41–43     | Construction                                                                                                               |
| G       | 45–47     | Wholesale and retail trade; repair of motor vehicles and motorcycles                                                       |
| H       | 49–53     | Transportation and storage                                                                                                 |
| I       | 55–56     | Accommodation and food service activities                                                                                  |
| J       | 58–63     | Information and communication                                                                                              |
| K       | 64–66     | Financial and insurance activities                                                                                         |
| L       | 68        | Real estate activities                                                                                                     |
| M       | 69–75     | Professional, scientific and technical activities                                                                          |
| N       | 77–82     | Administrative and support service activities                                                                              |
| O       | 84        | Public administration and defence; compulsory social security                                                              |
| P       | 85        | Education                                                                                                                  |
| Q       | 86–88     | Human health and social work activities                                                                                    |
| R       | 90–93     | Arts, entertainment and recreation                                                                                         |
| S       | 94–96     | Other service activities                                                                                                   |
| T       | 97–98     | Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use |
| U       | 99        | Activities of extraterritorial organizations and bodies                                                                    |

(Source: United Nations Statistical Division's website 2015)

In light of the above table, ISIC (Rev.4) is divided into three columns. Firstly, the categories are placed into different sections, namely sections A to U. Secondly, they are divided into

divisions and subdivisions ranging from 1 to 99, and lastly, column 3 provides a description of the various categories in the International Standard Industrial Classification.

For the purpose of this study, specific attention will be placed on the following category of the International Standard Industrial Classification table: Section H: Transportation and storage.

The hierarchical structure of the classification according to the United Nations (2008) is as follows:

- Tabulation categories: one letter alpha code A to U;
- Divisions: two-digit codes;
- Groups: three-digit codes;
- Classes: four-digit codes
- Description of the category

Section code H was chosen for this study, as it has to do with transportation and storage. The following is a breakdown of what exactly this section entails (United Nation, 2008):

This section is divided into the following divisions:

- 49: Land transport and transport via pipelines
- 50: Water transport
- 51: Air transport
- 52: Warehousing and support activities for transportation
- 53: Postal and courier activities

Section H includes the provision of passenger or freight transport, whether scheduled or not, by rail, pipeline, road, water or air and associated activities such as terminal and parking facilities, cargo handling and storage. Included in this section is the renting of transport equipment with driver or operator. Also included are postal and courier activities (United Nation, 2008). Table 4.2 below will provide a full explanation of this section.

Table 4.2: Breakdown of Section H transport and storage as part of the ISIC codes for services:

| Section H                  |       |       |                                                              |
|----------------------------|-------|-------|--------------------------------------------------------------|
| Transportation and storage |       |       |                                                              |
| Division                   | Group | Class | Description                                                  |
| <b>Division 49</b>         |       |       | <b>Land transport and transport via pipelines</b>            |
|                            | 491   |       | Transport via railways                                       |
|                            |       | 4911  | Passenger rail transport, interurban                         |
|                            |       | 4912  | Freight rail transport                                       |
|                            | 492   |       | Other land transport                                         |
|                            |       | 4921  | Urban and suburban passenger land transport                  |
|                            |       | 4922  | Other passenger land transport                               |
|                            |       | 4923  | Freight transport by road                                    |
|                            | 493   | 4930  | Transport via pipeline                                       |
| <b>Division 50</b>         |       |       | <b>Water transport</b>                                       |
|                            | 501   |       | Sea and coastal water transport                              |
|                            |       | 5011  | Sea and coastal passenger water transport                    |
|                            |       | 5012  | Sea and coastal freight water transport                      |
|                            | 502   |       | Inland water transport                                       |
|                            |       | 5021  | Inland passenger water transport                             |
|                            |       | 5022  | Inland freight water transport                               |
| <b>Division 51</b>         |       |       | <b>Air transport</b>                                         |
|                            | 511   | 5110  | Passenger air transport                                      |
|                            | 512   | 5120  | Freight air transport                                        |
|                            |       |       |                                                              |
| <b>Division 52</b>         |       |       | <b>Warehousing and support activities for transportation</b> |
|                            | 521   | 5210  | Warehousing and storage                                      |
|                            | 522   |       | Support activities for transportation                        |
|                            |       | 5221  | Service activities incidental to land transportation         |

|                    |     |      |                                                       |
|--------------------|-----|------|-------------------------------------------------------|
|                    |     | 5222 | Service activities incidental to water transportation |
|                    |     | 5223 | Service activities incidental to air transportation   |
|                    |     | 5224 | Cargo handling                                        |
|                    |     | 5229 | Other transportation support activities               |
| <b>Division 53</b> |     |      | <b>Postal and courier activities</b>                  |
|                    | 531 | 5310 | Postal activities                                     |
|                    | 532 | 5320 | Courier activities                                    |

Source: Adapted from United Nations (2008)

All of the divisions in Section H have a few groups and classes that fall directly under the activities and services provided by freight and logistics companies.

#### 4.2.4. GATS

The acronym GATS stands for the General Agreement on Trade in Services. This agreement came into force in January 1995. It was established to provide extensions to services in the multilateral trading system. Members of the WTO started negotiations on services trade in the first round in January 2000. GATS's definition for international trade in services is explained through the four modes of supply; (WTO, 2010)

- Mode 1: Cross-border trade. This can be defined as delivering a service from the territory of one country into the territory of other country.
- Mode 2: Consumption abroad is the supply of a service of one country to the service consumer of any other country.
- Mode 3: Commercial presence entails services provided by a service supplier of one country in the territory of any other country.
- Mode 4: Presence of natural persons covers services provided by a service supplier of one country through the presence of natural persons in the territory of any other country.

This concept will be dealt with in more detail in section 4.5.

#### 4.2.5. Global value chains (GVCs)

Global value chains are made up of the various stages in the production process and are responsible for organising trade and investments and international production (Hijzen & Swaim, 2007). Commercial activities are being offshored and outsourced resulting in international restructuring of operations, attributable to globalisation. According to the OECD (2014), GVCs have changed the typical way in which economic globalisation is viewed and therefore trade policies have been developed around it. Global value chains have also changed the way that companies attempt to boost their production processes by allowing them to locate different processes across various locations (Farole & Winkler, 2014).

GVCs have become a prevailing feature of global trade and are influencing growth opportunities as well as trade and FDI patterns in developed, emerging and developing countries. According to Bryson and Daniels (2010), this is due to the movement of goods and services, ideas and investments, the interlinking of trade intermediates, and the growing demand for services. Therefore, services trade is important for the effective operational ability of GVCs. The OECD has been conducting research on the nature, importance and consequences of a proper, working and complimentary policy agenda to encourage engagement in GVCs that will possibly serve to promote more comprehensive growth and employment in the future (OECD, 2013).

#### 4.2.6. Value Chain

Value chains are processes and networks where value is added to the products or services offered by a company before they are supplied to the client (Mascarenhas, Kesavan & Bernacchi, 2004). The concept of value chains was developed by Porter (1985) in his book *Competitive Advantage: Creating and Sustaining Superior Performance*. According to *The Value Chain: The Original Breakthrough, The Antidote, Vol. 8, 1997*, a value chain is the practice and system involved with essentially gathering components and assembling those components.

In another definition by Feller, Shunk and Callarman (2006), a value chain and supply chain in essence are one and the same, but the difference comes in when that extra value is added to the product or service in the final stages of processing or grading before the final dispatch takes place.

#### 4.2.7. Supply chain

A supply chain is the process in which products and services flow from their point of origin to their final destination. It includes various departments such as supply chain management, supply planning, customer service, purchasing, manufacturing, storage/warehousing and transportation via road, rail, air or sea (Feller, Shunk & Callarman, 2006).

Olivier (1982) defines a supply chain as a process managed by people, activities, information and resources, which allows a product to be moved from its supplier to the customer. According to Sherer (2005), a supply chain is a network that includes the flow of materials, information and money used by organisations to move products and services from the supplier to the buyer.

#### 4.2.8. Freight and logistics industry

The freight and logistics industry can be seen as a system. The services that this industry offers are supported by a combined result of interaction between various organisations as well as numerous policies and regulations. According to Arvis *et al.*, (2007), the performance of companies in the freight and logistics industry, although governed by domestic and international regulations, will depend greatly on the operational environment and quality of the infrastructure available to them, as well as the level of competency of the workers and management, and level of efficient processes. If these are, however, not performing as they should, companies may attempt to up their performance levels through inorganic growth methods such as mergers and acquisitions.

A growing freight and logistics sector ensures the sound functioning of the economy and plays a very significant role in the supply chain for many other sectors of the economy.

Even though freight and logistics are mostly referred to as two separate terms, research studies have been using freight and logistics as an interrelated term for the past decade (Ficici & Aybar, 2014). This especially started to be more noticeable since the growth spurt of M&As in the freight and logistics industry, started around 2004. In theory, the main difference between freight and logistics companies is that a freight forwarding company is thought to offer fewer services to clients than logistics companies do (Dablanc, 2009).

The freight and logistics industry can be classified according to the main service providers, and these include freight forwarders, logistics service providers and carriers.

#### 4.2.8.1. Freight forwarders/freight service providers

Freight forwarders/freight service providers are known as the organisers of the shipment process for other companies or individuals. A freight forwarder/service provider gets contracted by a principal to act as their agent (typically a consignee, shipper or carrier) to dispatch shipments via asset-based carriers (SEDA, 2008).

According to Ford (2008), a freight forwarder/service provider can be defined as *“An agent who handles export shipments for a fee and plays a important role to exporters by assisting them with international documentation, packaging, warehouse and distribution services, booking carriers and calculating the routes as well as assisting clients with export licences, marine insurance, insurance rates and coverage”*.

A freight forwarder/service provider can therefore also be classified as a third party or non-asset-based logistics provider. Part of their duties is to dispatch shipments via asset-based carriers or to arrange space for the shipments. They specialise in handling cargo and shipping the goods to other countries. More examples of a freight forwarder/service providers' services are:

- negotiating and arranging the best method of transport for the product to get to the target destination;
- coordinating the movement of your goods to their destination;
- preparing the necessary paperwork;
- providing advice on packing, labelling and marking of goods; and
- arranging warehouse storage and cargo insurance.

#### 4.2.8.2. Logistics service providers

Logistics service providers offer various logistics services to customers, which may include freight forwarding, warehousing/storage, inventory management, packaging and transportation. Logistics service providers can be either asset based or non-asset based (Baker, 2007).

The main difference between logistics service providers and freight forwarders is that logistic service providers tend to offer more services to their clients, whereas freight forwarders' services are more limited (Lumsden & Kenth, 2006). Both these service providers, however, have to keep an intensive degree of control over their operations to keep a competitive advantage.

Logistics companies offer basically the exact same services as freight companies do. According to the Council of Supply Chain Management Professionals (CSCMP, 2007),

*“Logistics describes the management of activities associated with the planning and movement of materials, parts and finished goods across companies, together with the information flow that accompanies it, and comprises of establishments primarily engaged in transporting and warehousing goods as well as providing logistics services; including the four transportation modes (trucking, rail, air and marine) as well as postal services, couriers and messengers, and warehousing and storage”.*

According to the Council of Supply Chain Management Professionals (2007), the term logistics can be defined as *“the part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption, in order to meet customer’s requirements.”*

Havenga, Simpson, King, Viljoen, de Bod and Braun (2015) conducted a study on logistics in South Africa and state that *“Logistics is a strategic resource for the South African economy and key to providing a global competitive advantage”.*

*“Logistics is defined as the planning, organization, and control of all activities in the material flow, from raw material until final consumption and reverse flows of the manufactured product, with the aim of satisfying the customer’s and other interest party’s needs and wishes i.e. to provide a good customer service, low cost, low tied-up capital and small environmental consequences”* (Jonsson & Mattsson, 2005).

Logistics can also be defined as; *“those activities that relate to receiving the right product or service in the right quantity, in the right quality, in the right place, at the right time, delivering to the right customer, and doing this at the right cost (The seven R’s)”* (Shapiro, Heskett, 1985).

According to a definition by Lumsden (1998), *“Logistics systems encompass operative responsibilities, which include administration, operation and purchase and constructive duties as well as detailed design”.*

In another definition of logistics, Ficici and Aybar, (2014) said that it is: *“the management of the flow of goods, information and other resources, including energy and people, between the point of origin and the point of consumption in order to meet the requirements of consumers. Logistics involves the integration of information, transportation, inventory, warehousing,*

*material-handling, and packaging, and occasionally security. Logistics is a channel of the supply chain which adds the value of time and place utility”.*

#### 4.2.8.3. Carriers

Carriers offer transportation services. These may be road, rail, air or sea transportation services. Road carriers are trucking companies that road haul cargo from one point to the next. Transnet is in charge of the rail transportation, while South African Airways (SAA) is mainly responsible for air cargo in South Africa. Finally, MSC, Safmarine, DAL, MOL and CMA CGM are shipping lines or sea carriers transporting cargo from one destination to the other (dti, 2013)

#### 4.2.8.4. The importance of the freight and logistics industry

Freight and logistics have grown into one of the most important factors for economic development over the past decade. According to McKinnon (2010), the freight and logistics industry is a key determinant in business performance. Creating growth and positive shareholder value is thought to be some of the main drivers behind M&As in the freight and logistics industry (Kletzel & Smith, 2015).

The freight and logistics industry plays an important part in the total performance of the economy and all its subsectors and trade patterns (Havenga, 2011). Even though some companies have their own transportation and logistics departments in-house, many companies rely on the freight and logistics industry to provide secure, rapid and integrated services such as packing, storage, labelling, warehousing, customs clearance, transportation (land, air, rail, sea), shipment consolidation, and other freight and logistics services, to name a few (DHL 2015). Therefore, whether big or small, good or bad, changes in the freight and logistics industry are said to have a spill-over effect into other sectors of the economy (Kletzel & Smith, 2015).

An effective and efficient transport infrastructure adds positive service value and lowers operational costs for companies in the freight and logistics sector (Tseng *et al.*, 2005). Therefore, according to Mentzer and Williams (2001), when MNEs are looking at using inorganic growth methods to grow their competitive advantage, the logistics infrastructure of the target companies and their geographical surroundings should be a high priority consideration. The key to supporting the current and future trade needs would be to have adequate capacity in the country's infrastructure (Ashay, Desai & Francis, 2000). FDI through M&As in the freight and logistics industry may add to the upgrading of the current

infrastructure, as these MNEs build and add extra assets to their newly acquired company to maximise the profit potential and smooth running of the processes (Kletzel & Smith, 2014)

MNEs also introduce new technology transfers for better efficiency as well as safety and security, reliability and sustainability for freight and logistics activities, warehousing and sea, road, rail and air transport (Caves, 2007). Advanced technologies and innovative processes are used by these MNEs to keep their competitive advantage in the industry, and with that aim to reduce their operational costs and grow their global footprint (Latorre, 2008).

The global logistics sector consists of both small and large logistics service providers. The largest service providers in this industry can have wide-reaching networks that can spread over more than 200 countries (Lipsey, 2002). When global value chains started to grow approximately 25 years ago, it created an interconnectedness of all countries through logistics. Seemingly, uniformity now exists in all corners of the globe thanks to global trade (Greenaway & Kneller, 2007). Inorganic growths through M&As have resulted in a diversified logistics industry to move towards a more oligopolistic industry.

For the purpose of this study, the term freight and logistics industry will be used to refer to these freight forwarders, logistics providers and carriers as a combined service provider finding themselves in the midst of an inorganic growth spurt. According to Chopra and Meindl (2010), the freight and logistics industry needs an effective transportation network that offers a consistency of transportation modes geographically.

#### 4.3. Data on the global trade in services

Trade in services has grown rapidly over the past few decades. Governments have come to realise the importance of services trade in global commerce for the effective and sustainable growth of an economy (Fourie, 2010). The growth phenomenon in the services sector and international trade was researched by Mashayekhi (2002), where he found that more than 50% of GDP in developing countries and more than 60% of GDP in industrial countries are produced by services.

According to the WTO (2006), trade in goods grew much slower than trade in services throughout the 1980s. From 1980 to 1990, global trade in services (*defined as non-factor services in the balance of payments minus government transactions*) grew by 10%. By 1995, global trade in services reached the 20% share in global trade. Between 1985 and 1999, services trade grew by US\$1 trillion, which amounts to approximately 60% of FDI and 25% of global trade in goods (Mashayekhi, 2002).

World exports of commercial services amounted to US\$ 3 350 billion in 2009, after growing on average at approximately 7.9% per annum in value terms since 1980. Trade in commercial services grew faster than trade in goods (6.6% on average) during this period, increasing its share in total world trade by six percentage points. In 2009, the share of services in world trade reached 21%, which is two percentage points up from the previous year, as the decline in global trade in services was less pronounced than that of goods.

#### 4.3.1. Data on cross-border trade in services

In 2011, cross-border trade in services was approximately 20% or USD4.2 trillion (Hoekman, 2012). In 2012, the services industry of South Africa grew by 5%, but fell with 2.4% in 2013. Today, the services sector of South Africa contributes 25% to the economy of the country.

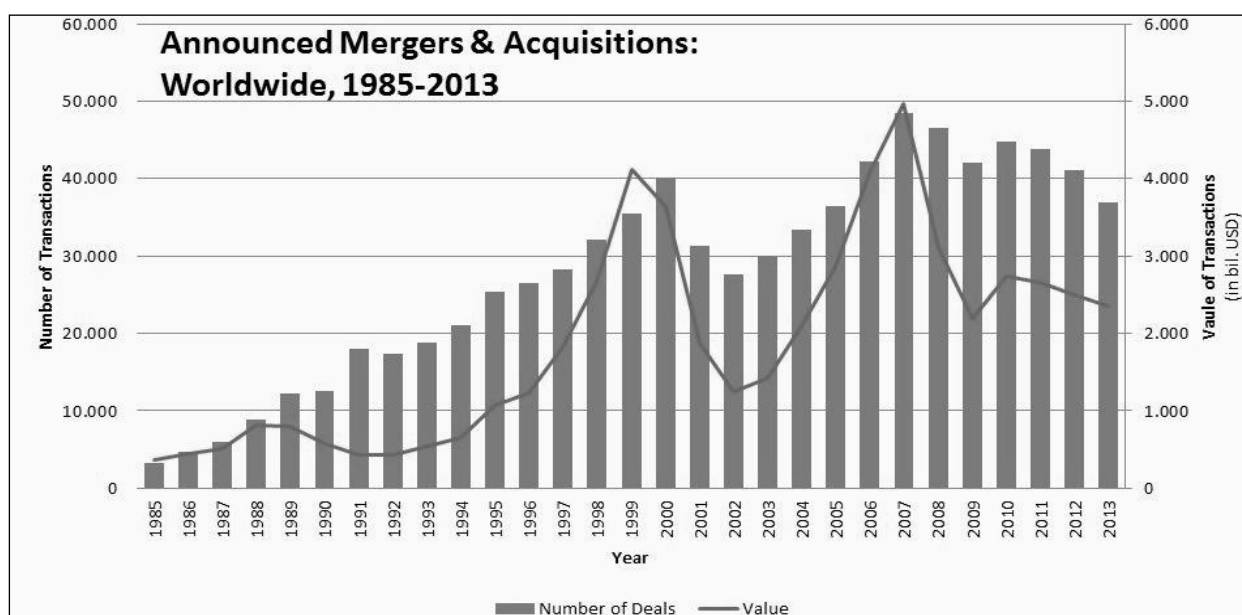
The determinants of M&As have been widely studied over the years, but as mentioned in the previous chapter, little research has been done on the determinants of M&As in the services sector. This is concerning as data shows that from 1990 to 2013, 65% of global cross-border M&A transactions came from the services sector (UNCTAD, 2013).

The transport and logistics sector specifically had good years in 2011 and 2012 with regard to cross-border M&A activity. In 2012, PwC reported the following cross-border M&A deal activity by continent; *“5 North America deals valued at \$7.8 billion; 11 European deals valued at \$10.8 billion; 8 South America deals valued at \$9.4 billion; 3 Africa deals valued at \$0.3 billion; and 13 Asia and Oceania deals valued at \$2.8 billion”*. (PwC, 2012)

Currently, services represent more than two thirds of the world's GDP. Developed or high-level income countries tend to have higher levels of total share in services value-added GDP than emerging or developing countries with lower levels of income. The share of services value added in GDP is currently at 73% for developed countries with high-income levels and 54% and 47% for emerging and developing countries with middle- and low-income levels, respectively.

There have been two distinct waves in the value and volume of cross-border M&As globally since 1985 to 2013, as shown in Figure 4.1 below:

Figure 4.1: Global cross border M&A trends 1985-2013



Source: Institute of Mergers, Acquisitions and Alliances (2013)

The years 2000 and 2007 showed peaks in both volume and value. In 2000, approximately 4 000 global transaction took place with a combined value of USD4 trillion, and in 2007 approximately 48 000 global transactions took place with an approximate value of USD5 trillion (Viljoen, 2013). The financial crisis of 2008 took its toll on cross border M&As globally and closed the year off with approximately 39 000 deals to the value of USD2.5 trillion. In 2009, the value and number of deals fell even more, but picked up again in 2010 and 2011. 2012 and 2013 again showed a slight decrease (Viljoen, 2013).

These volumes and values speak for themselves and as mentioned, above 65% of the total cross-border M&A activity comes from the services sector. This proves that even though services were mostly ignored by international economists because of the perception of it being intangible therefore non-tradable, the sector plays a important role in the global economy (Hoekman & Braga, 1997).

According to PricewaterhouseCoopers' (PwC) quarterly report *"Intersections: Fourth Quarter 2013 global transportation and logistics industry M&As analysis"*, multinational enterprises (MNEs) are purchasing logistics operators and independent freight forwarders as result of the economic recovery and the need to branch out to keep a competitive advantage in the industry and meet their high financial targets. Furthermore, the report shows that by the fourth quarter of 2013, there were 57% more M&A deals than in 2012, and that the value of the deals exceeded 100% of that of 2012.

The above data shows that services are important support influences for an efficient and resilient economy as a whole, and play a major role in international trade. The widespread availability and increased trade in services can grow an economy and have a ripple effect into other sectors and industries (Edvardsson, Edvinsson & Nystrom, 1993). This may happen because, even in a global and increasingly interlinked world, services are able to provide important intermediate inputs (Hoekman & Sauv, 1994).

#### 4.4. Theoretical perspectives: Services sector and freight and logistics industry

By means of adding value through the process of converting inputs into outputs, we realise that business activity is at play. The infamous basic three-sector theory of economic activity was developed by Colin Clark and Jean Fourastié. According to these two theorists, there are three classical breakdowns of the economic sector, namely the primary sector, which consists of retrieval and production of raw materials; the secondary sector, where these raw materials are transformed into goods; and finally, the tertiary sector, which involves supplying services to firms and consumers.

As mentioned before, trade in services is classified as being intangible, perishable and invincible, and many definitions and classifications have been studied and developed to better understand the concept and the differences between services and product trade. Even though discussions surrounding the applicability of theories on trade in goods and on trade in services have been an on-going discussion, it seems that the explanation for why trade between countries exists applies to both trade in goods and trade in services. Where a perfectly competitive environment exists, comparative advantage explains the pattern of trade in services (Mattoo & Payton, 2007). The direction of trade in imperfect competition, however, is explained through agglomeration effects and increasing returns to scale leading to specialisation. This explains that the underlying economic rationale cannot be changed by the characteristics that distinguish goods from services.

Recent theoretical studies released between 1995 and 2016 have combined trade theories with factor mobility theories. Some of these studies have, for example, integrated the theory of the multinational enterprises (MNEs) and FDI into the theory of international trade (OECD, 2006). These studies found that the latter has relevance to trade in services by means of a commercial presence. They also found that trade in services has to connect trade models in order for companies to profit from imperfect competition and increasing returns to scale. These will help to explain the reasons behind the decisions of MNEs to merge with or acquire certain freight and/or logistics companies (Markusen *et al.*, 1996; Markusen, 2000). The reasons found in these studies were mainly based on the OLI (ownership advantage, location

advantage and internationalisation advantage) framework created by Dunning. Some factors have both inputs to and outflows from the South African freight and logistics industry and directly or indirectly affect the growth of the industry. Determinants such as the inflation rate, balance of payments and the exchange rate all influence the performance of the freight and logistics industry (Criscuolo & Breinlich, 2010). Because freight and logistics are linked to the services sector, these factors may not only determine the competitiveness of the freight and logistics industry, but also affect the overall competitiveness of the services sector.

As M&A transactions in the services sector, and more specifically in the freight and logistics industry, grew in numbers as well as in size, global supply chains became more prevalent. International trade is seeing end-to-end integration of supply chain functions. Companies that offered only certain services such as freight forwarders, warehouse operators, customs clearance agencies, and trucking companies to name a few have started to gradually go down in numbers as MNEs started merging with and acquiring these different service providers (Bernard, Jensen & Schott, 2009).

#### 4.5. The importance of services trade policies (GATS) to the freight and logistics industry

Every economy in the world is required to operate within specific frameworks of government policies. Even though there are various environmental, labour, health and safety regulations and policies, for this study, monetary and fiscal policies that provide any economy with the broad guidelines within which it will have to operate in any given period are the most relevant (dti, 2013).

When an economy is too open it may be exposed to international economic, financial and commodity market trends to some extent. South Africa, for instance, has a quite open economy, and it is for reason that the government allows these international trends to have influenced and still do influence their decisions (dti, 2013).

Developing countries struggle more with services trade than most developed countries do, mostly because trade in services is primarily led by technological innovations such as the internet and ecommerce (Mattoo, Stern & Zanini, 2007), as it is well known that developed countries are much more technologically advanced than developing countries (Ahmad, 2013). Emerging markets such as South Africa has shown a huge improvement since the 1980s in the area of technological advancement and therefore also trade in services (Edwards, 2006).

Even though technology sparked the beginning and rapid growth phase of trade in services, many countries still had very strict policies that made trade in services very difficult (WTO,

2005). Liberalisation seemed to be the best way of lifting trade barriers for services trade globally, and therefore, the General Agreement on Tariffs and Trade (GATT), which was held in Uruguay in 1993, launched this liberalisation process (OECD, 2010). The General Agreement on Trade in Services (GATS) aided in opening markets that were previously protected by domestic government policies, and is still actively involved in these processes (WTO, 2005).

The freight and logistics industry plays a role in changing or modifying the underlying structure of the economy (WTO, 2014). In South Africa, the Department of Trade and Industry (dti) is a government body that has an agenda set out to increase the country's production output through what they call IPAP (Industrial Policy Action Plan) and the NDP (National Development Plan). According to DTI (2013), the freight and logistics industry can play an integral part in the success of these agendas.

As mentioned previously, the GATS agreement describes international trade in services under four modes of supply, and this will be further dealt with in the paragraphs to follow. Table 4.3 summarises the four modes that services are thought to supply:

Table 4.3: Four modes of supply according to GATS agreement

| Modes                                                                                                              | Criteria                                                                                                                       | Supplier Presence                                               |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Mode 1:<br>Cross-border supply                                                                                     | Service delivered within the territory of the Member, from the territory of another Member                                     | Service supplier not present within the territory of the member |
| Mode 2:<br>Consumption abroad                                                                                      | Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member |                                                                 |
| Mode 3:<br>Commercial presence                                                                                     | Service delivered within the territory of the Member, through the commercial presence of the supplier                          | Service supplier present within the territory of the Member     |
| Mode 4:<br>Presence of a natural person                                                                            | Service delivered within the territory of the Member, with supplier present as a natural person                                |                                                                 |
| Note: From the document MTN.GNS/W/124, available on the World Trade Organisation Website, posted courtesy of ISTIA |                                                                                                                                |                                                                 |

Source: WTO website (2016), courtesy of ISTIA

Global trade in services was brought under common multilateral rules during the Uruguay Round trade negotiation in 1986-1993. GATS (General Agreement on Trade in Services) was

entered into force on 1 January 1995. GATS is famous for being the first *“multilaterally negotiated and legally enforceable set of rules”* that covers commercial services in international trade (Hoekman, 1996). Due to the intangible nature of the services, GATS invented the four modes theory because the WTO members had to provide a framework to best describe how international trade in services takes place (WTO, 2011).

As shown in Table 4.2, Mode 1 consists of cross-border supply where, it is only the services that move across the border. Service delivery may take the form of telecommunications by means of the internet, telephone and television or fax to name a few. It may also take place through the forwarding of documentation, tapes and disks. In Mode 2, consumption abroad takes place when consumers consume services offered by another country in that foreign country. This may include visiting amusement parks, getting medical treatment, visiting museums or heritage sites or taking a certain course in the foreign country. Mode 3 consists of the service provider establishing a commercial presence in another country, for example logistics services supplied by a subsidiary of a foreign MNE or banking services supplied by a subsidiary of a foreign bank. Mode 4 requires the presence of natural persons. This is when an individual moves to the foreign country of the consumer (within the context of service supply) as an employee of a foreign supplier. An example would be an engineer moving abroad to supervise packing or warehousing of a certain commodity or object.

#### 4.6. Literature perspectives of services trade and freight and logistics

##### 4.6.1. Trade in services: Literature perspective

According to Hoekman (2007), the services industry is not only important because of its 75% contribution to GDP, but it is also important by other measures such as sector share, cost of shares for the industry and employment shares.

The services sector (sometimes also referred to as the tertiary sector) can be defined as: “the portion of the economy that earns revenue through producing intangible goods and services”. Since services are diverse and in general classified as intangible goods, it makes the process of finding one globally agreed upon definition rather difficult (Jones & Kierzkowski, 2000).

Over the past few decades, a growth spurt in services trade has become eminent and governments have come to realise the importance of services trade in global commerce for the effective and sustainable growth of an economy (Fourie, 2010). One of the main factors that contributed to the ease of global services trade was the rise of global value chains. According to Johnston (2014), global value chains have transformed the way in which a firm operates, by providing new ways in which their goods and services are produced and

distributed globally. With the ease of trading on a global basis, problems arise, and it is for that reason that trade policies carry a real significance for international trade between countries.

As a result of the combined efforts by the General Agreement on Trade in Services (GATS) and the World Trade Organisation (WTO) to lower trade barriers and information and communication technologies (ICTs), making trade more technically viable, the tradability of services has seen a significant increase (Gibbs, Murray & Mashayekhi, 1998). With lower trade barriers and trade restrictions, local demand does not have to be the regulator of domestic suppliers' output levels. Trade policies can loosen market constraint or tighten them, depending on whether they want to boost output levels to international markets or to keep the local market safe from a surge of foreign supply (McGuire, 2002).

Services are important support influences for an efficient and resilient economy as a whole, and play a major role in international trade. According to Hoekman and Braga (1997), widespread availability and increased trade in services can grow an economy and have a ripple effect on other industries such as transport, logistics, finance and communications to name a few. They also found that this may happen because, even in a global and increasingly interlinked world, services are able to provide important intermediate inputs.

#### 4.6.1.1. The role and importance of the services sector

The gravity model, invented as a concept of Newton's law of universal gravitation, was first applied to international trade by Tinbergen (1962) and predicts bilateral trade flows between countries with regard to their size and the distance between them. Anderson and Van Wincoop (2003), Feenstra, (2002), and Santos Silva and Tenreyro (2006) are some of the researchers who have applied modern estimation techniques to the model.

Francois (2001) and (2003), Park (2002), Grunfeld and Moxnes (2003), Kimura and Lee (2006), Walsh (2006), and Fvan Lynden, (2011) were some of the first researchers to apply the gravity model to trade in services.

The above-mentioned studies were influenced by the path-breaking studies done by Baumol (1967), Fuchs (1968), and Hill (1977). The latter also paved the way for more studies to focus their attention on the trade of services. From the 1970s, numerous studies arose on the topic of the services sector: Griffiths (1975) is an early study documenting barriers to trade in services.

The comparative advantage index has been used in a number of studies conducted by various authors such as Sapir and Lutz (1980; 1981), Bhagwati (1987), Hindley (1988), Stern and

Hoekman (1987), and Francois (1987). The authors found that when the ratio is greater than 1, a country has a comparative advantage in the product. Feketekuty (1988) agrees with the previously mentioned authors.

Studies determining whether the role and structure of services will change when a country gets richer have been conducted by Inman (1985), Stern and Hoekman (1988), Francois and Reinert (1997), Schettkat and Yocarini (2006), and Francois and Woerz (2008). Melvin (1989) determined that services facilitate transactions through space and time by using the input function. Francois and Reinert (1997) found that value added from services positively links to per capita income, creating a ripple effect to other factors to ultimately show a growth in the services sector.

Inklaar, Timmer and Van Ark (2007; 2008) used a sample of seven OECD countries in their study, which showed that the differences in growth rates' total productivity levels are attributable to service sectors for the most part.

According to Oulton (2001), the expansion of stagnant services increases overall growth, and Fixler and Siegel (1999) agree with the latter stating that the outsourcing of services creates growth in the long-term. Empirical evidence supporting the previously mentioned authors' findings, Kox (2004) proved in his study that, in the Netherlands, services both expanded rapidly in the 1990s and displayed stagnating productivity growth. Pungo (2006) adds to these studies by including the role that services play in the production function for research and development as well as human capital formation.

The literature also highlights productivity linkages between the organisation of production within firms and the role of services in making the process of offshoring possible (Debaere, Görg & Raff 2009). Francois (1987; 1990a) offers a formal model of nested tasks based on the Edwards and Star (1987) characterisation of division of labour in production.

According to Guerrieri *et al.*, (2005), and Burgess and Venables (2004), the role of higher levels of competition in services is seen as driver of economic growth.

Reinsdorf and Slaughter (2009), and Lennon (2007) used aggregate US FATS data to examine flows of intra-firm service mode interactions, while Fillat *et al.*, (2008) used a panel of IMF and OECD balance of payments as well as FDI data to measure the same. Both Lennon and Fillat *et al.*, found evidence of complementarities between cross-border and establishment modes.

Rugman (1987), and Boddewyn, Halbrich and Perry (1986) are some of the well-known contributors to the literature on interaction across different services modes as well as specific modes of services. Their studies focused on establishment-based trade to determine whether the OLI paradigm carries over to service MNEs.

Geishecker and Görg (2008) used firm-level data to determine what the effect of services offshoring on wages is. The importance of using FDI as a mode of supplying services to a foreign market is discussed in a research paper conducted by Sauvart and Zimny (1987). Raff and Ruhr (2007) conducted research on where MNEs should locate their foreign business ventures. Other similar studies were done by Buch and Lipponer (2007), and Kolstad and Villanger (2008), where they found that firms should choose to gain a new business presence in a country where similar business services already exist in order to easily overcome possible barriers. UNCTAD (2005) is a recent survey of services FDI.

#### 4.6.2. Freight and logistics literature

The global freight forwarding industry is a direct beneficiary of globalisation and has been growing at a fast pace, generating high amounts of returns on capital, thereby attracting both strategic and financial investors (Maritime Economics and Logistics, 2009). According to the latter, it seems that these investors are operating on the notion that 'bigger is better', and consequently the world is seeing an upsurge in the number of M&As in this industry.

According to Awad and Nassar (2010), costs are taken into consideration in every part of a business to achieve maximum profit and growth. Therefore, the company will choose the quickest, most reliable and most cost effective solution to move their goods from one place to another. Awad and Nassar (2010) argue that the latter encouraged the rise of global supply chains. Today, we know that proper supply chains are an integral part of international trade. The more supply chains expand globally, the more intricate they become and with that become heavily reliant on the expertise and knowledge of parties such as freight and logistics companies that are experienced and competent transport intermediaries.

##### 4.6.6.1. The role and importance of the freight and logistics industry

Korinek and Sourdin (2011) illustrate the strong impact of logistics quality on trade using indicators such as the World Economic Forum's Enabling Trade Index (ETI) and World Bank's Logistics Performance Index (LPI). According to the World Bank (2007; 2010), there are six indexes a country's performance is measured on the LPI, namely "customs, infrastructure,

international shipments, logistics quality and competence, tracking and tracing and timeliness”.

According to Weerahewa (2009), improving trade variables (such as logistics costs and time delays) could bring down trade costs. Wilson, Mann and Otsuki (2003) define and measure trade facilitation using four broad indicators, namely port efficiency, the customs environment, the regulatory environment, and electronic-business usage. Wilson *et al.*, (2004), Soloaga *et al.*, (2006), Mirza (2008), Limão and Venables (2001), Portugal-Perez and Wilson (2010) found that investments in infrastructure may lead to business development and export growth.

It seems that in developing countries export performance is affected by variation in infrastructure more than it is affected by traditional trade barriers (Francois & Manchin, 2007). Levchenko (2004) studied trade patterns and found that an important determinant of trade patterns is institutional differences across countries.

Keedi (2007) states that issues regarding the conditions of physical transport include the quality of ICTs and transport infrastructure. Hummels and Schaur (2012) found timeliness to be a significant measurable component of quality. The difference in levels of satisfaction in countries with high and low performance is higher for the timeliness index compared to other indexes for same (World Bank, 2007).

Souza and Burnquist (2011) state that World Bank's customs clearance index is crucial in terms of transparency, especially regarding the customs clearance time and bribery.

The LPI Index improves general logistics quality and shows a stronger trade enhancing effect for exports compared to imports (Korinek & Sourdin, 2011). The literature has examined a variety of measures to measure general or specific performance of logistics service providers regarding transport activities (Van Donselaar *et al.*, 1998), timeliness and accuracy (Bromley, 2001; Johnson, 2001), delivery performance (Stewart, 1995), personnel scheduling and safety measures (Crum & Morrow, 2002; Mejza *et al.*, 2003).

Literature studies on logistics service providers have been conducted by Krauth *et al.* (2005a) and Krauth *et al.*, (2005b). Fowkes *et al.*, (2004) specifically discuss the reliability and predictability of service providers and how those two factors are valued in the industry. Knemeyer *et al.*, (2003) discuss the relationship between logistics service providers and the characteristics of the relationships they have with their customers, while the relationship between customer satisfaction and loyalty was investigated by Stank *et al.*, (2003).

McCallum (1995), Helliwell (1998), Frankel, Stein and Wei (1998), Feenstra, Markusen and Rose (2001), Limão and Venables (2001), Clark, Dollar and Micco (2004), Nordås and Piermartini (2004), and de Groot and others (2004) have all applied the gravity model approach in their research to study international trade, including the size of two countries and the geographic distance between them as main determinants. Similar to the latter, Hummels (2001) created a model that includes determinants such as distance and shipping time in days, and as this has not been done before, it adds a new angle to the literature available.

Limão and Venables (2001) have built on the studies of analysing bilateral trade flows of the above-mentioned researchers, including transport costs, in addition to distance in their study. Different to other similar studies, in an attempt to estimate the effect that the cost of transport has on bilateral trade, Clark, Dollar and Micco (2004) used a log-linear gravity model of trade.

According to Panayides and Gong (2002), M&As have been prominent in all sectors of the international trade sector. In their study, they cited mergers in the tanker sector (acquirers Frontline and Teekay Shipping), liner companies, summarised by Brooks (2000b), dry bulk (the merger of Coeclerici Shipping and Ceres Hellenic Shipping enterprises), the reefer trades (acquirer Star Reefers Inc. and its subsequent joint venture with NYK to form NYK Star Reefers), and third-party ship management (acquirer V. Ships). Midoro and Pitto's (2003) study also supports these authors' findings (Oogle, Joos & De Vos, 1991).

Several detailed case studies on the rail, air and shipping industries have been conducted by Brooks (2000). His findings concluded that companies can reach higher growth rates when they enter into a merger or acquisition rather than just forming alliances.

Midoro and Pitto (2000) argued that: *"the current structure of strategic alliances in liner shipping is inherently inadequate to deliver the expected results which, in turn, greatly undermine their stability."*

From the literature section in this paper, it follows that the problem of determining the drivers of FDI through inorganic growth with a specific focus on M&As in the freight and logistics industry of South Africa using a case study approach has not yet been addressed, and therefore creates a good opportunity to conduct new research in terms of research on this topic.

#### 4.7. Summary and Conclusion

The purpose of this chapter was to study the inorganic growth spurt through M&As in the services sector with specific reference to the freight and logistics industry.

Since the earliest papers on services have been published in the 1980s, literature on services has seen significant growth. The concept of trade and investment flows, as well as the importance and effects thereof is now better understood due to the substantial amount of papers that have studied the concept. These papers have included some of the most important policy types affecting international trade in services.

Even though many studies have been conducted on services trade globally, some uncertainty still exists on some of the fundamental issues on the topic. These include an exact, precise and globally agreed upon definition and determinants of services. Furthermore, to what extent countries restrict trade in services and the impact that past or future technology and liberalisation changes have on the allowed number of services to be traded. Vagueness also exists on the implications for the role and design of trade agreements as well as on the political economy determinants of services trade policies and regulation.

The services sector is a mostly unexplored field, offering many opportunities as well as challenges as mentioned above. Addressing the challenges of the diverse services sectors and seizing the new opportunities can lead to multiple gains for the services sector and the economy.

The more inorganic growth methods such as M&As increase in the freight and logistics industry, the more it follows that it is one of the most important determinants for trade, development and global GDP is providing services. Services, along with strong efficient infrastructure, are important for a prosperous economy (Corner House, 2001).

With growth on the executive agenda at most companies around the world, freight and logistics companies face a sizeable challenge, which is identifying how and where to capture growth to satisfy investors' expectations. They could move into new markets or segments, choose to serve a new customer base, and decide to augment their product or service portfolio, or expand into new geographies. All of these actions are potentially viable, and could help freight and logistics companies to gain access to new revenue-generating white spaces that would complement their existing core markets and offerings.

In many cases, though, organically making these moves would be impractical. Building the necessary assets, technology, expertise and other capabilities to, for instance, expand into a

fast-growing emerging market or evolve from an air carrier to an end-to-end supply chain solution provider would be too time consuming, costly and risky for the vast majority of freight and logistics companies. Furthermore, joint ventures and strategic alliances, with their often-complicated relationships and issues relating to control, are no longer the sole route into core emerging markets due to the willingness of governments in those countries to increasingly accept foreign ownership of local companies.

That is why M&A transactions are expected to become an increasingly important component of freight and logistics companies' growth agenda. With sufficient cash on hand, freight and logistics companies are in a favourable position to strategically acquire what they need to quickly build a profitable business in a new market, customer segment or geography.

The key to success in this venture is having a robust M&A strategy that articulates how M&As support the company's overall corporate strategy, as well as the capabilities necessary to execute M&A deals in a way that minimises risk and maximises speed and returns. Without both of these elements, a freight and logistics company is at risk of, at best, not fully capitalising on the growth opportunities before it and, at worst, being left behind as more able competitors make their moves.

## CHAPTER 5: METHODOLOGY

### 5.1. Introduction

With the intention of conducting and evaluating research, it is essential to understand that there are certain underlying theoretical/philosophical assumptions that establish what the appropriate research method to be used is, and also what constitutes as valid research for the development of knowledge. It is also essential to know what these assumptions are. For that reason, this chapter will make use of the “research onion” to discuss the theoretical/philosophical assumptions and determine the research design that best supports this study.

Furthermore, Chapter 5 consists of the research methods and approaches, selection of variables, collection of data and case study analysis. It will include both the purpose and research question of the study as well as the contents of the previous chapters. The methods used to collect data and the issues of the reliability and validity of the data will be explored in this chapter, and this will aim to examine the primary research question of the study:

- *What are the drivers of FDI through the inorganic growth spurt of M&As in the freight and logistics industry of South Africa?*

Secondary research questions that were identified in Chapter 1 and that will also be examined in this chapter are:

- *Why are companies using inorganic growth (see definition in Section 2.4) methods rather than organic growth (see definition in Section 2.4) methods?*
- *Why are large MNEs in the services and transport sector specifically focusing on mergers and acquisitions?*

### 5.2. The meaning of research and the process thereof

The word research means to investigate a specific idea/problem with the intention to obtain information, understanding, evidence and familiarity on the subject. Research follows a process; firstly, the idea/problem/subject should be identified, and translated into a research problem. Thereafter, the process continues by gathering data (primary and secondary), analysing the data and finally concludes with reporting the research findings.

### 5.2.1. Research

According to Davies (2007), research is a process of gathering data through various processes such as simple description, reflection, interpretation and then testing an idea, statement or hypothesis to verify, validate or refute the idea through evidence.

In the *Oxford Advanced Learners' Dictionary of Current English* (1986), research is defined as: *"the systematic exploration undertaken in order to discover new facts or to get additional information"*.

Research can also be defined as: *"a process of engaging in planned or unplanned interactions with or intervention, exploration in parts of the real world, and reporting on what happens and what they seem to mean. Field trials are one example of this approach; action research is another"* (Davies, 2007)

Saunders, Lewis and Thornhill (2003) describe research as something that allows people to systematically explore, learn and understand new things.

### 5.2.2. Research design

A research design should have a good strategic outline so that the research strategy may be executed or implemented with ease (Durrheim, 2004). According to Leedy (1997), a research design is the plan for a specific study on how to go about when gathering data.

MacMillan and Schumacher (2001) defined a research design as follows: *"It is a plan for selecting subjects, research sites, and data collection procedures to answer the research question(s)."*

### 5.2.3. Research methods

Methods to conduct research can be described as tools, rubrics, methods or techniques through which problems can be answered (Ghauri & Gronhaug, 2010).

#### 5.2.3.1 Research methodology

Research methodology was defined by Schwardt (2007) as the concept of how the analysis of the assumptions, the procedures and also the principles of a study should be conducted.

Various researchers, such as Schwardt (2007), Creswell and Tashakkori (2007), and Teddlie and Tashakkori (2007) argued in their research studies that methodologies clarify what

constitutes as testable hypotheses and researchable problems. It also assists with choosing appropriate data collection methods, and guides problem framing to examinable designs.

#### 5.2.3.2. Research process

TerreBlanche and Durrheim (1999) said that ontology, epistemology and methodology are the three main dimensions of the research process and, according to these researchers, *“The research paradigm is an all-encompassing system of interrelated practice and thinking that define the nature of enquiry along these three dimensions”*.

#### 5.2.3.3. Paradigm

Thomas Kuhn (1977) was the first researcher to use the word *“paradigm”*, which originates from the Greek word *“paradeigma”* meaning *“pattern”* to examine problems and find solutions. Kuhn describes a paradigm as: *“an integrated cluster of substantive concepts, variables and problems attached with corresponding methodological approaches and tools...”*, he also said that: *“the term paradigm refers to a research culture with a set of beliefs, values, and assumptions that a community of researchers has in common regarding the nature and conduct of research”* (Kuhn, 1977).

According to Olsen, Lodwick, and Dunlop (1992), *“A paradigm hence implies a pattern, structure and framework or system of scientific and academic ideas, values and assumptions”*

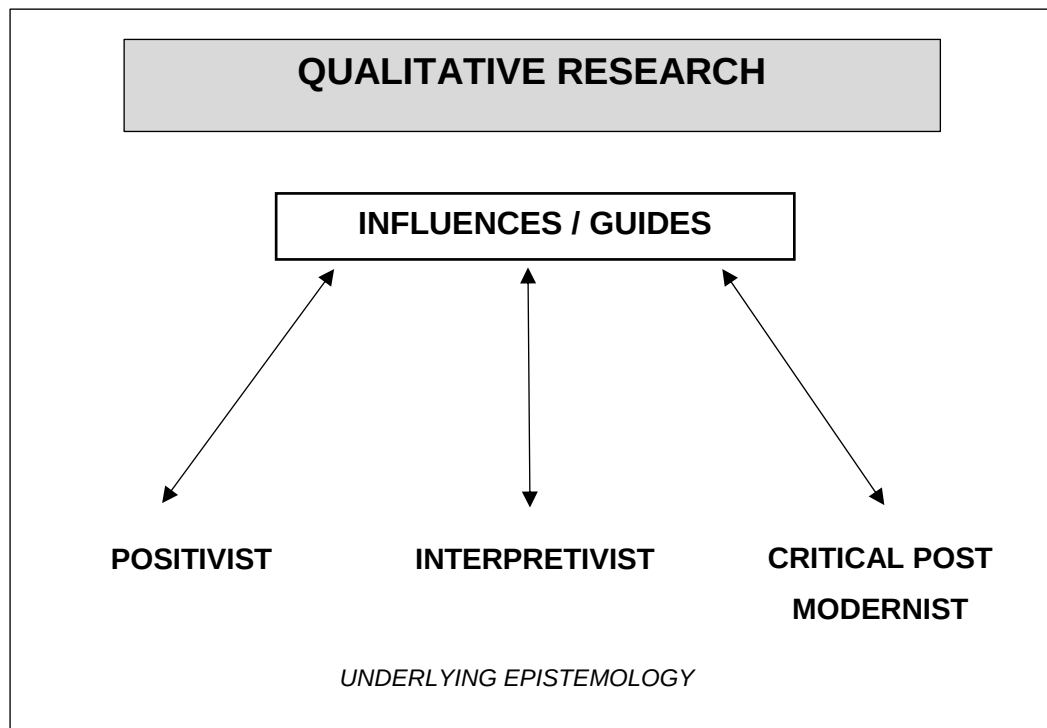
#### 5.2.3.4. Paradigm, ontological and epistemological

According to Lather (1986), *“research paradigms inherently reflect our beliefs about the world we live in and want to live in”*. Ontological and epistemological constitute the way in which an individual views the world and what his/her perception of reality is. A person may view the world in one of the following manners: objectivistic or constructivist. None of these are seen as superior to the other, and both may be appropriate or inappropriate in various situations. Depending on the situation, a person’s view might change. It is important to consider both views and treat them as complimentary.

#### 5.2.3.5. Quantitative and qualitative research

Gephart (1999) identified three categories under which to classify research paradigms, and these include: positivism, interpretivism and postmodernism. According to Gephart (1999), these categories go hand in hand with qualitative data and are illustrated in Figure 5.1 below.

Figure 5.1: Qualitative research



Source: Author's own compilation

Management, social and organisational research of the modern worldview are the abovementioned philosophical perspectives in Figure 5.1 as the prevalent paradigms of the future.

According to Anderson (2006), qualitative methods involve a continual interplay between theory and analysis and do not draw statistical meanings like quantitative methods do. They focus more on collecting data that will describe meaning. There have been many critics against this method, but what qualitative analysis lacks in reliability, they make up for in validity because they provide a broader, richer and deeper depiction than any statistical method can (Russell, 1996).

The main difference between the two methods is that where quantitative analysis is more objective using counts and measures of things, qualitative analysis takes a subjective route, which means that descriptions, characteristics, concepts, meanings, definitions, metaphors and symbols of things are used in the research (Anderson, 2006). Table 5.1 below provides a comparison between quantitative research vs qualitative research with regard to assumptions about the market, purpose of the research, approaches to conducting research and the role of the researcher.

Table 5.1: A comparison between quantitative research vs qualitative research

| Principle                         | Quantitative Research                                                           | Qualitative Research                                                 |
|-----------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Assumptions about the market      | Reality based on object (etic view)                                             | Insider's perspective (emic view)                                    |
| Purpose of the research           | Concrete answers to market questions                                            | Contextualised approach                                              |
| Approaches to conducting research | Form hypotheses that can be applied in multiple situations (deductive approach) | Move from particular to more general statements (Inductive approach) |
| Role of the researcher            | Strive for objectivity and impartiality                                         | Personal involvement and partiality; researchers become instrument   |

Source: Self-elaboration, adapted from Sayre (2001)

Therefore, while qualitative research makes use of more general statements (inductive reasoning), quantitative research applies hypotheses to numerous particular cases (deduction). Qualitative research, according to Sayre (2001), places focus on interpreting the interaction between researcher and a specific phenomenon.

In Table 5.2 below, a summary of the academic equality of quantitative vs qualitative research is presented. According to Naderer and Balzer (2007), the only difference between qualitative and quantitative research is the degree of abstraction of data that increases when moving towards quantitative data.

Table 5.2: The academic status of qualitative and quantitative research

| Degree of abstraction  | Form of data      | Characteristics                                                                                                 | Academic status       |
|------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------|-----------------------|
| Abstraction Increasing | Quantitative data | Abstracts quantities on the basis of qualitatively grouped data, systematically and following established rules | Academic / Scientific |
|                        | Qualitative data  | Abstracts quantities on the basis of daily data, systematically and following established rules                 | Academic / Scientific |
|                        | Daily data        | Spontaneous, based on situations, changeable, unsystematically, not following any established rules             | Not                   |

Source: Naderer and Balzer (2007)

The research process for this specific study is guided by the figurative “research onion”, which illustrates the various stages of research, choices, paradigms, strategies, methods and steps that researchers follow during the research process. This will be further discussed in section 5.3 below.

### 5.3. The “research onion”

In 2009, Mark NK Saunders created the “research onion” shown below in Figure 5.2. It is a figurative concept that can be used to address the objectives of the study and especially guide the researcher through the methodology chapter of the study (Saunders *et al.*, 2009).

Figure 5.2: The “research onion”

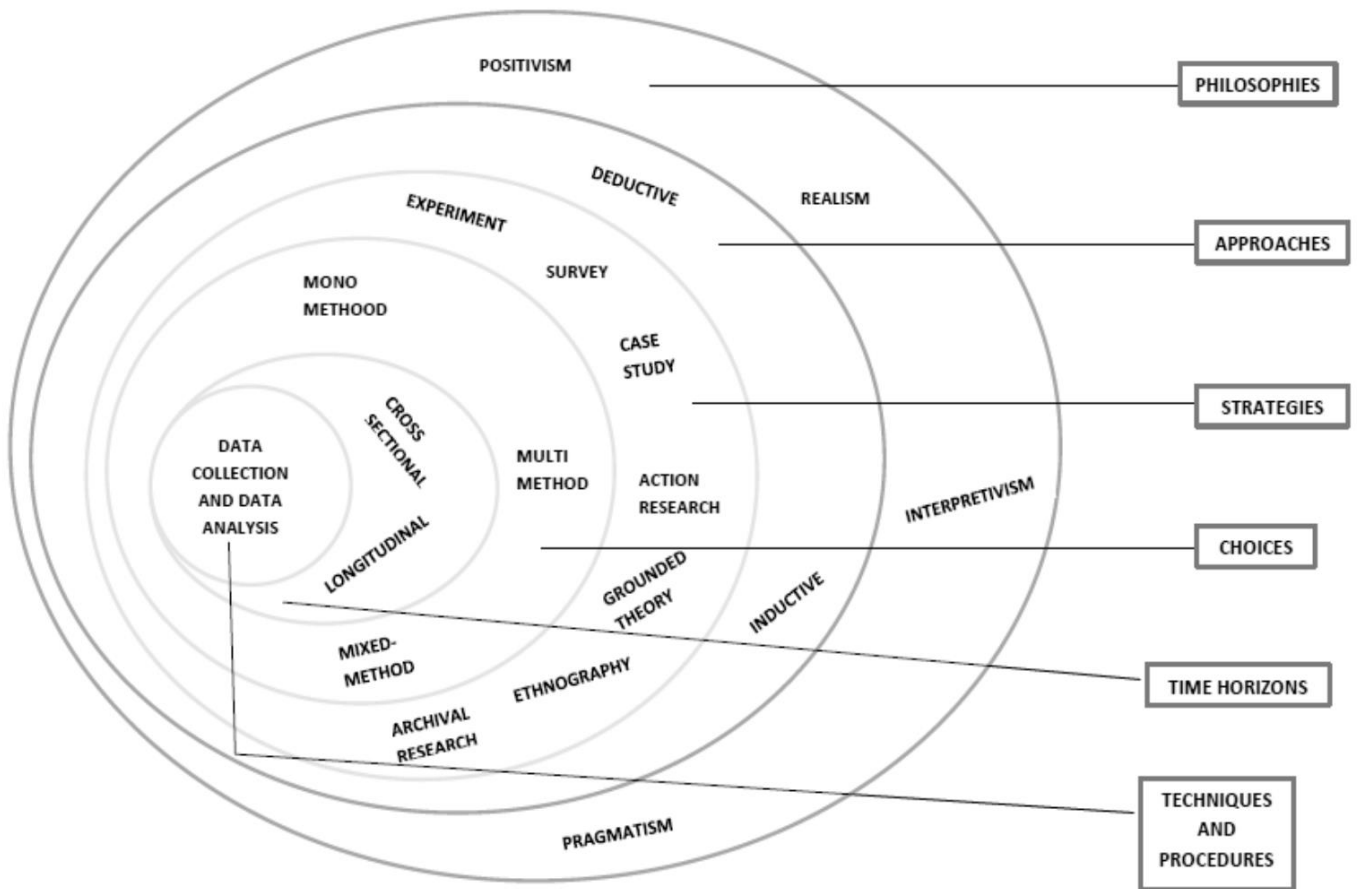


Figure 5.2 The “research onion” (Saunders *et al.*, 2009)

In every layer of the figurative “research onion”, there are various methodological choices that gradually help to build a complete strategy and develop a set of techniques based on a theoretical approach and practical considerations. This is a helpful tool when planning a research study, as it offers a summary of important issues and considerations.

Each layer in the “research onion” offers scope to consider various influences such as the philosophical/theoretical orientation of the researcher, what the best approach would be to adopt for the study, what the most suitable research strategies and research time lines would be and also what the best technique would be for collecting data to use in the research.

### 5.3.1. Stages of the “research onion”

The six stages represented by the “research onion” are: Research theory/philosophy, - approaches, -strategies, -choices, -time horizons, -data collection techniques and – procedures. These will now be discussed in more detail below.

#### 5.3.1.1. Stage 1: Research theory/philosophy

The first 'layer' of the "research onion" reveals the vision, considerations and assumptions of what can be classified as acceptable knowledge. Out of this first layer, four research theories/philosophies are identified, namely positivism, realism, interpretivism and pragmatism. There is no best or worst theory/philosophy; it is all about what suits a specific case and situation the best.

5.3.1.1.1. *Positivism*: Assumes that the world exists externally and is a very objective and important method used mostly in natural sciences. This position assumes that knowledge can only be gained through rigid scrutiny of its general laws.

5.3.1.1.2. *Realism*: Almost the same views at that of positivism; however, it does differ slightly from the latter as it concentrates on an external reality of which humans are entirely unaware of.

5.3.1.1.3. *Interpretivism*: In contrast to the above-mentioned two research theories, interpretivism places focus on understanding humans and the comprehension of the world from their point of view. In the words of Saunders *et al.*, (2009): "*For interpretivists, there are multiple realities and there are many truths of a single fact*".

5.3.1.1.4. *Pragmatism*: Even though this theory dismisses truth and reality as irrelevant, it still recognises that each approach can be used complimentary to each other despite their limitations.

Due to the nature of the study, the interpretivist theory is best suited to obtain contextual depth and meaning in analysing complex business dynamics.

Investigating the key drivers behind the choice of M&As as an inorganic growth strategy in the freight and logistics industry involves an understanding of the logics that led management to adopt set strategies and requires therefore the interpretation of what lies behind complex processes created by the interplay of humans as social actors (Saunders *et al.*, 2009). Applying the interpretivist approach, the author can provide a subjective interpretation of the events so as to provide meaningful explanations.

#### 5.3.1.2. Stage 2: Research approaches

In this section, the two main research approaches, namely deductive and inductive, will be discussed in more detail. This will then cover the second layer of the "research onion".

- 5.3.1.2.1. Deductive approach: The deductive approach and the positivist theory usually go hand in hand as it is mostly used in natural sciences where scientific inflexibility and broader views are essential. It starts with just a pre-determined theory where the hypotheses are tested and data analysed with the aim of being able to revise the initial theory according to the findings.
- 5.3.1.2.2. Inductive approach: On the other hand, it has been found that the inductive approach and the interpretivism theory are connected. The inductive approach is mainly used in social sciences and is known to provide an alternative approach that is more flexible. Here, the need for generalisation is minimal and theories are directly developed as a result of the analysis of the data. With this approach, small samples are preferred to be used because it tends to place an emphasis on the understanding of the research context within which the studied events take place.

For this study, an inductive approach is best suited as it uses broader generalisations than the specific observations used in deductive approaches. This study aims to analyse the factors behind the corporate choice of specific growth strategies and determines what drivers lead to the preference of inorganic growth methods such as mergers and acquisitions. It aims therefore to reach an understanding of the reasons why something is happening, more than describing what is happening; accordingly, an inductive approach is evidently more appropriate (Saunders *et al.*, 2009).

One of the aims of this thesis is to build observations and ultimately develop general valid hypotheses, and therefore, choosing the inductive research approach is the best option because it allows for more detailed discussions.

### 5.3.1.3. Stage 3: Research strategies

In the third layer of the “research onion”, the choice has to be made on a research strategy as it will help to address the previously mentioned research questions as well as help meet the deadlines. The choice will have to be made based upon the findings of the two previous layers as well as by the practical matters such as the specific research objectives and the amount of time and resources available.

As mentioned in the “research onion” in Figure 4.2, there are seven main research strategies to choose from that would best suit the situation and specific research objectives of the study. These strategies are discussed next:

#### 5.3.1.3.1. Experiment

Experimental research focuses on exploring *how* and *why* questions and is mostly used in natural sciences in cases studying casual relationships.

#### 5.3.1.3.2. Survey

When seeking new insights through quantitative exploratory research, surveys are usually a good option to consider.

#### 5.3.1.3.3. Case study

When there is a need to answer questions such as “what?”, “why?”, and “how?”, the case study approach is presumed to be the best option. A case study can help to understand the background and context when a specific phenomenon is being investigated and can therefore be used in both in exploratory and explanatory research.

#### 5.3.1.3.4. Action research

Action research is also known as the *explain relationships between variables research*. The practical effect of the research outcome is where the main focus of the action research is placed. Action research also places focus on the capability of the research outcome to alter existing situations.

#### 5.3.1.3.5. Grounded theory

No pre-existing theories are considered when using the grounded theory as it aims to produce original concepts from the findings by linking deductive and inductive approaches.

#### 5.3.1.3.6. Ethnography

If researchers decide to use a descriptive research method such as ethnography, it would mean that they would have to put themselves in the same ‘social environment’ that their research subjects are monitored in. This may prove to be a very time-consuming and demanding task.

##### 5.3.1.3.6.1. Archival research

Some researchers are known to use administrative records and documents in their archival research; these researchers choose the latter as their main source of data because it portrays

and illustrates certain events or situations that may be of relevance for a contemporary problem.

The case study strategy was chosen following the interpretivism and inductive approaches as it seems most suited for the scope of this study. The case study strategy provides the opportunity to ask "why?", "what?" and "how?" questions, which will provide more context to complex M&A matters.

#### 5.3.1.4. Stage 4: Research choices: Mono-, multi- and mixed methods

In this section, the fourth layer of the "research onion" is discussed, and deals with the two options/methods for data collection. The first method is quantitative, which deals mostly with numerical research, and secondly, qualitative, which deals mostly with non-numerical research. According to the "research onion", there are also mono- and multiple methods of data collection.

When a single data collection technique is used together with supportive data analysis procedures, it is known as mono-method data collection; whereas, when various data collection techniques and data analysis procedures are used to address the research questions, it is known as multiple methods data collection. However, multiple methods can be further split into multi-methods and mixed-methods, all depending on the differences and similarities between the types of data analysis techniques and the types of data collection methods (Saunders *et al.*, 2009).

*"Just naming and classifying what is out there is usually not enough. We need to understand the patterns, the recurrences, the why's"* (Miles & Huberman, 1994). The 'mono-method' was chosen as the best option for this thesis as it allows the interviewees to explain and elaborate their answers, thereby providing a more profound understanding of the meanings of "what", "how", and "why" questions. The 'mono-method' is also in line with the exploratory case study approach, inductive approach and interpretivist philosophy/theory mentioned above.

#### 5.3.1.5. Stage 5: Research time frames: Longitudinal and cross-sectional

Longitudinal and cross-sectional refer to the research and time horizons or timeframes of the study. When the timeframe of the study is limited, longitudinal research might not be the best choice, as it requires the researcher to actively observe events and specific people over long periods of time.

In contrast, cross-sectional research offers a representation hemmed within a certain time-based context by focusing on investigating specific occurrences at specific moments in time.

There are time constraints on the completion of this study; therefore, considering the latter as well as the topic for this study, cross-sectional research would be the best option.

#### 5.3.1.6. Stage 6: Data collection techniques and research procedure

There are two types of data collection methods; firstly, you get secondary data collection, and then primary data collection. These will be discussed in more detail below.

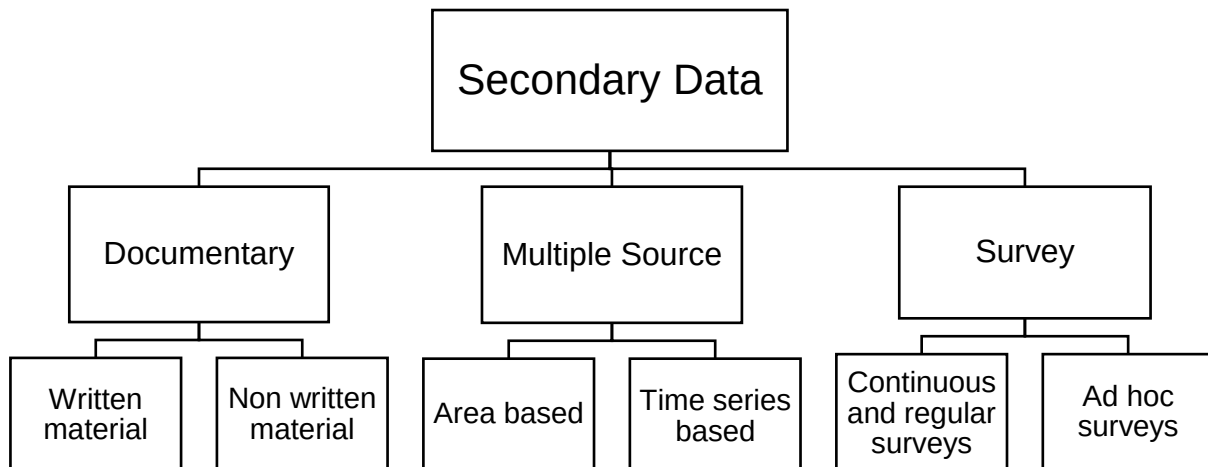
##### 5.3.1.6.1. Secondary data collection

Secondary data is past data that has formerly been collected by another researcher. This data will help to provide the researcher with a good understanding of the existing knowledge on a specific topic and should preferably be examined before conducting primary research (Saunders *et al.*, 2009).

Due to the wealth of previously conducted secondary data and the background it offers in case studies or literature reviews, it can be beneficial in creating a baseline for the research design of a study, taken the degree of validity and reliability into consideration (Doolan & Froelicher, 2009).

Secondary data can be accessed through numerous sources, such as directories, books, technical reports, videos, academic articles, scholarly journals, reports, trade journals, reference books, official statistics, indexes and bibliographies, industry reports, surveys, media accounts and computerised databases. In this study, secondary data was gathered from most of the above-mentioned sources, but the majority was gathered from academic articles, industry reports, books and official statistics.

Figure 5.3: Representation of some secondary sources.



Source: Secondary data sources (Saunders *et al.*, 2009)

As displayed in Figure 5.3 above, the secondary data sources are manifold. These data sources provide information, statistics, theories, hypotheses and other findings of previous research conducted by various researchers on various topics and create the framework and background to compare new findings that will arise from the primary data collection method.

Secondary data is that data that has been collected, shaped and refined from the raw materials in the primary data stage through the use of statistical methods. Because secondary data was collected, refined and analysed by a previous researcher, there are fewer problems associated with the original collection and interpretation of the data. Secondary data could be inaccurate, unsuitable or inconsistent. Therefore, the data should be checked to ensure it is reliable, suitable and adequate for the research purposes.

Secondary data can be collected from various sources, such as books, academic journals, literature review articles, other academic articles, official statistics and industry reports.

There are certain factors that can be classified as advantages and disadvantages of secondary data collection, and these factors are listed below.

The advantages of using secondary data are:

No need to collect data as data is already available

- Less expensive than primary data collection
- Many sources of secondary data available

The disadvantages of using secondary data are:

Not understanding the data

- Not suitable data
- Not accurate data

Table 5.3: Distinction between primary and secondary data

| Description                    | Primary Data                                  | Secondary data                                                       |
|--------------------------------|-----------------------------------------------|----------------------------------------------------------------------|
| Source                         | Original source                               | Secondary source                                                     |
| Method of collection           | Observation method:<br>questionnaire          | From published and unpublished<br>sources                            |
| Originality of the<br>data     | Original first time collected by the<br>user  | No data collected by some other<br>agency                            |
| Time                           | More                                          | Less                                                                 |
| Cost                           | Expensive                                     | Cheaper                                                              |
| Efforts                        | More                                          | Less                                                                 |
| Accuracy                       | More accurate                                 | Less accurate                                                        |
| Training personnel<br>required | Expert/trained personnel required             | Less trained personnel required                                      |
| Use of data                    | For specific purposes the data is<br>compiled | The data is taken from other sources<br>and used for decision making |

Source: Author's own compilation

#### 5.3.1.6.2. Primary data collection

Choosing the appropriate data collection method is imperative. Depending on the requirement, there are various techniques that can be used to satisfy different needs, for example qualitative research may see interviews as the most suitable option, whereas surveys may be argued to be the best option for quantitative research. In the case of interviews, there are several types to choose from: either structured- or unstructured, and standardised or non-standardised interviews.

For this research, qualitative research using the interview method was identified as the best option. This goes well with the interpretivist philosophy and inductive strategy chosen earlier

in this chapter. Interviews will be used as the primary data collection tool, because they will offer a better comprehension of a specific topic, thereby allowing for a theory to be proposed and for generic conclusions to be formed.

Because studies using quantitative research usually focus on structured interviews, semi-structured and unstructured interviews, also known as in-depth interviews, have been considered for this study, as they are mostly associated with qualitative research methods.

The final stage in the primary data gathering phase is focused on gaining any additional information on the deal that might not have been available from the secondary data sources or the questionnaire. In the methodology, it was decided that semi-structured interviews will be used.

A semi-structured interview has some strong characteristics such as:

- Formal meeting between the researcher (interviewer) and the respondent (interviewee)
- A well-structured list of topics and specific questions are put together by the researcher (interviewer) ahead of the interview, which guide the conversation to reach the objective of the study.
- As the conversation progresses, and the interviewer feels that it is appropriate, he/she could stray from the list of structured questions to follow topical trajectories.

According to Bernard (1988), most of the time a researcher only gets one chance to interview a person of interest to their study. In this case, it would prove the best option to use structured interviews as the researcher can ensure that all the necessary, relevant and meaningful questions and topics are covered to provide reliable, comparable and qualitative data. Having questions prepared ahead of time helps the interviewer to appear prepared and competent. Even though it is important to follow the relevant topics and questions on the pre-prepared list, it is equally important and valuable to include a few open-ended questions in the conversation to allow the opportunity to identify new ways of viewing, interpreting and understanding the topic at hand. Because of the open-ended questions guiding the interview, it is often suggested that the interviews be electronically recorded as it may prove difficult to listen, write down and remember the respondent's answers on these open-ended questions, and recording the answer will therefore ease analysis later on. A good rapport and dialogue between the interviewer and the interviewee is imperative in semi-structured interviews.

In the interview, the researcher takes on the role of the interviewer and the respondent takes on the role of the interviewee. With the interview method, a situation is set up where the

interviewer and interviewee can meet at a specific time and place to discuss opinions, thoughts, ideas, facts and points of view on a certain subject. The researcher determines the focus of the interview prior to the meeting based on the subject of the study. The main objective is to understand the respondent's point of view on the subject, and this is achieved by using open-ended questions such as *"Tell me about..."*, *"Please elaborate..."* or *"You said a moment ago...can you tell me more?"* The questions that are asked by the researcher may be prepared upfront or it may be questions that occur to the researcher as the interview progresses. The questions will therefore not be exactly the same for all the respondents.

From the in-depth interview options, semi-structured interviews have been chosen as they offer the freedom to explore the research themes and retrieve significant information and reveal the interviewees' attitudes, opinions and experiences on the topic.

Furthermore, using qualitative open-ended questions will help to tailor the process according to the context and events, providing the interviewer with a level of complexity and understanding of a specific topic like no other method can provide.

A set of mostly open-ended questions will be composed by using the literature from Chapters 2 and 3. These questions will be constructed to follow a certain pattern with the aim to investigate the topics of interest and address the research objectives.

#### 5.4. Data analysis

According to Ritchie and Lewis (2003), in-depth analysis and interpretation are required for qualitative data, as it consists mostly of words and observations and has no agreed upon analysing procedures and terms. An inductive approach will be followed. With this approach, the data itself will structure the analysis, resulting in no pre-determined framework being required.

All six stages in the "research onion" have now been discussed, and one *option* has been chosen out of each stage that is believed to be most suited to this research study. The six-stage research design summary is presented in Figure 4.4 below. Motives behind each chosen *option* will also be explained in detail in the next section.

##### 5.4.1. Research design

Following the above discussion, Figure 4.4 below reflects the research design summary for this study. It displays each chosen option from each of the six stages discussed previously in this chapter.

Figure 5.4: Research design of the study

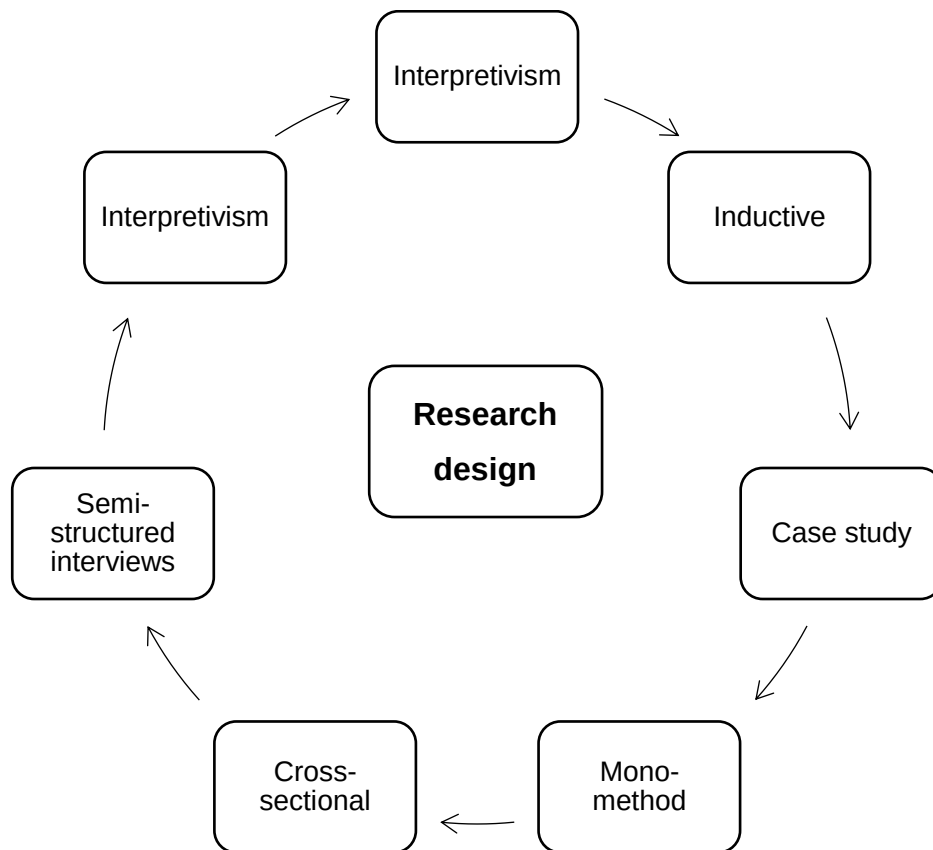


Figure 5.4: Author's own compilation

The above figure demonstrates the research design chosen for this study using the “research onion” illustrated in section 5.3. The first stage dealt with various philosophies/theories, and the options in stage 1 reveal the vision, considerations and assumptions of what can be classified as acceptable knowledge, applying the interpretivist approach, where the author can provide a subjective interpretation of the events to provide meaningful explanations.

Stage 2 dealt with the two approaches, and here the inductive approach was chosen as it goes well with the interpretivism philosophy/theory. The inductive approach is mainly used in social sciences and is known to provide an alternative approach that is more flexible, and therefore it is considered as a good option for this study.

In the third stage, the various strategies were discussed and the case study strategy was chosen following the interpretivism philosophy/theory and inductive approach, as it seems most suited for the scope of this study. The case study strategy provides the opportunity to ask “why?”, “what?” and “how?” questions, which will provide more context to complex M&A matters (Marks & Yardley, 2004).

The mono-method was chosen as the best option for this thesis as it allows the interviewees to explain and elaborate their answers, thereby providing a more profound understanding of the meanings of “what”, “how”, and “why” questions (Burnard *et al.*, 2008). The mono-method is also in line with the exploratory case study approach, inductive approach and interpretivist philosophy/theory mentioned above.

Stage 5 discussed the various time horizons. Longitudinal and cross-sectional refer to the research and time horizons or timeframes of the study (Pope *et al.*, 2006). Since there are time constraints on the completion of this study, cross-sectional research would be the best option for this study.

The final stage was focused on choosing the appropriate data collection method. Interviews will be used as the primary data collection tool because they will offer a better comprehension of a specific topic, thereby allowing for a theory to be proposed and for generic conclusions to be formed. Using qualitative open-ended questions will help to tailor the process according to the context and events, providing the interviewer with a level of complexity and understanding of a specific topic like no other method can provide (Miles & Huberman, 1994).

#### 5.4.2. Population and sample population and sample frame

This thesis reports an exploratory study on the determinants driving inorganic growth through M&As in the freight and logistics industry of South Africa. The target population is therefore represented by freight and logistics companies globally that have carried out M&A activities in South Africa in the past 15 years.

The data chosen for this study provides the opportunity to generalise it to theory rather than to offer statistical interpretations. The following section will provide a deeper understanding as to why a certain sample was chosen and classified as appropriate.

#### 5.4.3. Sampling technique

The sampling process of a research study can be limited due to restricted funds, access to information as well as limited time available. Due to the timeframe of this research study, it is not feasible to survey multiple freight and logistics firms in South Africa. The better option would be to choose a few firms from the sample data, and then conduct interviews with the respective parties involved in the M&A transactions directly. Collecting data from only a few cases might not be a limitation as some might believe. According to Saunders *et al.*, (2009), the data that a researcher collects from interviews with only a few firms might be more detailed resulting in a broader analysis of each case.

Usually, the most appropriate sampling technique for quantitative data would be probability/random samples, as they can provide solid statistical significance claims and interpretations from samples so that the research questions can be addressed appropriately. Due to the effects that the presence of outliers has on the outcome of the statistical analysis, probability/random samples are usually large in size.

In contrast, qualitative data would need a non-probability/non-random, purposive/judgemental sampling method. With this method, it is not about the size of the sample, but rather the amount of valuable information that you can retrieve from a small sample.

*“How many is not the issue; what counts is reaching a detailed understanding of the phenomenon and learning enough to describe it. A sample is big enough when enough useful information can be gathered”* (Marshall, 1996).

After considering the various sampling techniques and all the limiting factors mentioned above, as well as the topic and goal for this study, the purposive (non-probability/non-random) sampling technique was chosen as it provides the freedom to select representative and credible samples that would be informative and functional to the research objectives.

As indicated previously, the objective with this sampling technique is to be able to conduct in-depth analyses of a specific case study through detailed explanations and elaborations by the interviewees on specific questions regarding the merger or acquisition transaction.

The interviewees will all have knowledge of the merger or acquisition transaction as well as extensive corporate strategy experience, which confirms that relevant, qualitative data will be gathered.

## 5.5. Data processing: Identifying the companies to be interviewed

### 5.5.1. Data sources

Data was collected from the following sources:

*Buro van Dijk (Zephyr)*: This database prides itself on being one of the most user friendly databases and has information on more than 180 million companies, making it simple to compare firms globally. The information on the database also includes details on companies' corporate structure, performance, their management, legal entity details, and operations, financial data, M&A activity and other news. Zephyr is updated on an hourly basis and as of January 2016 covers information and details on approximately 1.4 million deals and rumours.

*FDI markets*: In 2003, one of the world's most comprehensive online databases on cross-border Greenfield investments was launched as a service provided by the Financial Times and is considered a bank of information on the globalisation of business. A definition of the FDI markets reads as follows: *"it is a service that tracks cross border Greenfield investment across all sectors and countries worldwide, with real-time monitoring of investment projects, capital investment and job creation"*, (Financial Times, 2016).

Using valid, reliable and quality data is important for this research study, and therefore, databases such as Buro van Dijk's Zephyr and FDI markets were used to collect the data needed. Further to that, a structured questionnaire will be put together using the UNIDO African Union Investors survey, World Bank Doing Business reports and the Columbia Centre for Sustainable Global Players' project survey.

#### 5.5.2. Variables/criteria

Identifying key variables is important as they provide focus and direction when starting off the study with the introduction section. In the literature section, the key variables are utilised to search for the most applicable research articles. They are also the main terms to be defined and addressed throughout the study. The key variables have to be directly measured or manipulated for the research study to be valid (Miles & Huberman, 1994). The key variables will guide the process of choosing the best three cases for the study.

From the data gathered, other specific variables were applied in Excel by means of pivot tables to identify the three deals for this study. These specific variables are:

Table 5.4: Specific variables for the study

| Variable code | Variable name                           | Description                                                                                                                                                                                                            |
|---------------|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PLC           | Publically listed companies             | The companies have to be publically listed to be able to get wide-ranging, detailed and specific information about not only each of the companies involved in the deal, but also on the deal itself.                   |
| DT            | <i>Deal type: Merger or acquisition</i> | There are various inorganic growth deal options, but to make the data more specific to the study, as it places focus on mainly mergers and acquisitions, the latter was identified as the only two options to include. |
| DV (US\$)     | <i>Deal value in USD</i>                | By choosing the three deals with the highest monetary value, it provides the study with a sense of the size of this phenomenon.                                                                                        |

|      |                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MC   | <i>Market capitalisation</i>                                | One company will be chosen in the large cap (\$10 billion +), one in the medium cap (\$2-10 billion) and one in the small cap category (less than \$2 billion). Market capitalisation is “the aggregate valuation of the company based on its current share price and the total number of outstanding stocks”. Market capitalisation can be calculated as follows: If a company has 22 million shares outstanding and each share has a market value of \$100 the market capitalisation of the company will be \$2.2 billion (22 000 000 x \$100 ps).               |
| O/SC | <i>Origin/source country</i>                                | Acquiring company has to be anywhere but in Africa: From the data, the source country should be known as well as the name of the acquiring company. The acquiring firm can be from anywhere in the world except from Africa, as we are conducting a cross-border study investigating why companies outside of the African continent choose to specifically merge with or acquire a freight and logistics company in South Africa.                                                                                                                                  |
| DC   | <i>Destination country</i>                                  | The destination country of the deal should be South Africa, and the target company should also be in South Africa. It follows from the previous chapters of this study that gaining a footprint into Africa is one of the main driving forces behind the rationale of companies from other countries merging with or acquiring a South African freight and logistics firm that already has a network or branches in other parts of the African continent. There are, however, many other suggested reasons and this will help to identify the main driving forces. |
| I/S  | <i>Industry/sector:</i>                                     | Even though freight and logistics are a very wide spectrum, it is the range that this study concentrates on when investigating, and is therefore not constricted to a more detailed, smaller, specific sample.                                                                                                                                                                                                                                                                                                                                                     |
| CD   | <i>Comprehensive description of the motive for the deal</i> | From all the sources, the data has to include a comprehensive, wide-ranging description of the motive for the deal as this is what the study aims to determine in the end. There are various reasons – some of which have been discussed in previous chapters – as to why foreign companies choose to merge with or acquire a freight and logistics firm in South Africa. This will be compared with the answers gained from the interviews with the companies and analysed to determine the final results/conclusions.                                            |

Source: Author's own compilation

### 5.5.3. Buro van Dijk's Zephyr and FDI markets data

Data gathered from source nr 1 and 2: (Buro van Dijk's Zephyr and FDI markets) included the following:

Table 5.5: Data on the acquiring firm, target firm, publically listed status of acquiring company, deal type, deal value (mil US\$) and market capitalisation of acquiring firm

| Acquiring firm                            | Target firm                               | Publically listed company acquirer | Deal type   | Deal value mil US\$ | Market capitalisation acquirer             |
|-------------------------------------------|-------------------------------------------|------------------------------------|-------------|---------------------|--------------------------------------------|
| CWT Limited                               | Aquarius Shipping International (Pty) Ltd | Yes                                | Acquisition | 3.32                | Medium cap (\$2-10 billion)                |
| Agility Logistics                         | Supergroup Ltd                            | Yes                                | Acquisition | 38.23               | Small cap category (less than \$2 billion) |
| DSV A/S                                   | UTI Worldwide                             | Yes                                | Acquisition | 1 350.00            | Large cap (\$10 billion +)                 |
| ARAMEX                                    | Berco Express                             | Yes                                | Acquisition | 16.45               | Small cap category (less than \$2 billion) |
| Glencore (Pty) Ltd/<br>Pacorini Metals AG | Access Freight International (Pty) Ltd    | Yes/no                             | Acquisition | 209.00              | Large cap (\$10 billion +)                 |
| Dachser Gmbh & Co Kg                      | Jonen Freight Pty Ltd                     | No                                 | Acquisition | 15.3                | Small cap category (less than \$2 billion) |
| KAP International                         | PG Bison Holdings (Pty) Ltd               | Yes                                | Acquisition | 843,3               | Medium cap (\$2-10 billion)                |
| Lonrho PLC                                | Grindrod Perishable Cargo Agents Pty Ltd  | Yes                                | Acquisition | 3,21                | Small cap category (less than \$2 billion) |
| BALtrans Holdings Limited                 | Clover Cargo Holdings (Pty) Ltd           | Yes                                | Acquisition | 6,1                 | Small cap category (less than \$2 billion) |
| Tibbett & Britten Group Plc               | Kinesis Logistics                         | No                                 | Acquisition | ?                   | Small cap category (less than \$2 billion) |

Source: Author's own compilation

Table 5.6: Acquiring firm, target firm, origin/source country, target/destination country and industry/sector

| Acquiring firm                            | Target firm                               | Origin/source country | Target/destination country | Industry/sector         |
|-------------------------------------------|-------------------------------------------|-----------------------|----------------------------|-------------------------|
| CWT Limited                               | Aquarius Shipping International (Pty) Ltd | Singapore             | South Africa               | Transport and logistics |
| Agility Logistics                         | Supergroup Ltd                            | Switzerland           | South Africa               | Transport and logistics |
| DSV A/S                                   | UTI Worldwide                             | Denmark               | South Africa               | Transport and logistics |
| ARAMEX                                    | Berco Express                             | Dubai                 | South Africa               | Transport and logistics |
| Glencore (Pty) Ltd/<br>Pacorini Metals AG | Access Freight International (Pty) Ltd    | Switzerland           | South Africa               | Transport and logistics |
| Dachser Gmbh & Co Kg                      | Jonen Freight Pty Ltd                     | Germany               | South Africa               | Transport and logistics |
| KAP International                         | PG Bison Holdings (Pty) Ltd               | South Africa          | South Africa               | Transport and logistics |
| Lonrho PLC                                | Grindrod Perishable Cargo Agents Pty Ltd  | United Kingdom        | South Africa               | Transport and logistics |
| BALtrans Holdings Limited                 | Clover Cargo Holdings (Pty) Ltd           | Hong Kong             | South Africa               | Transport and logistics |
| Tibbett & Britten Group Plc               | Kinesis Logistics                         | United Kingdom        | South Africa               | Transport and logistics |

Source: Author's own compilation

Table 5.7: Acquiring firm, target firm, deal rationale

| Acquiring firm    | Target firm                               | Deal rationale                                                                                                                                     |
|-------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| CWT Limited       | Aquarius Shipping International (Pty) Ltd | The transaction will improve and expand CWT's business operations and reach                                                                        |
| Agility Logistics | Supergroup Ltd                            | "The acquisition will help us provide an integrated, customer focused, outbound supply chain based on the latest FMCG trends and business models." |

|                                           |                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DSV A/S                                   | UTi Worldwide                            | "I have no doubt that the combination of DSV and UTi is a recipe for success; and with our united network, we will create exciting opportunities for both customers and employees. We will now start the integration process while taking care to maintain a high service level towards all customers. The commercial activities of DSV and UTi will continue under the DSV brand as we move forward."                                                                                                                                                                                                                                                                                                       |
| ARAMEX                                    | Berco Express                            | "Aramex has, for some time now, viewed South Africa as a highly attractive market with a business friendly environment and significant growth prospects, and our acquisition of Berco Express, a company that we have long admired for its great culture, brilliant management, and leading brand, will introduce exciting growth and development opportunities for us in Africa", said Mr Fadi Ghandour, founder and CEO of Aramex. "This acquisition, which is in line with our long-term strategy to strengthen our presence in key emerging markets around the world, is a major step towards the realization of our goal of being the logistics and transportation company of choice in those markets". |
| Glencore (Pty) Ltd/<br>Pacorini Metals AG | Access Freight International (Pty) Ltd   | On 21/06/13 it was announced that the transaction will improve and expand Access Freight Group's business.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Dachser Gmbh & Co Kg                      | Jonen Freight Pty Ltd                    | The transaction will improve and expand Dachser Gmbh & Co Kg's business.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| KAP International                         | PG Bison Holdings (Pty) Ltd              | "The acquisition and integration of PG Bison into the KAP group significantly enhances our capabilities to service our customers globally. It also represents an important step in the expansion of our footprint in the commodities sector in Southern Africa, and on the continent as a whole, where we see a significant growth potential."                                                                                                                                                                                                                                                                                                                                                               |
| Lonrho PLC                                | Grindrod Perishable Cargo Agents Pty Ltd | "This is a good strategic acquisition for Lonrho, making us the largest distributor by air of fresh produce from Southern Africa to the global marketplace in a sector we see as having strong growth potential. The purchase of 100% of the Grindrod PCA business provides us with additional expertise to ensure we can meet customer requirements and the high fulfilment levels we target for our expanding agri-division. The opportunities for Africa to further develop its agricultural output and supply produce to the booming African market and the growing export market are significant and this acquisition places Lonrho at the forefront of meeting this demand."                           |
| BALtrans Holdings Limited                 | Clover Cargo Holdings (Pty) Ltd          | The acquisition strengthens BALtrans' presence in the African transport and logistics sector, and provides a foothold in an industry which will benefit from increasing trade between Africa and the rest of the world.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Tibbett & Britten Group Plc               | Kinesis Logistics                        | The acquisition is a tremendous strategic fit for the business. This acquisition is another example of the company's belief in building their business by creating a global reach. They are confident they will develop a significant business in this attractive market.                                                                                                                                                                                                                                                                                                                                                                                                                                    |

Source: Author's own compilation

## 5.6. Application of the criteria

After applying the above-mentioned criteria to the Buro van Dijk's Zephyr and FDI markets databases, a large amount of data was retrieved and converted by means of pivot tables in Excel to narrow it down to the top ten (acquiring and target) companies, as shown in Table 6.1 below.

Table 5.8: Top ten identified (acquiring and target) companies

| #  | Acquiring company             | Target company                            |
|----|-------------------------------|-------------------------------------------|
| 1  | CWT Limited                   | Aquarius Shipping International (Pty) Ltd |
| 2  | Agility Logistics             | Super Group Ltd                           |
| 3  | DSV                           | UTI                                       |
| 4  | ARAMEX                        | Berco Express                             |
| 5  | Glencore, Pacorini            | Access Freight                            |
| 6  | Dachser Gmbh and Co Kg        | Jonen Freight Pty Ltd                     |
| 7  | KAP International             | PG Bison Holdings (Pty) Ltd               |
| 8  | Lonrho PLC                    | Grindrod Perishable Cargo Agents Pty Ltd  |
| 9  | BALtrans Holdings Ltd         | Clover Cargo Holdings (Proprietary) Ltd   |
| 10 | Tibbett and Britten Group Plc | Kinesis Logistics                         |

Source: Author's own compilation

The above-mentioned top ten (acquiring and target) companies were the ones that came closest to meeting most of the criteria. Out of these top ten (acquiring and target) companies, the data was narrowed down even further to show the top five (acquiring and target) companies that meet *all* of the above listed criteria precisely. These five (acquiring and target) companies are shown in Table 6.2 below:

Table 5.9: Top five (acquiring and target) identified companies

| # | Acquiring company  | Target company                            |
|---|--------------------|-------------------------------------------|
| 1 | CWT Limited        | Aquarius Shipping International (Pty) Ltd |
| 2 | Agility Logistics  | Super Group Ltd                           |
| 3 | DSV                | UTI                                       |
| 4 | ARAMEX             | Berco Express                             |
| 5 | Glencore, Pacorini | Access Freight                            |

Source: Author's own compilation

The target companies were contacted via e-mail and asked whether they would agree to participate in the study. The target company was contacted first as it is situated in South Africa, which made it easier to find senior management's contact details. A copy of the letter sent to them is annexed hereto and marked as Annexure A. Each target company was obligated to contact their acquiring company to approve their participation in the study.

In the end, out of these five identified (acquiring and target) companies, four agreed to participate in the study. These companies are shown in Table 6.3 below.

Table 5.10: The four (acquiring and target) companies that agreed to participate

| # | Acquiring company  | Target company |
|---|--------------------|----------------|
| 1 | DSV                | UTI            |
| 2 | Glencore, Pacorini | Access Freight |
| 3 | CWT                | Aquarius       |
| 4 | Aramex             | Berco Express  |

Source: Author's own compilation

After participation was confirmed by the above listed companies, the questionnaire was sent to the target companies who then completed it in collaboration with their acquirers. The interview followed the questionnaire.

The DSV-UTI deal was still very new at the time and after the questionnaire and interview were conducted with senior personnel, the researcher made a decision not to include this deal in the study, as the deal would result in retrenchments, and the personnel were very emotional and biased with regard to their answers to questions about the acquisition.

The interview and questionnaire as methods will be discussed in detail below, but first the criteria for choosing the respective respondents for each company will be discussed.

#### 5.6.1. Criteria for choosing the respondents

Certain criteria were used to identify who the respondents in each company should be to participate in the study. These criteria are listed below:

*Senior management:* The respondent(s) had to be part of the senior management of the companies. This meant that they had many years of experience and knowledge about both the company and the freight and logistics industry.

*Direct involvement:* The respondent also had to have been directly involved in the decision to acquire or be acquired. They had to be part of the negotiations and agreements of the transaction, and therefore able to answer any question related to the merger or acquisition transaction.

*Availability:* Time is a big factor for both the researcher and the respondent, and therefore one of the most important factors/criteria for choosing a respondent was the availability of the respondent to complete the questionnaire and meet with the researcher to answer the interview questions.

The respondents for each company were identified by means of the above-mentioned criteria. Their personal details will not be disclosed in the study; in each case study, they will just be referred to as “the respondent”. The questionnaire and interviews will be discussed in the following sections.

#### 5.7. Mixed-method study

As mentioned earlier, this is a mixed-method study making use of both questionnaires and interviews. These mixed-method studies have also been used by Brookhart and Durkin (2003), and Lai and Waltman, (2008) in various educational assessments. Questionnaires and interviews can provide the opportunity to gather in-depth insights into participants’ attitudes, thoughts and actions (Kendall, 2008). The following sections aim to describe how these two methods were approached, applied and analysed.

### 5.7.1. The questionnaire

For this study, a semi-structured questionnaire was developed based on the UNIDO African Union Investors survey, World Bank Doing Business reports and the Columbia Centre for Sustainable Global Players' project survey. The questions were structured in an open-ended manner, where the interviewees (respondents) were encouraged to discuss the financial, geographical and other motives, mode of entry, challenges, prospects and the underlying reasons for their choices. The questionnaire comprised two sections (sections A and B)

#### 5.7.1.1. Section A: Company profile (target), pre-merger/acquisition.

This section placed focus on the company profile, e.g. the company name, location and size.

##### 5.7.1.1.1. Rationale behind section A

Section A requires as much information about the target company as possible. Information here includes the name of the target company pre-merger or acquisition, the number of employees, the type and amount of products/services offered, geographic location, free trade areas and the company's growth over the past few years. All of this information helps to determine what kind of a company the target is and what the ranking of the target company is among its domestic competitors in terms of both size and geographic reach. This might help to determine why the acquirer was interested in the target company.

#### 5.7.1.2. Section B: The transaction/deal (merger/acquisition)

This section consists of data describing the merger or acquisition in detail. It places focus on where, when, why and how the deal happened.

##### 5.7.1.2.1. Rationale behind section B:

Section B describes the way in which the transaction took place, whether the merger or acquisition was friendly or hostile, the reason(s) or motivations for the transaction and success or failure of the transaction. This section is important because it offers information about the acquirer and the transaction, which will answer the main questions of this study – for example, what the drivers were behind the merger or acquisition transaction and why the acquirer specifically chose the target company described in section A. A copy of the questionnaire is attached hereto, marked as Annexure B.

### 5.7.2. The interviews

The interviews were the second phase of the primary data collection. In the methodology, it was decided that semi-structured interviews will be used. The interviews followed the questionnaire. After the completed questionnaire was received back, an e-mail (meeting request) was sent to the respondents, requesting a date, location and time to meet so the interview could be conducted.

In the interview, the researcher takes on the role of the interviewer and the respondent takes on the role of the interviewee. With the interview method, a situation is set up where the interviewer and interviewee can meet at a specific time and place to discuss opinions, thoughts, ideas, facts and points of view on a certain subject. The researcher determines the focus of the interview prior to the meeting based on the subject of the study. The main objective is to understand the respondent's point of view on the subject, and this is achieved by using open-ended questions such as *"Tell me about..."*, *"Please elaborate..."* or *"You said a moment ago...can you tell me more?"* The questions that are asked by the researcher may be prepared upfront or it may be questions that occur to the researcher as the interview progresses. The questions will therefore not be exactly the same for all the respondents.

Having questions prepared ahead of time helps the interviewer to appear prepared and competent. Even though it is important to follow the relevant topics and questions on the pre-prepared list, it is equally important and valuable to include a few open-ended questions in the conversation to allow the opportunity to identify new ways of viewing, interpreting and understanding the topic at hand. Because of the open-ended questions guiding the interview, it is often suggested that the interviews be electronically recorded as it may prove difficult to listen, write down and remember the respondent's answers on these open-ended questions and therefore recording the answers will ease analysis later on. A good rapport and dialogue between the interviewer and the interviewee are imperative in semi-structured interviews.

The interviews offered a full comprehension of a specific topic/question, thereby allowing for a theory to be proposed and for generic conclusions to be formed. In the interviews, qualitative, open-ended questions helped to tailor the process according to the context and events, providing a level of complexity and understanding of a specific topic/question.

The respondents all have knowledge of the merger or acquisition transaction as well as extensive corporate strategy experience, which confirms the relevance of the qualitative data gathered. Due to time availability factors, only three face-to-face interviews were conducted

and one telephonic interview had to be done. The characteristics and structure of these interviews will be discussed below:

#### 5.7.2.1. Characteristics of semi-structured face-to-face interviews:

Face-to-face interviews are characterised by synchronous communication in time and place. These interviews have the advantage of using various social cues such as voice, intonation and body language to obtain additional information that can be added to the verbal answers of the respondent (interviewee). There are also more spontaneous answers due to the reduced amount of time delays between the questions and answers.

- *Formal meeting:* A formal meeting was set up between the researcher (interviewer) and the respondents (interviewee) of each company. The meetings took place at UTI, Access and Aquarius's offices.
- *List of structured questions:* A well-structured list of topics and specific questions were put together by the researcher (interviewer) ahead of each interview, which helped to guide the conversations. Some of the topics and questions that were answered in the questionnaires required elaborated answers; these questions differed for each company as the deals/transactions, companies and each respondent's views differ.
- *Unstructured questions:* As the conversations progressed, the researcher (interviewer) felt that it was appropriate to stray from the list of structured questions for each company and follow the topical trajectories.

#### 5.7.2.2. Characteristics of semi-structured telephonic interview:

Telephone interviews are characterised by the synchronous communication of time and the asynchronous communication of place (Mann & Stewart, 2000). They allow the researcher (interviewer) to still conduct the interview and ask all the required questions, similar as with the face-to-face interviews. The researcher (interviewer) can also still pick up on certain social queues such as voice and intonation; however, because the researcher cannot see the interviewee and body language cannot be used as a source of extra information.

- *The conversation:* There was no formal meeting with Berco Express as their managers are situated in Cape Town and are required to travel on a regular basis, it was therefore too difficult to find a suitable date, time and place for both the researcher and the

respondent to meet. Consequently, the next best option was to conduct the interview via telephone.

- *List of structured questions:* In this interview, it was important to have a set of pre-determined questions to ask the respondent as time delays are prone to these types of interviews and make the conversation flow less naturally. The structured questions were sent to the respondent prior to the phone call, and this helped the respondent to keep track of the questions and his/her train of thought. These pre-determined questions stemmed from the answers provided by the respondent in the questionnaire, where some elaboration was required to provide comprehensive data for the study.
- *Unstructured questions:* Even though it is more difficult to stray from the list of structured questions, the researcher might want to follow the topical trajectories of the conversation and ask extra questions on some of the answers provided by the respondent throughout the conversation.

The two main sources of information for the current research are provided by the contents of the questionnaires completed as well as the interviews held with various qualified and knowledgeable executives from the selected companies who agreed to participate in the project. The participants in both the questionnaires and the interviews were selected on mainly their heterogeneous knowledge and wide-ranging experience in various divisions, and that provides them with a broader outlook on the topic. These participants were also involved directly with the M&A deals for each company.

Both the questionnaire and the interview were formulated in a way to firstly build an overview of each of the companies' business activities, the size of the company compared to domestic competitors, the geographic reach and the companies' growth over the last few years, and then, secondly, to find out more about the specific merger or acquisition deal that took place. Questions regarding the type of deal, deal structure, motivating drivers of the deal, and whether the deal was thought to be successful or not. The participants also provided their views on the current as well as future status of the freight and logistics industry specifically pertaining to the growth spurt of M&As to South Africa and Africa as a whole, but also to the global freight and logistics industry. Their diverse perspectives provide additional value to their responses and enrich the in-depth investigation carried out by the present work.

## 5.8. Summary and Conclusion

In this chapter, the research theory/philosophy, strategy and methodology to be used in this study were discussed in detail. The research design is shown in Figure 5.4 and displays each chosen option from each of the six stages of the “research onion” discussed in the beginning of this chapter. In summary, the research design for the study can be demonstrated as follows:

- Interpretivism
- Inductive
- Case study
- Mono-method
- Cross-sectional
- Semi-structured to structured interviews

From the data collected from the Buro van Dijk Zephyr database and the FDI markets database, the three most suitable companies were identified. The decision was based on a few important determinants, namely:

- Publically listed companies
- Deal type: Merger or acquisition
- Highest deal value in USD
- Source country/acquiring company has to be anywhere but in Africa
- Destination country/target company has to be in South Africa
- Industry/sector: Freight and logistics
- Comprehensive description of the motive for the deal

Previous literature describing case studies is valuable in identifying the salient points of the case study methodology, as well as illustrating the weaknesses associated with earlier research.

This study includes a substantial literature review and a detailed operationalisation of the practical side of the thesis – the cases – recounting how suitable organisations/firms were that were identified for the study and detailing the procedures for data analysis.

In the following chapter, we will revisit the action research methodology, analysing it within the context of the cases that will have by then been undertaken, and discussing its appropriateness for this type of research.

## **CHAPTER 6 – RESEARCH FINDINGS, ANALYSIS AND DISCUSSION**

### **6.1. Introduction**

The previous chapters set a comprehensive background for this study. Extensive theory and literature were reviewed in Chapters 2, 3 and 4, and Chapter 5 discussed the methodology for the study. As mentioned in Chapter 5, three companies were chosen to participate in the questionnaires and interviews. This qualitative data sampling method (questionnaires and interviews) was chosen as it requires non-probability/non-random, purposive/judgmental samples that are not focused on the size of the sample, but rather the amount of valuable information that can be retrieved from it.

In this chapter, the results from the research that were gathered by using questionnaires and interviews from freight and logistics multinational enterprises (MNEs) are interpreted and discussed in detail in the form of case studies. The results portray the drivers behind the inorganic growth (see definition in Section 2.4) method spurt through mergers and acquisitions (M&As) in the freight and logistics industry.

This chapter is organised as follows: Section 6.2 will analyse each of the three case studies in depth and will conclude with the results for each. Section 6.4 will conclude the study by comparing the three case studies' data and will also provide some recommendations for future similar studies.

### **6.2. Analysis of the case studies**

The following sections will explain the three case studies, starting with Case study 1: The Glencore-Pacorini-Access Freight deal, followed by Case study 2: The CWT-ASI deal and finally Case study 3: The Aramex-Berco Express deal.

#### **6.2.1. Case study 1: A case study on the Glencore-Pacorini-Access acquisitions**

##### **6.2.1.1. Introduction**

This section presents a case study on the acquisitions of Pacorini by Glencore, and Access by Pacorini wherein the data collected on the acquisitions from the companies (primary data) will be compared to the previously collected secondary data on M&As in the literature and theoretical chapters of the study.

#### 6.2.1.2. Brief summary of each of the three companies

The summaries of the three companies below will include, among others, the history of the companies, where their headquarters are located, the industry(ies) they operate in, the area(s)/geographic location(s) they conduct business in, services and/or products they specialise in and various other business segments within the company. Hereafter, the three companies will merely be referred to as “Glencore”, “Pacorini” and “Access Freight”.

##### A. Glencore International PLC

Glencore International PLC, which is an acronym for *Global Energy Commodity Resources*, was founded in 1974 by Marc Rich and is headquartered in Baar, Switzerland. Glencore is a well-known, established and diversified vertically-integrated producer, processor and trader of various commodities to several industries globally. Glencore’s three business segments are: metals and minerals, energy products and agricultural products, as well as marketing and logistics. The company employs approximately 181 000 people on both permanent and contract positions. Their scale and diversity make them a reliable, competitive multinational company with a presence at every stage of the commodity chain.

##### B. Pacorini Metals Europe (B.V.) (Pty) Ltd

Pacorini Metals is a leading London Metal Exchange (LME) warehousing company with its headquarters in Zug, Switzerland. They provide tailored storage solutions to the metals community globally. Their LME-approved warehouses are located in over 20 locations globally. Pacorini also specialises in risk management and administration services, which are recognised and accepted by major financial institutions and insurance companies. These services include collateral management business where they manage pledged materials at either their own facilities or at their clients’ facilities on behalf of clients and financiers.

##### C. Access Freight Group (Pty) Ltd

Access Freight Africa (AFA), Access Freight Logistics (AFL) and Access Freight International (AFI), together with two other sister companies known as Access Freight Projects (AFP) and Access Transport (AT) make up the well-known Access Freight Group (Pty) Ltd. Access Freight was established in 1991 and specialises in warehousing, freight forwarding and customs brokerage services in Sub-Saharan Africa, as well as numerous other countries

globally. The main product categories the company deals with are metals, minerals, agriculture and project cargo. The company is headquartered in Durban, South Africa.

#### 6.2.1.3. The acquisitions

This case study requires the exploration of two deals to provide a broader understanding of the situation. Firstly, the deal between Glencore and Pacorini will be briefly discussed and thereafter the deal between Pacorini and Access will be discussed in more depth. This is necessary since the family-owned business, Pacorini, sold their metals division to Glencore and therefore Pacorini now falls within the Glencore Group; and it was the Pacorini Metals division that acquired Access Freight under the ownership of Glencore.

##### A. Glencore International PLC and Pacorini Metals Europe (B.V.) (Pty) Ltd

In 2010, trading, mining and commodities giant Glencore acquired the Pacorini Metals Warehousing division of the Pacorini Group for an estimated amount of \$209 million in cash. Glencore agreed to allow the metals division to continue to operate under the name Pacorini Metals Europe (B.V.) (Pty) Ltd. According to Alex MacDonald from the Dow Jones Newswires (2013), the deal took place due to the lucrative business of storing metals traded on the London Metal Exchange (LME).

In order to stay within the boundaries of the problem being analysed for this specific study, this acquisition is not suitable for further exploration. It is, however, suggested that this deal would make an excellent future study due to the wave of similar M&As being noticed in the world of metals warehouses, and, in particular, LME-approved warehouses.

##### B. Pacorini Metals Europe (B.V.) (Pty) Ltd and Access Freight Group (Pty) Ltd

Early in 2013, it was announced that Glencore International PLC's (GLEN.LN) Pacorini logistics and warehousing unit is venturing into the African continent by acquiring a Sub-Saharan warehousing business from South African logistics group, Access Freight, for an undisclosed sum. Later that same year, on 19 June, the South African Competition Tribunal conditionally approved the acquisition by Pacorini Metals Europe (B.V.) (Pty) Ltd of Access Freight Group (Pty) Ltd.

It is said that this deal with Access Freight will provide Pacorini with a well-known and established logistics network in Sub-Saharan Africa. This allows them to profit from the growing production of metals and minerals including copper, cobalt and iron ore in this region. In turn, being part of Pacorini Metals, Access Freight can now offer their clients even more

comprehensive freight and logistics solutions using the group's offices and operations across all the major continents.

#### 6.2.1.4. Analysing the data gathered from the questionnaire and interview

As mentioned in the beginning of this study, the main research question to be answered is:

- What motivates or drives the inorganic growth spurt of M&As in the freight and logistics industry of South Africa?

Secondary research questions are:

- Why the focus on inorganic growth methods?
- Why target the African continent?
- Why was the target company specifically chosen?

The data gathered from both the questionnaire and interview conducted with the above-mentioned parties concluded the findings mentioned in the following sections.

#### 6.2.1.5. Motives for the acquisition

The main research question and secondary research questions will be discussed hereunder. There are various macro-economic factors that motivate mergers and acquisitions. The primary data gathered on these motives for the acquisition have been analysed against the theory and literature discussed in previous chapters of this study. These findings are shown in the comparative tables below:

Table 6.1: Macro-economic factors creating acquisition motives/drivers

| Theory                          | Empirical data verify/falsify theory |
|---------------------------------|--------------------------------------|
| Merger waves                    | +                                    |
| Political influences            | -                                    |
| Changes in economic environment | +                                    |
| Technological progression       | -                                    |
| Financial shocks                | +                                    |

Note:

- Codes:
- + Data fit/agree with/support the theory
  - + - Data somewhat fit/agree with/support the theory
  - Data do not fit/agree with/support the theory

Table 6.4 above shows how the macro-economic factors gathered from theory that pressure companies to follow inorganic growth methods through mergers or acquisitions compare to the primary data gathered. According to theory, the most significant macro-economic factors for the above-mentioned are merger waves, political decisions, changes in the economic environment, technological progression and financial shocks. The results also show that merger waves created by financial shocks and changes in the economic environment agree with the data and are part of the factors that created acquisition motives. Even though the 7<sup>th</sup> M&A wave has not officially been recorded, many researchers have speculated that it started in 2011 and is focused on the African continent.

This is in line with the data gathered from the questionnaire and the interview with Pacorini and Access. It follows that the surge of cross-border M&As in the freight and logistics industry caused changes in the economic environment and placed both Pacorini and Access into an acquisition deal. On the other hand, the data show that political influences were not part of the macro-economic motives for this deal. The motive of technological progression somewhat fits/agrees with/supports the theory of the data gathered. There was no concrete evidence that technological progression was part of the main drivers or motivations for the acquisition.

Table 6.2: Motives/drivers for the acquisition

| Theory             | Empirical data verify/falsify theory |
|--------------------|--------------------------------------|
| Growth             | +                                    |
| Economies of scale | +                                    |
| Transaction costs  | -                                    |
| Diversification    | -                                    |
| Debt/equity        | -                                    |
| Monopoly           | -                                    |

|                             |   |
|-----------------------------|---|
| Undervaluation              | - |
| Synergy                     | + |
| Empire building             | - |
| Access to capital markets   | - |
| Competitive advantage       | + |
| Tax and incentives          | - |
| Factors of production       | - |
| Improving product portfolio | - |
| Exploit opportunity         | + |

Note:

- Codes:
- +        Considered to be a motive for the acquisition
  - + -      Somewhat considered to be a motive for the acquisition
  - Not considered to be a motive for the acquisition

From Table 6.5, there are five motives identified as drivers behind the acquisition of Access by Pacorini. These are to achieve fast and high levels of growth expansion into the African market, to achieve production economies of large-scale and multi-unit operations, to benefit from operational, financial and managerial synergies, to gain a competitive advantage in the market, and to attempt to make an economic profit by using factors of production that may include land, labour, capital and entrepreneurship. These motives will be analysed in depth in the sections below.

#### 6.2.1.5.1. Growth

One of the most common motives for M&As is <sup>2</sup>corporate growth. It is one of the easiest goals to measure and, according to Starbuck (1965), more often than not chosen as the main strategy by many companies. This is also the case for the acquisition of Access by Pacorini. From the data collected, it follows that the main driving forces behind the acquisition were that Pacorini wanted a footprint in the African market. The respondent mentioned that inorganic

---

<sup>2</sup>Corporate growth: can be defined in numerous ways and be achieved in several strategic forms including market share, geographic reach or sales volume/financial growth.

growth methods such as the acquisition of Access by Pacorini are very effective because the acquirer is essentially buying existing revenue streams, skills, knowledge and competencies and at the same time speeding up the process of establishing a presence in the target market. According to the respondent, growing in size means expanding into new markets around the world to keep a competitive advantage and be profitable. The respondent also added that Pacorini rated the financial risk of the acquisition as being much lower than the risk of organic growth (see definition in Section 2.4) in the African market.

Access' main domestic competitors were all acquired before Pacorini made an offer to buy the company. This placed Access in a vulnerable position where it was showed that they had to also think about their own future growth and competitiveness in the market. The respondent mentioned that various deals were offered to Access prior to Pacorini's offer, but none of them appealed to Access in the way Pacorini did. The two companies' culture and future goals were well aligned and consequently made it an attractive situation for both.

According to Hay and Liu (1998), *"In a sector where rivals are making acquisitions, the firm must follow the strategy of following competitors in an attempt to prevent rivals from building a dominant market position"*. Hay and Liu (1998) continued to say that: *"Continual growth in saturated markets is secured through the entrance of new markets, since competitors occupy these markets too; the only entry mode is through an acquisition"*.

In others similar studies the researchers Hallen and Wiedersheim-Paul (1982), and Marris and Mueller (1980) found that *"sometimes a firm needs quick access to main markets, and the preference is to acquire market channels by taking over the right firms rather than the lengthier attempt to grow the market organically"*.

The respondent mentioned that even though the main decision and offer to acquire Access freight came from Pacorini, it was a mutual consensus. Access Freight was considering various factors such as when the best time would be to sell the company, for how much to sell the company, who to sell the company to, and weighing the opportunity costs between organic and inorganic growth methods. At the same time, Pacorini was looking to grow into the African continent and was looking for a freight and logistics company in South Africa that had a well-known brand, well-developed freight and logistics services, strong competitive position in the market and that was willing to sell.

According to the respondent, Pacorini was looking for a company that had experience and knowledge of the African continent, including infrastructural, economic, political and business

cultures to become a part of their team. They believed that it was the best method for fast and vast growth.

#### 6.2.1.5.2. Economies of scale

Economies of scale are a well-known term in business and therefore a confident driver of inorganic growth methods. Economies of scale refer to the cost advantages a company obtains due to its size, output and the scale of operations (Panzar, 1977). It is based on the theory that the cost per unit of output usually decreases as the scale of the operations increase, because the fixed costs can be spread out over a larger number of outputs (Shih, 2004).

Pacorini, which is a multinational freight and logistics company, saw economies of scale as one of the motives for the acquisition of Access, which is a South African-based freight and logistics provider. According to the respondent, the internal economies of scale and external economies of scale from the acquisition allow the companies to control their costs and profits by means of business size, production size and standardisation.

#### 6.2.1.5.3. Synergy

Synergy can be discussed in terms of operations, finances and management (Trautwein, 1990; Megginson & Smart, 2008). Acquiring a company that operates in the same industry may lead to an increase in economies of scale. Operational and financial synergies were identified to have been identified in the acquisition of Access by Pacorini and will be discussed according to the respondent's views.

##### A. Operational synergies

Resources that lead to production and/or administrative efficiencies are known as operating synergies. Operating synergies refer to the ability to cut costs of the combined companies (Pacorini and Access) due to the consolidation of operations. *“Operating synergies can affect margins and growth, and through these the value of the firms involved in the merger or acquisition”* (Mester, 1987). The respondent recognised that firms use operational synergy to increase their income and growth. Pacorini and Access saw the following four types:

- Economies of scale

The acquisition allowed the companies to be more cost efficient and more profitable working as a combined team.

- Greater pricing power

The acquisition allowed the companies to enjoy a higher market share, which has, and should in future, result in even higher margins and operating income.

- Combination of different functional strengths

Pacorini brought knowledge of tailored storage solutions, risk management and administration services that are recognised and accepted by major financial institutions and insurance companies across Europe and Asia. Access brought specialised knowledge and experience in warehousing, freight forwarding and customs brokerage services specific to Sub-Saharan Africa.

- Higher growth in new or existing markets

Pacorini bought Access, which is an emerging market company with an established client portfolio, distribution network and a well-known brand name in the Sub-Saharan market. This allowed them to use these strengths to increase their business in this new market.

## B. Financial synergies

According to Clemente and Greenspan (1998), financial synergy usually correlates with positive revenue, debt capacity, cost of capital, as well as profitability results due to the combination of two companies through a merger or acquisition.

A few of the benefits from the financial synergies from this acquisition are:

- Higher cashflows and a lower cost of capital.

This synergy is likely to show up most often when large firms acquire smaller firms, or when publicly-traded firms acquire private businesses, as is the case with Pacorini and Access.

- Increase in debt capacity

Since the firms combined through the acquisition, it allows for their earnings and cashflows to become more stable and predictable and, in turn, allows them to borrow more than what they could have on their own as individual entities.

### C. Managerial synergy

Managerial synergy was also present in this acquisition. This occurred due to the combination of Pacorini and Access's management teams in order to draw strengths, knowledge and expertise from each other. The respondent mentioned that Access will strengthen the Pacorini Group's commodity logistics business in Southern and Eastern Africa because of their management team's vast local knowledge. Pacorini put trust in the management of Access and left them to operate as they have been doing for many years, and according to the respondent, that is one of the main reasons why they have been successful.

#### 6.2.1.1.3. Competitive advantage

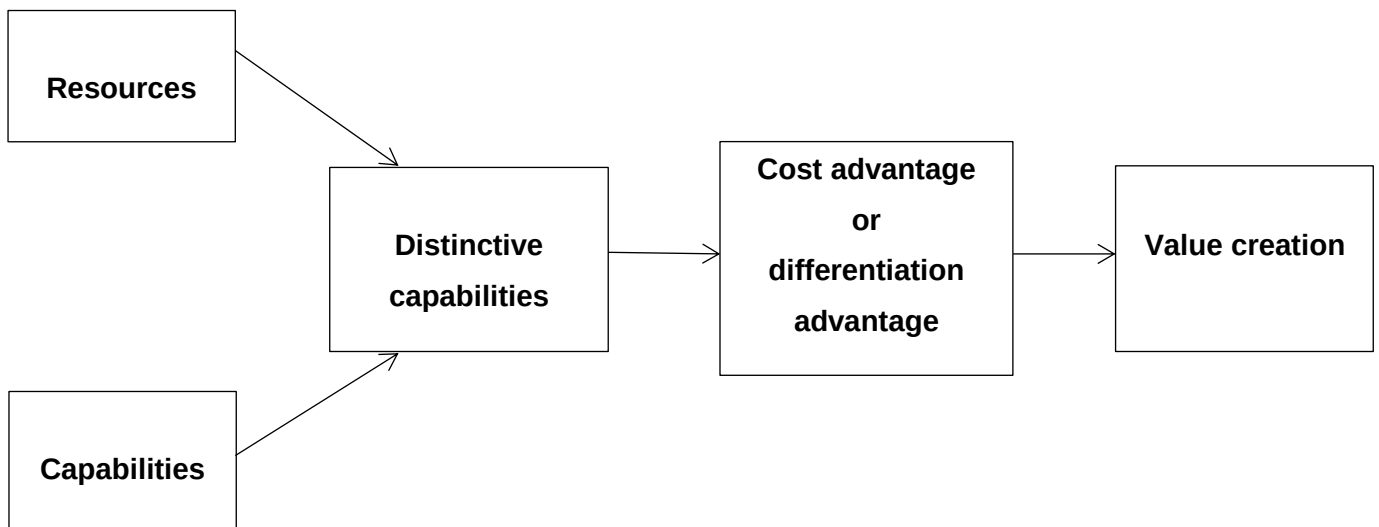
When companies decide to grow their business abroad through mergers or acquisitions, they have to determine the sustainability of their competitive advantage in the new markets or economies. Operating in these new economies might hold potential foreign exchange risks, political risks and increased agency costs; therefore, the competitive advantage would have to be firm-specific, transferable and powerful enough to compensate for these possible risks.

The acquisition of Access by Pacorini offered both companies the opportunity to gain a greater competitive advantage in the freight and logistics sector. Porter (1985) suggested there are two basic types of competitive advantage, namely cost advantage and differentiation advantage. Competitive advantage is one of the most common business strategies as every company strives to possess a competitive advantage over their competitors.

The respondent stated that a competitive advantage was one of the motives for this deal as they aimed to offer their clients greater value through extended benefits and services (differentiation advantage) and lower costs (cost advantage), which, in turn, meant higher profits for the companies. These cost and differentiation advantages are known as positional advantages (Porter, 1985).

The companies viewed the deal as a means to gain resource-based advantages such as exclusive knowledge/experience, an already set-up customer base, reputation of the firm and brand equity, as well as the positional advantages mentioned above. This is illustrated in Figure 6.1 below:

Figure 6.1: Model of competitive advantage



Source: Authors own compilation

From the respondent's answers on the successfulness of the acquisition, three competitive advantages have been identified, namely:

- Economies of scale and scope arising from their large size;
- Financial, managerial and marketing strength; and
- Differentiated products and services;

Firms in the emerging markets are striving to gain sustainable competitive advantage. There is a strong relationship between the business models and the competitive advantage or cost advantage or differentiation advantage. An effective business model is a combination of deliberate alignment of resources and capabilities providing distinctive capabilities to strike competitive advantage. Firms with multiple business models demonstrated higher chances of gaining competitive advantage due to their value creation ability.

#### 6.2.1.1.4. Exploit opportunity

Africa's growth has far surpassed that of its fellow emerging market economies over the last few years (Santiso, 2007). The continent currently hosts five out of the 12 fastest growing economies globally as reported by the Economist and the International Monetary Fund (IMF) (Nellor, 2008). This current and potential economic growth is what attracted Pacorini's attention, as such high growth rates provide attractive business opportunities.

According to the respondent, Pacorini saw Africa as:

- an opportunity to get a high return on investment; and
- an opportunity to gain access to a largely untapped market, with low penetration and great potential.

They also saw South Africa as:

- the gateway into the African continent with little to no restriction on the areas of investment; and
- The country with the most advanced infrastructure, well-developed banking and financial services systems on the continent.

With these positive characteristics of the African continent, there are also downsides. There are still very rural and under-developed countries and parts of the continent where it will be difficult to conduct business as usual. Pacorini, however, realised this early on and stated that they will have to tailor their risk management strategies to specific business activities and local contexts. This resulted in Pacorini looking at Access as a good potential partner to expand into the African continent.

In the next section, the findings will be summarised and a conclusion will be presented for this case.

#### 6.2.1.6. Summarising findings of the case

Table 6.3: Case study findings summary

| <b>Theory</b> | <b>Empirical data<br/>verify/falsify<br/>theory</b> | <b>Findings</b>                                                                                                                                                                                                                                                                                                             |
|---------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth        | +                                                   | Growth was the main motive/driver behind this deal. By using an inorganic growth method such as an acquisition, Pacorini was able to gain a footprint into Africa, and by choosing Access as the target, they essentially bought existing revenue streams, skills, knowledge and competencies, which sped up the process of |

|                       |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                       |   | establishing a presence in the target African market.                                                                                                                                                                                                                                                                                                                                                                                           |
| Economies of scale    | + | The internal economies of scale and external economies of scale from the acquisition allowed the companies to control their costs and profits by means of business size, production size and standardisation.                                                                                                                                                                                                                                   |
| Synergy               | + | Operational, financial and managerial synergies were a part of the motive behind the acquisition as the companies aimed at producing a greater effect together than they would have on their own.                                                                                                                                                                                                                                               |
| Competitive advantage | + | Many of Pacorini's competitors were venturing into the African market by means of M&As and they knew they had to do the same to keep a competitive advantage position in the industry globally.                                                                                                                                                                                                                                                 |
| Exploit opportunity   | + | The African continent offers opportunities to get a high return on investment, and to gain access to a largely untapped market, with low penetration and great potential. South Africa also offers the gateway into the African continent with little to no restriction on the areas of investment and is the country with the most advanced infrastructure, as well as well-developed banking and financial services systems on the continent. |

Note:

- Codes:
- + Data fit/agree with/support the theory
  - + - Data somewhat fit/agree with/support the theory
  - Data do not fit/agree with/support the theory

#### 6.2.1.7. Conclusion

In conclusion, the motives for the acquisition of Access by Pacorini were growth, economies of scale, synergies, competitive advantage and to exploit an opportunity that arose. Inorganic growth methods were chosen to expand the company's global footprint. They saw growth through mergers/acquisitions as the best inorganic growth method to follow. The acquisition allowed Pacorini to gain a footprint into Africa, and also to gain valuable intangible resources such as skills, experience and knowledge of the local African freight and logistics sector by choosing Access as their target company. Growth for these companies was important as they operate in a very competitive environment, and when there are certain trends in the industry (such as this merger/acquisition spurt), they have to follow to keep a competitive advantage. Having acquired a target with an established brand helped to speed up the process of establishing a presence in the target African market. The African continent offers opportunities to get high returns on investments and also to gain access to a largely untapped market, with low penetration and great potential. The specific target company (Access) was chosen by Pacorini because they are based in South Africa, which offers the gateway into the African continent with little to no restriction on the areas of investment.

#### 6.2.2. Case study 2: A case study on the CWT Group (CWT): Aquarius Shipping International (ASI) acquisition

##### 6.2.2.1. Introduction

This section presents a case study on the acquisition of Aquarius Shipping International by CWT Europe B.V., which is a part of the CWT Group wherein the data collected on the acquisition from the companies will be compared to the previously collected secondary data on M&As in the literature and theoretical chapters of the study.

##### 6.2.2.2. Brief summary of each of the two companies

The summaries of the two companies below will include the history of the companies, where their headquarters are located, the industry(ies) they operate in, the area(s)/geographic location(s) they conduct business in and business segments within the company. Hereafter, the two companies will just be referred to as "CWT" and "ASI".

#### A. CWT Group (CWT)

The CWT Group is a well-known, leading provider of integrated logistics solutions globally. The company was founded in 1970, which means it has over 45 years of logistics heritage. The CWT Group is headquartered in Singapore and employs approximately 6 000 people globally. In 2014, the Group's reported revenue stood on S\$15.2 billion. The company has also been listed on the Singapore Exchange since 1993 and today is known as the largest listed logistics company in Southeast Asia. The CWT Group serves clients in various industry sectors such as commodities, chemical and petrochemical, marine, oil and gas, defence and industrial sectors. Another part of the CWT Group is its wholly-owned subsidiary CWT Commodities Pte Ltd, which is listed as an official London Metals Exchange (LME) warehouse operator with approved facilities in over eight countries. CWT Commodities offers integrated commodity services including bonded and non-bonded warehousing, collateral management, freight forwarding, shipping, mining logistics, surveying and sampling.

#### B. Aquarius Shipping International (ASI)

Aquarius shipping International (ASI) is a freight and logistics company that is well known in Africa. Founded in 1997 and headquartered in Durban, South Africa, ASI has built a solid reputation in the freight and logistics industry. The company also has offices in Malawi (Lilongwe), Zimbabwe (Harare), Zambia (Lusaka), Mozambique (Beira and Tete), South Africa (Durban), the United Kingdom (London) and Belgium (Antwerp). ASI offers services such as shipping, warehousing, customs clearance and forwarding services to their clients.

##### 6.2.2.3. The acquisition

On 25 November 2010, the CWT Group Ltd announced that it had officially signed a conditional sale and purchase agreement whereby they will acquire a 60% stake in Aquarius Shipping International (Pty) Ltd through CWT Europe BV, the European arm of its wholly-owned subsidiary, CWT Commodities Pte Ltd. The company also stated that the main reason for the acquisition is to strengthen its commodity logistics capabilities and business network in Southern and Eastern Africa. The deal was structured as follows:

CWT Europe BV acquired a 60% equity stake in ASI by buying part vendor shares and part new shares of ASI for the following considerations:

- a. *An upfront consideration of ZAR22.5mil (or approximately S\$4.35mil) and;*
- b. *An earn-out consideration of up to ZAR7mil or S\$1.32mil, payable in five equal instalments over 2011 to 2015, upon achievement of an agreed earnings target for the financial year ending 31 December 2010.*
- c. *Incentive payment payable to the existing management shareholders for the initial five post acquisition years for 10% of profit after tax in excess of an agreed minimum return on investment for the respective years.*
- d. *A proportionate contribution to the existing shareholders loan.*
- e. *An agreed exit provision for the existing shareholders after the fifth year post-acquisition; and,*
- f. *The existing management shareholders to sign a five-year management contract with ASI.*

The valuation of ASI has taken into account the current net asset value of ZAR 6.9mil, current earnings and the earnings potential of ASI. The valuation has also taken into account the time and money required to set up similar operations in Africa organically and the fact that the platform is strategic to the group's business plan for Africa and its commodity logistics as a whole.

#### 6.2.2.4. Analysing the data gathered from the questionnaire and interview

As mentioned in the beginning of this study, the main research question to be answered is:

- What motivates or drives the inorganic growth spurt of M&As in the freight and logistics industry of South Africa?

Secondary research questions are:

- Why the focus on inorganic growth methods?
- Why target the African continent?
- Why was the target company specifically chosen?

The data gathered from both the questionnaire and interview conducted with the above-mentioned parties concluded the findings mentioned in the following sections.

#### 6.2.2.5. Motives for the acquisition

The main research question and secondary research questions will be discussed hereunder. There are various macro-economic factors that motivate mergers and acquisitions. The

primary data gathered on these motives for the acquisition have been analysed against the theory and literature discussed in previous chapters of this study. These findings are shown in the comparative tables below:

Table 6.4: Macro-economic factors creating acquisition motives/drivers

| Theory                          | Empirical data verify/falsify theory |
|---------------------------------|--------------------------------------|
| Merger waves                    | +                                    |
| Political decisions             | -                                    |
| Changes in economic environment | +                                    |
| Technological progression       | -                                    |
| Financial shocks                | +                                    |

Note:

Codes:           +       Data fit/agree with/support the theory

                  +-       Data somewhat fit/agree with/support the theory

                  -       Data do not fit/agree with/support the theory

Table 6.7 above shows how the macro-economic factors gathered from theory that pressure companies to follow inorganic growth methods through mergers or acquisitions compare to the primary data gathered. According to theory, the most significant macro-economic factors for the above-mentioned are merger waves, political decisions, changes in economic environment, technological progression and financial shocks. The results also show that merger waves and changes in the economic environment agree with the data and are part of the factors that created acquisition motives. Even though the 7<sup>th</sup> M&A wave has not officially been recorded, many researchers have speculated that it started in 2011 and is focused on the African continent. This is in line with the data gathered from the questionnaire and the interview with CWT and ASI. It follows that the surge of cross-border M&As in the freight and logistics industry caused changes in the economic environment and placed both CWT and ASI into an acquisition deal.

Table 6.5: Motives for the acquisition

| Theory                      | Empirical data verify/falsify theory |
|-----------------------------|--------------------------------------|
| Growth                      | +                                    |
| Economies of scale          | +                                    |
| Transaction costs           | +                                    |
| Diversification             | -                                    |
| Debt/equity                 | -                                    |
| Monopoly                    | -                                    |
| Undervaluation              | -                                    |
| Synergy                     | +                                    |
| Empire building             | -                                    |
| Access to capital markets   | -                                    |
| Competitive advantage       | +                                    |
| Tax and incentives          | -                                    |
| Factors of production       | -                                    |
| Improving product portfolio | -                                    |
| Exploit opportunity         | +                                    |

Note:

- Codes:
- +        Considered to be a motive for the acquisition
  - + -      Somewhat considered to be a motive for the acquisition
  - Not considered to be a motive for the acquisition

From Table 6.8, there are seven motives identified as drivers behind the acquisition of ASI by CWT. These are to achieve high levels of growth expansion into the African market fast, to achieve production economies of large-scale and multi-unit operations, to lower transaction costs, to benefit from operational, financial and managerial synergies, to gain a competitive

advantage in the market, to attempt to make an economic profit by using factors of production that may include land, labour, capital and entrepreneurship, and finally, to exploit an opportunity that arose. These motives will be analysed in depth in the sections below.

#### 6.2.2.5.1. Growth

One of the most common motives for M&As is <sup>3</sup>corporate growth. It is one of the easiest goals to measure and, according to Starbuck (1965), is more often than not chosen as the main strategy. This is also the case for this acquisition deal between CWT and ASI. From the data collected, it follows that the main driving forces behind the acquisition were that CWT wanted a footprint in the African market. The respondent added that CWT realised it was time to venture into the African continent to grow the company and keep a competitive advantage as size is a benchmark for progress. This is a common theory among many companies; they figure that if they are large enough they will have an effective barrier against threats in the market.

The respondent also mentioned that ASI's main domestic competitors in South Africa were all being targeted and eventually being acquired by multinational companies, and this led to them also receiving various deal offers. According to the respondent, ASI realised that it was only a matter of time before their competitors will start to benefit from the mergers or acquisitions as they are part of large multinational companies and could offer their clients more comprehensive freight and logistics packages. Consequently, they decided to review the various offers and go with the best suited partner for their business according to their goal at that stage for the company – to grow/expand. According to Hay and Liu (1998), *“In a sector where rivals are making acquisitions, the firm must follow the strategy of following competitors in an attempt to prevent rivals from building a dominant market position”*. Hay and Liu (1998) continued to say that: *“Continual growth in saturated markets is secured through the entrance of new markets, since competitors occupy these markets too; the only entry mode is through an acquisition”*.

The respondent also stated that both CWT and ASI were well aware that growth rates of 10% or higher per year is too difficult to reach by using only organic growth methods and to reach both companies' goals of growth, an acquisition deal was the way forward. According to Penrose (1959), companies with the goal of a growth rate higher than 10% per year have no interest in slow, unreliable organic growth methods and are willing to take the risks together

---

<sup>3</sup> Corporate growth: can be defined in numerous ways and be achieved in several strategic forms including market share, geographic reach or sales volume/financial growth.

with the rewards for fast inorganic growth methods, thereby acquiring firm after firm, large or small, to keep up with their set goal.

The respondent mentioned that even though the main decision and offer to acquire ASI came from CWT, it was a two-way street. ASI was considering various factors such as when the best time would be to sell the company, for how much to sell the company, who to sell the company to, and weighing the opportunity costs between organic and inorganic growth methods. At the same time, CWT was looking to grow into the African continent and was looking for a freight and logistics company in South Africa that had a well-known brand, well-developed freight and logistics services, strong competitive position in the market, and that was willing to sell. According to the respondent, CWT was looking for a company that had experience and knowledge of the African continent, including infrastructural, economic, political and business cultures to become a part of their team. They believed that it was the best method for fast and vast growth.

Their argument was that they want quick access to this new geographic location and would not interfere that much with how business is conducted by ASI – as long as they can see the growth. This argument is evidenced in studies conducted by Hallen and Wiedersheim-Paul (1982) and Marris and Mueller, (1980) stating that *“sometimes a firm needs quick access to main markets, and the preference is to acquire market channels by taking over the right firms rather than the lengthier attempt to grow the market organically”*.

#### 6.2.2.5.2. Economies of scale

Another common motive for M&As is economies of scale, which, in plain terms, mean to follow a strategy of reduced costs. The acquisition between CWT and ASI is a perfect example of the reduced cost motive; an acquisition took place between CWT, which is a multinational freight and logistics company and ASI, which is a Southern African-based freight and logistics provider; and because the acquisition was between two companies operating in the same industry, it increases the production capacity directly. In a study conducted by Gammelgaard (1999), various business or operational costs can be reduced, resources can be more efficiently utilised and per unit costs can be reduced by large scale operations, and therefore his motive for this theory is to minimise cost. Gammelgaard (1999) also mentions the likely occurrence of merger waves due to this motive.

As mentioned earlier, the respondent talked about ASI's domestic competitors as well as the global competitors of CWT that were all taking part in mergers and acquisitions. Economies

of scale are a well-known term in business and therefore a confident driver of inorganic growth methods. Minimising operational costs, reduced per unit costs and more effective and efficient resource allocation because of the large scale of the operations were another reason CWT acquired ASI. The respondent also mentioned that economies of scale motivated the acquisition as they offer the opportunity for CWT to quickly acquire a vast amount of specialised knowledge and expertise in the business, economic and political segments of the targeted African market. Itami (1987) explains the following: *“It makes economic sense to use specialised individuals, technology, machines or information to their full capacity”*. Further to that, Penrose (1959) stated that: *“large management teams are better to allocate resources and determine strategies for the whole corporation”*.

The literature explains that firms mostly opt for inorganic growth methods through M&As when there is a vast amount of pressure through competition in the specific market they operate in. Chandler (1990) explains that: *“where the fight for the market, demands quick growth in market shares obtained by the lowest price. The American oil industry in the late 19<sup>th</sup> Century was a famous example of this.”*

#### 6.2.2.5.3. Transaction costs

The third motive behind this acquisition was the reduction of transaction costs. Hart (1995) and Williamson (1975) state that acquisitions *“reduce the cost related to governance structures, supplier’s monopolistic gains and risk premiums and finally the cost related to the negotiation of contracts”*. Additionally, Jervis (1971) states that *“even if suppliers are reliable, they may not be able to deliver the necessary flow of input, and this is especially important when talking about critical resources”*.

Because CWT specialises in the handling and storage of ferrous and nonferrous metals and a variety of other commodities, storage options and availability are essential. According to the respondent, ASI has offices in various countries such as Malawi (Lilongwe), Zimbabwe (Harare), Zambia (Lusaka), Mozambique (Beira and Tete), South Africa (Durban and Johannesburg), the United Kingdom (London) and Belgium (Antwerp). They are a non-asset-based company, which means they rent the warehouse space they use for the business in the above-mentioned countries. The respondent continued by saying that warehousing space is an important factor for a company such as CWT as they are listed as an official London Metals Exchange (LME) warehouse operator with facilities in over eight countries globally.

By having the option of warehouse space to store the metals, minerals and other commodities acquired from within Africa in various locations across the continent and having offices in all those same locations being run by a 'division' of CWT's business made it a very attractive situation for CWT especially. Further to that, the respondent indicated that ASI was equally intrigued by the offer from CWT as they offered to inject large amounts of money into ASI to build various warehouses throughout Africa.

#### 6.2.2.5.4. Synergy

Synergy, growth and economies of scale are closely related to one another and examples of synergy resulting from either growth or economies of scale are a common occurrence Mester (1987). Synergies refer to the type of reaction or the results stemming from the combination of two units (in this case CWT and ASI) with the aim to produce a greater effect together than they would have on their own (Teece, 1987; Richardson, 1972). In this case, the acquisition of ASI by CWT aims to fill a gap or positively contribute to both companies' functional strengths. According to Trautwein (1990) and Megginson and Smart (2008), there are three main types of synergy known as operating synergy, financial synergy and managerial synergy, and these three have also been identified in the acquisition of ASI by CWT and will be discussed according to the respondent's views.

##### A. Operational synergy

Operational synergy was identified in the acquisition of ASI by CWT because both companies contribute well-established distribution networks and recognisable brand names on different continents. The result of ASI being a well-known, respected and trusted freight and logistics company in Africa allows CWT to incorporate these new strengths and use them to increase sales of its products and services. The companies also share other complementary resources, which allows them to generate substantial growth in previously unknown markets (in CWT's case, the African market) and (in ASI's case, the Asian, European and North and South American markets). ASI can access not only the wide range of clients CWT has, but also develop and expand their metals business by using CWT's strengths as a leading provider of collateral management services, LME- and LIFFE-approved warehouse services and other commodity-related services. This can be described and categorised as operational synergy through the acquisition. According to the respondent, the operation synergies have been positive for both companies with regard to margins, growth and the value of the two companies. This will be explored further in the next sections.

## B. Financial synergy

According to Clemente and Greenspan (1998), financial synergy usually correlates with positive revenue, debt capacity, cost of capital, as well as profitability results due to the combination of two companies through a merger or acquisition.

The respondent identified some of the financial synergies the companies hoped for at the initiation phase of the acquisition. These included:

- Higher revenues through larger geographic reach, customer base, more products and services offered;
- Decreases in operational costs; and
- Coherence between systems, processes, cultures and management.

However, according to the respondent, it has now been almost six years post-acquisition and from both parties there has been positive as well as negative feedback on the above mentioned. Positive feedback was as follows: ASI gained higher revenues, increased debt capacity, a moderate decrease in operational costs, and a lower cost of capital, whereas CWT gained decreases in operational costs, tax benefits, higher revenues and a lower cost of capital. Negative feedback was that ASI had hoped for higher levels of decreases in operational costs. CWT had hoped to achieve higher levels of revenue over a shorter period of time, and coherence between systems, processes, cultures and management was not quite reached as the Asian market varies significantly from the African market, and therefore few system and process changes could be implemented from CWT to ASI.

## C. Managerial synergy

Managerial synergy was also present in this acquisition. This occurred due to the combination of CWT and ASI's management teams in order to draw strengths, knowledge and expertise from each other. The respondent mentioned that ASI will strengthen the CWT Group's commodity logistics business in Southern and Eastern Africa because of their management team's vast local knowledge. CWT put trust in the management of ASI and left them to operate as they have been doing for many years, and according to the respondent, that is one of the main reasons why they have been successful so far.

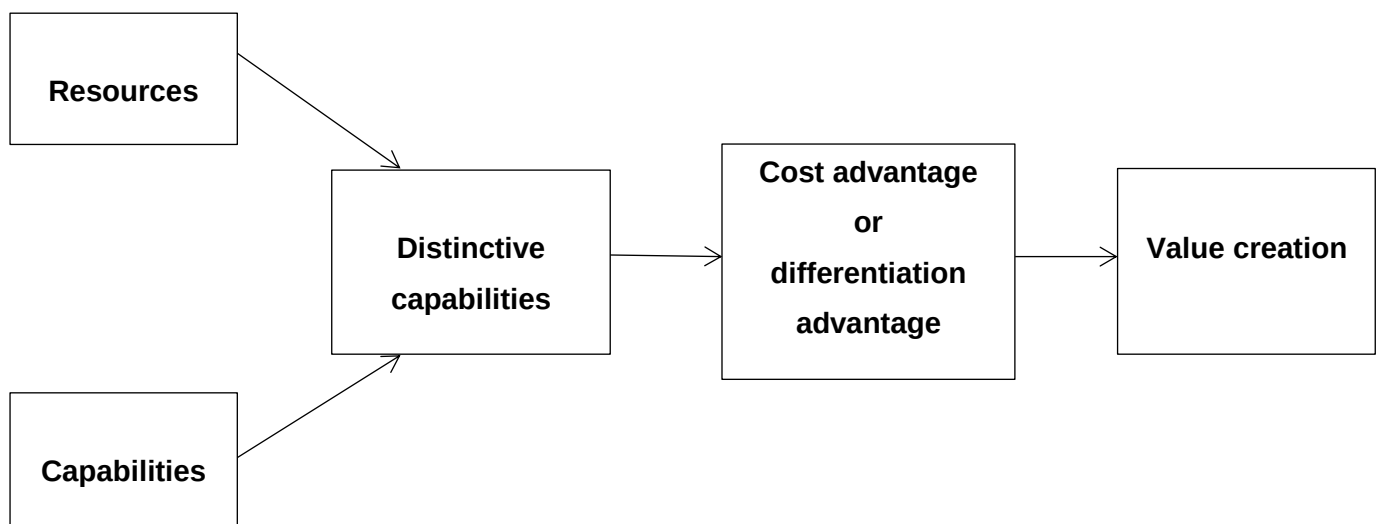
#### 6.2.2.5.5. Competitive advantage

The acquisition of ASI by CWT gave both companies the opportunity to gain a greater competitive advantage in the freight and logistics sector. Porter (1985) suggested there are two basic types of competitive advantage, namely cost advantage and differentiation advantage. Competitive advantage is one of the most common business strategies as every company strives to possess a competitive advantage over their competitors.

The respondent stated that a competitive advantage was one of the motives for this deal as they aimed to offer their clients greater value through extended benefits and services (differentiation advantage) and lower costs (cost advantage), which, in turn, meant higher profits for the companies. These cost and differentiation advantages are known as positional advantages (Porter, 1985).

The companies viewed the deal as a means to gain resource-based advantages such as exclusive knowledge/experience, an already set-up customer base, reputation of the firm and brand equity as well as the positional advantages mentioned above. This is illustrated in Figure 6.1 below:

Figure 6.2: Model of competitive advantage



Source: Authors own compilation

The purpose of a competitive strategy is to build a sustainable competitive advantage over an organization's rivals. There is a strong relationship between the business models and the competitive advantage or cost advantage or differentiation advantage. An organization's

competencies or distinctive capabilities are unique to the business itself and is what gives it the advantage over its competitors. Competitive advantage also comes from having the cost leadership position in the market.

#### 6.2.2.5.6. Exploit opportunity

Africa's growth has far surpassed that of its fellow emerging market economies over the last few years (Santiso, 2007). The continent currently hosts five out of the 12 fastest growing economies globally as reported by the Economist and the International Monetary Fund (IMF) (Nellor, 2008). This current and potential economic growth is what attracted CWT's attention, as such high growth rates provide attractive business opportunities.

According to the respondent, CWT saw Africa as:

- An opportunity to get a high return on investment; and
- An opportunity to gain access to a largely untapped market, with low penetration and great potential.

They also saw South Africa as:

- the gateway into the African Continent with little to no restriction on the areas of investment; and
- the country with the most advanced infrastructure, well-developed banking and financial services systems on the continent.

With these positive characteristics of the African continent, there are also downsides. There are still very rural and under-developed countries and parts of the continent where it will be difficult to conduct business as usual. CWT, however, realised this early on and stated that they will have to tailor their risk management strategies to specific business activities and local contexts. This resulted in CWT looking at ASI as a good potential partner to expand into the African continent.

In the next section, the findings will be summarised and a conclusion will be presented for this case.

#### 6.2.2.6. Summarising findings of the case

Table 6.6: Summary of the case study findings

| <b>Theory</b>         | <b>Empirical data<br/>verify/falsify<br/>theory</b> | <b>Findings</b>                                                                                                                                                                                                                                                                                                                                            |
|-----------------------|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth                | +                                                   | Fast growth into the African market was the main reason/driving force for the acquisition.                                                                                                                                                                                                                                                                 |
| Economies of scale    | +                                                   | Economies of scale were one of the other motives as it made economic sense to use specialised individuals, technology, machines and information to their full capacity. Furthermore, it could minimise operational costs, reduce per unit costs and lead to more effective and efficient resource allocation because of the large scale of the operations. |
| Transaction costs     | +                                                   | The ability to reduce transaction costs through the acquisition because they reduce the cost related to governance structures, supplier's monopolistic gains and risk premiums and finally the cost related to the negotiation of contracts.                                                                                                               |
| Synergy               | +                                                   | Operational, financial and managerial synergies were a part of the motive behind the acquisition as the companies aimed at producing a greater effect together than they would have on their own.                                                                                                                                                          |
| Competitive advantage | +                                                   | Competitive advantage was one of the motives for this deal as they aimed to offer their clients greater value through extended benefits and services (differentiation advantage) and lower costs (cost advantage), which, in turn, meant higher profits for the companies.                                                                                 |
| Exploit opportunity   | +                                                   | Africa is a growing economy, largely untapped market, with low penetration and great business potential.                                                                                                                                                                                                                                                   |

Note:

|        |     |                                                        |
|--------|-----|--------------------------------------------------------|
| Codes: | +   | Considered to be a motive for the acquisition          |
|        | + - | Somewhat considered to be a motive for the acquisition |
|        | -   | Not considered to be a motive for the acquisition      |

#### 6.2.2.7. Conclusion

In conclusion, the six motives for the acquisition of ASI by CWT were growth, economies of scale, transaction costs, synergies, competitive advantage and to exploit an opportunity that arose. CWT was looking to grow their company's global reach and inorganic growth methods made economic sense. CWT acquired ASI because they wanted a company in South Africa that has specialised individuals, technology, machines and information that are familiar with the business culture of Africa.

#### 6.2.3. Case study 3: A case study on the Aramex-Berco Express acquisition

##### 6.2.3.1. Introduction

This section presents a case study on the acquisition between Aramex and Berco Express wherein the data collected on the acquisition from the companies will be compared to the previously collected secondary data on M&As in the literature and theoretical chapters of the study.

##### 6.2.3.2. Brief summary of each of the two companies

The summaries of the two companies below will include the history of the companies, where their headquarters are located, the industry(ies) they operate in, the area(s)/geographic location(s) they conduct business in and business segments within the company.

##### A. Aramex

Aramex is one of the leading providers of a comprehensive range of transportation and logistics services globally. The company was established in 1982 as an express operator and has since then expanded significantly to where it is today, 34 years later. Aramex employs more than 13 900 people in over 354 locations across 60 countries. Aramex became the first Arab-based international company to trade its shares on the NASDAQ Stock Exchange in

1997. They returned to private ownership in 2002. In 2005, they decided to go public again and have ever since been a publicly-traded company on the Dubai Financial Market (DFM: ARMX). Aramex aims to enable and facilitate regional and global trade and commerce and eventually be recognised as one of the top five global logistics and transportation companies.

Services offered by Aramex include:

- International and domestic express delivery,
- Freight forwarding,
- Logistics and warehousing,
- Records and information management solutions,
- E-business solutions, and
- Online shopping services

#### B. Berco Express

Berco express can be classified as a domestic and international courier, warehousing and logistics expert in South Africa. The company was founded in 1992 by Bernard E Cox and JB Joubert. Berco Express employs over 720 people across their 15 branches in South Africa.

##### 6.2.3.3. The Acquisition

On 11 December 2011, it was announced that Dubai-based group Aramex acquired a 100% stake of the South African-based Berco Express. According to Fadi Ghandour, founder and CEO of Aramex, the acquisition forms an integral part of their long-term expansion strategy to strengthen their presence in emerging markets. Aramex also views the South African market as a highly attractive market with a business friendly environment and significant growth prospects. Aramex states that the reason they chose Berco Express is because they are a company with a great culture, brilliant management and leading brand. They also believe that Berco Express will introduce exciting growth and development opportunities for Aramex in Africa.

##### 6.2.3.4. Analysing the data gathered from the questionnaire and interview

As mentioned in the beginning of this study, the main research question to be answered is:

- What motivates or drives the inorganic growth spurt of M&As in the freight and logistics industry of South Africa?

Secondary research questions are:

- Why the focus on inorganic growth methods?
- Why target the African continent?
- Why was the target company specifically chosen?

The data gathered from both the questionnaire and interview conducted with the above-mentioned parties concluded the findings mentioned in the following sections.

#### 6.2.3.5. Motives for the acquisition

The first question: “*What are the driving forces behind the motivations for mergers and acquisitions*” will be discussed hereunder. There are various macro-economic factors that motivate mergers and acquisitions. The primary data gathered on these motives for the acquisition have been analysed against the theory and literature discussed in previous chapters of this study. These findings are shown in the comparative tables below:

Table 6.7: Macro-economic factors creating acquisition motives/drivers

| Theory                          | Empirical data verify/falsify theory |
|---------------------------------|--------------------------------------|
| Merger waves                    | +                                    |
| Political decisions             | -                                    |
| Changes in economic environment | +                                    |
| Technological progression       | -                                    |
| Financial shocks                | +                                    |

Note:

Codes:        +        Data fit/agree with/support the theory  
                 +-        Data somewhat fit/agree with/support the theory  
                 -        Data do not fit/agree with/support the theory

Table 6.10 above shows how the macro-economic factors gathered from theory that pressure companies to follow inorganic growth methods through mergers or acquisitions compare to the primary data gathered. According to theory, the most significant macro-economic factors

for the above-mentioned are merger waves, political decisions, changes in economic environment, technological progression and financial shocks.

The results also show that merger waves and changes in the economic environment agree with the data and are part of the factors that created motives for the acquisition. Even though the 7<sup>th</sup> M&A wave has not officially been recorded, many researchers have speculated that it started in 2011 and is focused on the African continent. This is also in line with the data gathered from the questionnaire and the interview with Aramex and Berco Express. It follows that the surge of cross-border M&As in the freight and logistics industry caused changes in the economic environment and drove both Aramex and Berco Express to also get involved in a merger or acquisition deal.

Table 6.8: Motives for the acquisition

| Theory                               | Empirical data verify/falsify theory |
|--------------------------------------|--------------------------------------|
| Growth                               | +                                    |
| Economies of scale                   | +                                    |
| Transaction costs                    | -                                    |
| Diversification                      | -                                    |
| Debt/Equity                          | -                                    |
| Monopoly                             | -                                    |
| Undervaluation                       | -                                    |
| Synergy                              | +                                    |
| Empire building                      | -                                    |
| Access to capital markets            | -                                    |
| Competitive advantage                | +                                    |
| Tax and incentives                   | -                                    |
| Factors of production                | -                                    |
| Improving product/services portfolio | -                                    |

|                     |   |
|---------------------|---|
| Exploit opportunity | + |
|---------------------|---|

Note:

- Codes:
- +        Considered to be a motive for the acquisition
  - + -      Somewhat considered to be a motive for the acquisition
  - Not considered to be a motive for the acquisition

From Table 6.11, there are five motives identified as drivers behind the acquisition of Berco Express by Aramex. These are to achieve high levels of growth expansion into the African market fast, to achieve production economies of large-scale and multi-unit operations, to benefit from operational and financial synergies, to gain a competitive advantage in the market, and finally to exploit an opportunity that arose. These motives will be analysed in depth in the sections below.

#### 6.2.3.5.1. Growth

One of the most common motives for M&As is <sup>4</sup>corporate growth. It is one of the easiest goals to measure according to Starbuck (1965), and more often than not, chosen as the main strategy. This is also the case for this acquisition deal between Aramex and Berco Express. From the data collected, it follows that the main driving forces behind the acquisition were that Aramex wanted a footprint into the African market.

According to Penrose (1959), companies with the goal of a growth rate higher than 10% per year have no interest in slow, unreliable organic growth methods and are willing to take the risks together with the rewards for fast inorganic growth methods, thereby acquiring firm after firm, large or small, to keep up with their set goal. The respondent mentioned that Aramex chose the inorganic growth strategy as they wanted to have fast access into the African market. By acquiring Berco Express, which had an established and well-known logistics operations network, supplier and/or customer relationships, brand name and presence in South Africa, Aramex rapidly gained market entry and established relative market power in the freight and logistics sector of South Africa. This argument is evidenced in studies conducted by Hallen and Wiedersheim-Paul (1982) and Marris and Mueller (1980), stating that *“sometimes a firm needs quick access to main markets, and the preference is to acquire market channels by taking over the right firms rather than the lengthier attempt to grow the market organically”*.

---

<sup>4</sup> Corporate growth: can be defined in numerous ways and be achieved in several strategic forms including market share, geographic reach or sales volume/financial growth

Aramex's strategy is to create growth by establishing the company as the leading freight and logistics company in emerging markets through an aggressive acquisition and partnership approach. The major targets are Sub-Saharan Africa, China, Fareast Asia and the Middle East. They want to leverage the local knowledge and experience of the local targets in these emerging markets and at the same time avoid the slow, complicated and expensive process of organic growth.

Aramex wanted to grow the company and realised that geographical expansion was the next logical step towards achieving competitive advantage as size is a benchmark for progress. This is a common theory among many companies; they figure that if they are large enough they will have an effective barrier against threats in the market. According to Hay and Liu (1998), *"In a sector where rivals are making acquisitions, the firm must follow the strategy of following competitors in an attempt to prevent rivals from building a dominant market position"*. Hay and Liu (1998) continued to state that: *"Continual growth in saturated markets is secured through the entrance of new markets, since competitors occupy these markets too; the only entry mode is through an acquisition"*.

#### 6.2.3.5.2. Economies of scale

Economies of scale are some of the most common motives for companies to enter into merger or acquisition deals. Economies of scale refer to the cost advantages a company obtains due to its size, output and the scale of operations (Panzar, 1977). It is based on the theory that the cost per unit of output usually decreases as the scale of the operations increase, because the fixed costs can be spread out over a larger number of outputs (Shih, 2004).

The acquisition of Berco Express, which is a Southern African-based freight and logistics provider, by Aramex, which is a multinational freight and logistics company, saw economies of scale as one of the motives for the deal. According to the respondent, the internal economies of scale and external economies of scale from the acquisition allow the companies to control their costs and profits by means of business size, production size and standardisation.

Berco Warehousing, a division of Berco Express, was formed to meet the growing needs of customers who require additional services throughout the supply chain. The company aims to add value to a customer through the economies of scale they produce and thereby aim to reduce costs and increase productivity. These services primarily emphasise product flow rather than storage and they cover the following: Pick and pack, barcode processing, serial

number tracking, cross-docking split (handling in/out), subassembly and kitting, configuration of technology products to order, order processing, labelling, shrink wrapping, inventory management, free store (duty paid) and customs-bonded store (duty unpaid).

Both companies operate in the same industry, which allows them to increase the production capacity directly. Itami (1987) explains the following: *“It makes economic sense to use specialised individuals, technology, machines or information to their full capacity”*. Further to that, Penrose (1959) stated that: *“large management teams are better to allocate resources and determine strategies for the whole corporation”*.

#### 6.2.1.1.5. Synergy

Synergies refer to the type of reaction or the results stemming from the combination of two units (in this case Aramex and Berco Express) with the aim to produce a greater effect together than they would have on their own (Teece, 1987; Richardson, 1972).

Synergy, growth and economies of scale are closely related to one another and examples of synergy resulting from either growth or economies of scale are a common occurrence (Mester, 1987). Two types of synergies were identified in this acquisition, namely revenue and market growth (operational synergy) and cost reduction and efficiency leverage (financial synergy).

##### A. Revenue and market growth (operational synergy)

The deal strategy anticipated synergies from entering into new markets (African market), expanding to new geographies (South Africa and the rest of the Sub-Saharan countries), and accessing new distribution channels. By combining Berco Express and Aramex's company research and development efforts and using existing production platforms to deliver new products or services, other synergies may be realised by leveraging expanded operational and sales reach.

##### B. Cost reduction and efficiency leverage (financial synergy)

There are many opportunities for cost reduction in a company. The deal strategy in this case also anticipated cost reduction and efficiency leverage synergies for Aramex and Berco Express. These included a restructuring/realignment of the company policies to better manage the combined spending of the companies. Furthermore, through economies of scale as well as the improved use of technology, the companies could anticipate an increase in productivity from these consolidated operations.

### C. Managerial synergy

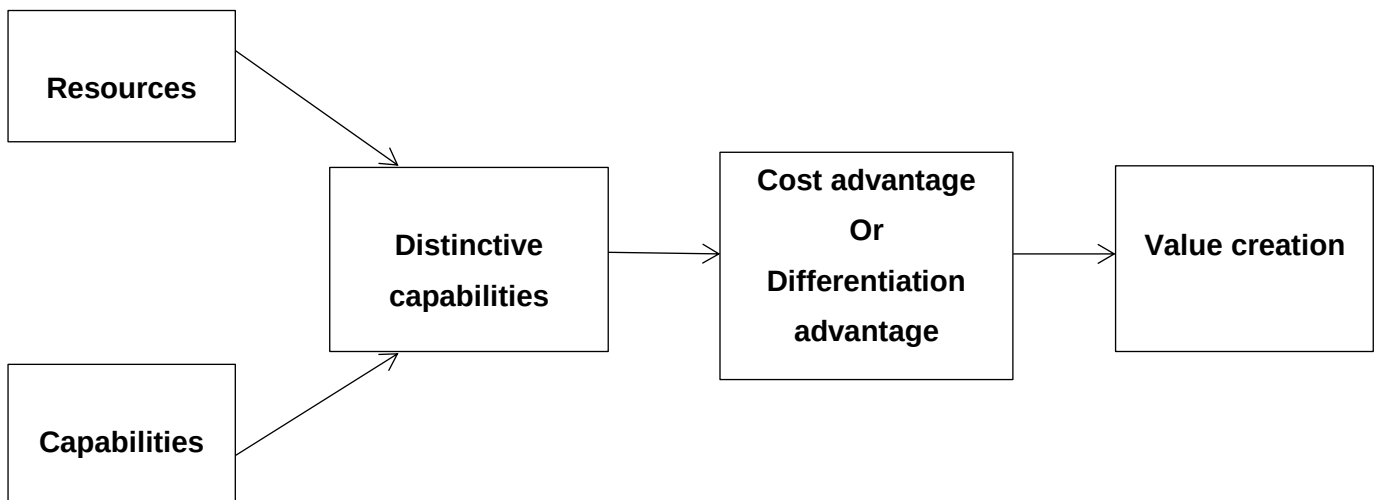
Managerial synergy was also present in this acquisition. This occurred due to the combination of Aramex and Berco Express's management teams in order to draw strengths, knowledge and expertise from each other. The respondent mentioned that Berco Express will strengthen Aramex's logistics and transportation business in Sub-Saharan Africa because of their management team's vast knowledge and experience of local logistics and transport business, culture and other operations. Aramex did buy 100% of Berco Express and therefore, even though Berco Express was a well-known brand in South Africa, Aramex changed the name of Berco Express to Aramex South Africa as their strategy is to build a strong name for the Aramex brand in Sub-Saharan Africa.

#### 6.2.1.1.6. Competitive advantage

Porter (1985) suggested that there are two basic types of competitive advantage, namely cost advantage and differentiation advantage. In terms of the acquisition of Berco Express by Aramex, competitive advantage was one of the motives for this deal as they aimed to offer their clients greater value through extended benefits and services (differentiation advantage) and lower costs (cost advantage), which, in turn, meant higher profits for the companies. These cost and differentiation advantages are known as positional advantages (Porter, 1985). Competitive advantage is one of the most common business strategies, as every company strives to possess a competitive advantage over their competitors.

Aramex viewed the deal as a means to gain resource-based advantages such as exclusive knowledge/experience, an already set-up customer base, reputation of the firm and brand equity as well as positional advantages mentioned above. This is illustrated in Figure 6.3 below:

Figure 6.3: Model of competitive advantage



Source: Authors own compilation

The need to achieve greater competitive advantage in the market is a well-known goal among most companies globally. Companies therefore recognise the need to add additional value and expansion to their products and services in terms of new market entries or new distribution channels. According to the respondent, gaining a competitive advantage was motive for the acquisition taking place. Aramex realised that their competitors are following inorganic growth methods and they wanted to follow, but exceed the *status quo* by exceeding their customers' expectations by offering improved logistics and transportation services, better customer service and faster delivery. The respondent also mentioned that the continuous improvement of technology, systems and processes will allow them to keep a competitive advantage in the emerging markets they are moving into – especially referring to Sub-Saharan Africa.

The literature explains that firms mostly opt for inorganic growth methods through M&As when there is a vast amount of pressure from competition in the specific market they operate in. Chandler (1990) explains that: *“where the fight for the market, demands quick growth in market shares obtained by the lowest price. The American oil industry in the late 19<sup>th</sup> Century was a famous example of this.*

#### 6.2.1.1.7. Exploit opportunity

Emerging markets have shown much higher growth rates since the early 2000s compared to prior decades and now account for half of global output (Dabla-Norris *et al.*, 2013). Favourable external conditions, along with improved policy frameworks, played a major role in driving this strong growth performance (Basu & Fernald, 2001). Out of the many emerging markets

globally, the African continent has shown the most significant economic growth figures over the past few years and currently hosts five of the world's fastest growing economies

According to the respondent, South Africa is viewed as one of the countries in the emerging markets that can diversify and build flexible labour markets while managing expectations, and was therefore chosen as the gateway into Africa. Aramex's goal is to exploit this opportunity and strengthen and reinforce their global competitive position as one of the top multinationals in the freight and logistics sector by expanding their global network into emerging markets such as Africa and continuously innovating solutions to meet the customers' evolving global needs.

Aramex hopes to grow their competitive advantage by driving global connectivity by deepening trade links between high-growth markets across emerging market trade routes.

#### 6.2.3.6. Summarising findings of the case

Table 6.9: Summarising the case study findings

| <b>Theory</b>         | <b>Empirical data<br/>verify/falsify<br/>theory</b> | <b>Findings</b>                                                                                                                                                                                             |
|-----------------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth                | +                                                   | The acquisition offered the perfect opportunity to grow the footprint of the company into emerging markets and gain access to South Africa, which is seen as the gateway into Africa.                       |
| Economies of scale    | +                                                   | The internal economies of scale and external economies of scale from the acquisition allow the companies to control their costs and profits by means of business size, production size and standardisation. |
| Synergy               | +                                                   | They wanted to achieve synergies through the acquisition with the aim to produce a greater effect together than they would have on their own.                                                               |
| Competitive advantage | +                                                   | They had a need to achieve greater competitive advantage in the logistics and transportation sector globally, and therefore recognise the need                                                              |

|                     |   |                                                                                                                                                                                                                 |
|---------------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                     |   | to add additional value and expansion to their products and services in terms of new market entries or new distribution channels by means of inorganic growth methods such as acquisitions.                     |
| Exploit opportunity | + | The saw South Africa as a gateway into the Sub-Saharan continent and an opportunity to expand their global network into emerging markets further as Africa hosts five of the world's fastest growing economies. |

Note:

- Codes:
- + Considered to be a motive for the acquisition
  - +/- Somewhat considered to be a motive for the acquisition
  - Not considered to be a motive for the acquisition

#### 6.2.3.7. Conclusion

In conclusion, the five motives for the acquisition of Berco Express by Aramex were growth, economies of scale, synergy, competitive advantage and to exploit an opportunity. The aim was to grow the footprint of the company into emerging markets and to gain access to South Africa, which is seen as the gateway into Africa. Berco Express offered the perfect platform of knowledge and expertise of the local Sub-Saharan transport and logistics market for Aramex to build on and expand after the acquisition took place. Africa is the continent that hosts five of the world's fastest growing economies and offers Aramex strong growth potential to expand their global network into emerging markets further.

#### 6.3. Summary and Conclusion

This chapter studied the results from the data that were gathered by using questionnaires and interviews completed by freight and logistics MNEs. This was done with the aim of determining the drivers behind the decisions of these companies choosing to use inorganic growth methods with specific reference to mergers and acquisitions.

A cross-case analysis of the three acquisitions below will show how each case compares to the other.

### 6.3.1. Summarising and concluding of the motives for the acquisition: Cross-case analysis

The first question: “*What are the driving forces behind the motivations for mergers and acquisitions*”? will be discussed hereunder. There are various macro-economic factors that motivate mergers and acquisitions. The primary data gathered on these motives for the acquisition have been analysed against the theory and literature discussed in previous chapters of this study. These findings are shown in the comparative tables below:

Table 6.10: Macro-economic factors creating acquisition motives/drivers

| <b>Theory</b>                   | <b>Empirical data<br/>verify/falsify theory<br/><br/>Pacorini-Access</b> | <b>Empirical data<br/>verify/falsify theory<br/><br/>CWT-ASI</b> | <b>Empirical data<br/>verify/falsify theory<br/><br/>Aramex-Berco</b> |
|---------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------|
| Merger waves                    | +                                                                        | +                                                                | +                                                                     |
| Political decisions             | -                                                                        | -                                                                | -                                                                     |
| Changes in economic environment | +                                                                        | +                                                                | +                                                                     |
| Technological progression       | -                                                                        | -                                                                | -                                                                     |
| Financial shocks                | +                                                                        | +                                                                | +                                                                     |

Note:

Codes:       +       Data fit/agree with/support the theory  
               +-       Data somewhat fit/agree with/support the theory  
               -       Data do not fit/agree with/support the theory

As shown in Table 6.13 above, the three deals were all motivated by the same macro-economic factors (as already explained in detail earlier in this chapter), creating acquisition motives, namely merger waves, changes in economic environment, technological progression and financial shocks.

The following table will show the comparison of the various motives for each of the three deals.

Table 6.11: Motives for the acquisition

| <b>Theory</b>               | <b>Empirical data<br/>verify/falsify theory<br/><br/>Pacorini-Access</b> | <b>Empirical data<br/>verify/falsify theory<br/><br/>CWT-ASI</b> | <b>Empirical data<br/>verify/falsify theory<br/><br/>Aramex-Berco</b> |
|-----------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------|
| Growth                      | +                                                                        | +                                                                | +                                                                     |
| Economies of scale          | +                                                                        | +                                                                | +                                                                     |
| Transaction costs           | -                                                                        | +                                                                | -                                                                     |
| Diversification             | -                                                                        | -                                                                | -                                                                     |
| Debt/equity                 | -                                                                        | -                                                                | -                                                                     |
| Monopoly                    | -                                                                        | -                                                                | -                                                                     |
| Undervaluation              | -                                                                        | -                                                                | -                                                                     |
| Synergy                     | +                                                                        | +                                                                | +                                                                     |
| Empire building             | -                                                                        | -                                                                | -                                                                     |
| Access to capital markets   | -                                                                        | -                                                                | -                                                                     |
| Competitive advantage       | +                                                                        | +                                                                | +                                                                     |
| Tax and incentives          | -                                                                        | -                                                                | -                                                                     |
| Factors of production       | -                                                                        | -                                                                | -                                                                     |
| Improving product portfolio | -                                                                        | -                                                                | -                                                                     |
| Exploit opportunity         | +                                                                        | +                                                                | +                                                                     |

Note:

Codes:       +       Considered to be a motive for the acquisition

              +-       Somewhat considered to be a motive for the acquisition

              -       Not considered to be a motive for the acquisition

After comparing the results of the three cases with each other in Table 6.14, it can be summarised that corporate growth (market share, geographic reach or sales volume/financial growth), economies of scale, synergies, competitive advantage and exploiting an opportunity that arose were the most significant motivations/driving forces behind MNEs choosing to pursue inorganic growth methods through mergers and acquisitions. Transaction costs were the only other motivation/driving force, but only showed up in the results of the CWT-ASI case.

## **CHAPTER 7: CONCLUSION, RECCOMENDATIONS AND LIMITATIONS**

### **7.1. Introduction**

In the preceding chapter, the results from the case studies were presented, analysed and discussed in detail in an effort to answer the research question(s) identified in Chapter 1. The purpose of this chapter is to present a summary of the study, to draw conclusions and offer some recommendations for future research based on the findings in this study.

### **7.2. Summary of the study**

Extensive research has been conducted on foreign direct investment (FDI) and mergers and acquisitions (M&As) globally, but less research exists on the services sector, and more specifically on the freight and logistics industry. Despite the importance of these mega-trends of inorganic growth in the freight and logistics industry, relatively little research has appeared in the literature. Many researchers have attempted to discover evidence on certain parts of cross-border M&As, but there is yet to be a study that has aimed to determine the drivers behind the inorganic growth method through M&As spurt in the freight and logistics industry of South Africa. This study adopted an integrated and holistic approach using literature, theory as well as questionnaires and interviews to collect data.

The purpose of this study was to fill the above-mentioned gap to some extent. That is, to uncover the drivers of inorganic growth through M&As in the freight and logistics sector of South Africa by adopting a process perspective. In essence, this study attempted to determine why large multinational enterprises (MNEs) are using inorganic growth methods rather than organic growth methods to systematically discover evidence about why these large MNEs in the services and transport sector are specifically focusing on M&As as their inorganic growth method and also to identify why these MNEs are specifically targeting Africa. These research questions helped to articulate the research problem that the thesis addressed and they were applied throughout the study, and indicated the direction of inquiry of the research.

This research, pertaining to the specific objectives, consisted of two phases, namely a literature review and an empirical study. This is summarised in the following sections.

### 7.2.1. Literature

The literature in this study is three fold; firstly, in Chapter 2, a thorough review of FDI in general and the effects it has on trade and economic growth are discussed. It further reviews the literature and theories published on FDI and international trade. Chapter 3 studies M&As in detail and further investigates literature and theory on these deals. In Chapter 4, the services sector is discussed on a global scale, but specific focus is also placed on South Africa's services sector and specifically the transport and logistics fragment of the services sector. This chapter also includes a more specific review of the freight and logistics industry (which falls within the services sector) both globally and in South Africa to obtain a broader understanding of the sector and industry as a whole.<sup>5</sup>

#### 7.2.1.1. FDI

FDI is described as the transfer of factors complementary to capital and transfer of ownership. FDI grows faster than world production and trade in both emerging and developed countries each year. A country needs capital for its economy to grow and FDI is one of the most valuable forms of capital for developing countries. Increased investment is thought to be subject to diminishing returns, according to the neoclassical literature available. Endogenous growth theories, on the other hand, state that long-term growth can be achieved if positive spillovers from FDI result in the effect of diminishing returns.

Economic geography also supports the idea of positive spillovers resulting due to the formation of agglomerations. It suggests that it can be one of the most important determinants of FDI location. By internalising an investment using FDI, firms can cut out the market imperfections, which will, in turn, result in a more efficient transaction. Since FDI has presented many markets with invaluable contributions to their growth and development strategies, countries have started to compete to acquire more FDI over the past decade. These higher levels of competition for more FDI, with the hope of achieving greater growth rates and reducing poverty levels, have led to liberalisation of trade barriers and restrictions. The liberalisation of trade and general policies has led to better competitiveness and trade situations as well as better-quality investment climates.

---

<sup>5</sup> Organic growth vs Inorganic growth: Organic growth is the process of business expansion by increased output, customer base expansion, or new product development, as opposed to mergers and acquisitions, which is inorganic growth

#### 7.2.1.2. Mergers and acquisitions

Due to the need to keep a competitive position in the market in changing economic situations, companies are drawn to utilise inorganic growth approaches such as M&As when organic growth methods are not sufficient anymore. A large portion of FDI is held by M&As, according to Bertrand (2004). Economic integration developed further as liberalisation lifted investment and trade barriers, making way for the global expansion of mergers and acquisitions. MNEs have seen global restructuring, experienced improved performance, and met financial targets through mergers and acquisitions.

A company's business, organisational and corporate strategy can benefit from M&As (Rappaport, 1986). For a company to gain more market advantage, it needs to create shareholder value. Many organisations believe that one big company is far more valuable than two separate companies, and that is why M&As play such a prominent role in today's business economies (Investopedia, 2006).

From the theory and literature in this chapter, it follows that M&As have become the most prevailing form of inorganic growth methods. Companies are looking for cheaper and quicker modes of entry into new markets to improve their financial, economic and geographic situations, and that is exactly what M&As offer them. The potential of synergies and economies of scale is another benefit that M&As offer companies. M&As can also be used to get tax benefits and higher market power.

#### 7.2.1.3. Services sector

Commercial activities are being offshored and outsourced resulting in the international restructuring of operations, attributable to globalisation. Global value chains (GVCs) have become a prevailing feature of global trade and are influencing growth opportunities as well as trade and FDI patterns in developed, emerging and developing countries and are due to the movement of goods and services, ideas and investments, the interlinking of trade intermediates, and the growing demand for services.

This study highlights the importance of national and global policy agendas putting a great deal of focus on services in the form of liberalisation as well as promotional efforts, because they have come to realise the importance of a more efficient, effective and sustainable infrastructure and services sector. The more inorganic growth methods such as M&As increase in the freight and logistics industry, it follows that it is one of the most important

determinants for trade, development and global GDP is providing services. Services along with strong efficient infrastructure are important for a prosperous economy

#### 7.2.1.4. Freight and logistics industry

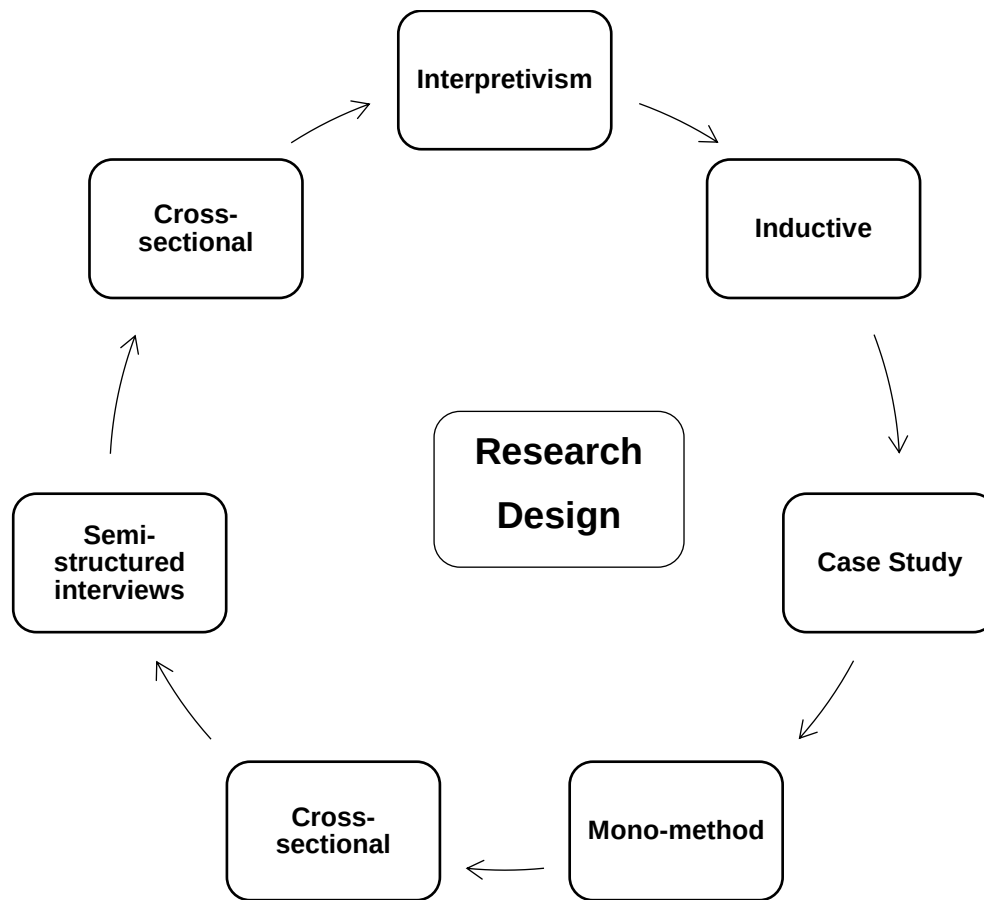
The freight and logistics industry is highly capital intensive, and because of large amounts of M&As arising, some firms lean towards M&As to try and gain a competitive advantage (Samitas & Kenourgios, 2007). Due to the steep competition in this industry, companies try to expand their global reach and footprint, minimise their financial risks, reduce costs, create significant economies of scale and rationalise their activities.

The global freight forwarding industry is a direct beneficiary of globalisation and has been growing at a fast pace, generating high amounts of returns on capital, thereby attracting both strategic and financial investors. It seems these investors are operating on the notion that 'bigger is better', and consequently the world is seeing an upsurge in the number of M&As in this industry.

#### 7.2.2. Methodology

Chapter 5 consists of the research methods and approaches, selection of variables, collection of data and case study analysis. It includes both the purpose and research question of the study as well as matters discussed in the previous chapters. The methods used to collect data and the issues of the reliability and validity of the data were explored in this chapter.

Figure 4.4 from Chapter 4 below reflects the research design summary for this study.



The above figure demonstrates the research design chosen for this study using the “research onion” illustrated in section 4.3.

It shows the six stages this research will deal with. In the first stage, the interpretivist approach was applied; with this approach the author can provide a subjective interpretation of the events to provide meaningful explanations. The second stage dealt with the inductive approach, which is known to provide an alternative approach that is more flexible. In the third stage, the case study approach was chosen as it provides the opportunity to ask “why?”, “what?” and “how?” questions, which provide more context to complex M&A matters. The fourth stage chose the mono-method as the best option for this thesis as it allowed the interviewees to explain and elaborate on their answers, thereby providing a more profound understanding of the meanings on the “what”, “how”, and “why” questions. Stage 5: discussed the various time horizons. Since there were time constraints on the completion of this study, cross-sectional research was decided upon to be the best option for this study. The final stage focused on choosing the appropriate data collection method. Interviews were used as they offered a better comprehension of a specific topic, thereby allowing for a theory to be proposed and for generic conclusions to be formed.

### 7.2.3. Analysis of the results

The empirical study consists of the research method, selection of variables, collection of data and case study analysis. Three companies were chosen to participate in the questionnaires and interviews. This qualitative data sampling method (questionnaires and interviews) requires non-probability/non-random, purposive/judgemental samples that are not focused on the size of the sample, but rather the amount of valuable information that can be retrieved from it.

In order to have achieved this study's objectives, valid, reliable and quality data gathering was important, and therefore databases such as Bureau van Dijk's Zephyr and FDI markets were used to collect the data needed to identify which companies would be selected to participate in the study. The objective of the questionnaires and interviews was to conduct in-depth analyses on each of the three chosen companies through detailed explanations and elaborations by the interviewees (respondents) on specific questions regarding the merger or acquisition transaction. This qualitative data sampling method (questionnaires and interviews) requires non-probability/non-random, purposive/judgemental samples that are not focused on the size of the sample, but rather the amount of valuable information that can be retrieved from it. The criteria used to identify the three companies were:

- Publically listed companies
- Deal type: Merger or acquisition
- Various deal values in USD
- Market capitalisation
- Source country/acquiring company has to be anywhere but in Africa
- Destination country/target company has to be in South Africa
- Industry/sector: Freight and Logistics

Table 7.1. The chosen companies

| # | Acquiring Company  | Target Company |
|---|--------------------|----------------|
| 1 | Glencore, Pacorini | Access Freight |
| 2 | CWT                | Aquarius       |
| 3 | Aramex             | Berco Express  |

Source: Author's own compilation

The above-mentioned companies completed the questionnaire and the interviews and the findings were very similar. They all showed the following main drivers as their reason for choosing inorganic growth through M&As in the freight and logistics industry of South Africa:

1. Growth
2. Economies of scale
3. Synergies
4. Competitive advantage
5. Exploit opportunity

International trade is important in today's modern, commercial world. Firms are benefitting from expanded market opportunities across national borders; this provides prospects for companies not only to generate substantial revenues, but also for geographical growth and expansion of the business. In turn, this creates positive spill-overs such as FDI and economic growth.

### 7.3. Conclusion

From the literature and theory of the study and the analysis and findings of Chapter 6, the following were identified as the most significant conclusions:

The main driving force behind M&As is growth, which includes growth in size, geographical reach, growth into new markets/economies, growth in revenue, profits or assets and fast growth. Other driving forces include economies of scale, synergy, transaction costs, competitive advantage and exploiting an opportunity that arose.

MNEs in the freight and logistics industry seem to choose inorganic growth methods rather than organic growth methods because they immediately expand their assets, income and market presence. It provides access to a fresh customer base and adds new geographical locations. Time-to-market is substantially reduced leading to a significant competitive edge. It provides a stronger line of credit because of the combined value of the two businesses. There is a possibility of achieving economies of scale over a relatively short period of time, and it helps reduce competition in the market place. It also instantly adds new brands and product/service lines to the acquiring company.

Africa and other Emerging markets are becoming more and more attractive to MNEs because they offer a sustained high rate of growth and a sustained return on investment. They are not affected by financial crises in the same way as developed countries, due to their sound

financial sector along with the support from the domestic demand. These economies have more than 50% of the world's GDP in purchasing power parity terms and attract over 50% of the inflows of foreign direct investment (FDI).

MNEs see South Africa as the gateway into Africa, because South Africa has high market potential, developed infrastructures, reasonably competitive domestic economy, a mainly free-market economy, transparent regulatory framework, access to raw materials, political stability, as well as a large and active stock exchange. The country encourages foreign investment in both the public and private sectors. Economic reforms have led to macro-economic stability, tax and customs reduction.

Most of the findings of this study were consistent with previous M&A research as reported in the general literature. It is hoped that the findings discussed here constitute substantial contributions to an understanding of the M&A phenomenon in the freight and logistics industry.

#### 7.4. Recommendations

The following recommendations are based on the findings and conclusions derived from the literature study and the questionnaire and interviews conducted.

The results from this exploratory research have advocated the applicability of the framework for investigating the main driving forces behind M&As in the freight and logistics industry of South Africa. Based on this study, it is recommended that further systematic and in-depth studies should be undertaken to establish additional practical guidelines for future acquirers as well as targets.

As mentioned before, this study attempted to identify 'what' the main driving forces are that are motivating MNEs to merge with or acquire freight and logistics companies in South Africa. Therefore, this study's results can be utilised to answer the questions of "when, how, and why," which are the primary goals of a theory. Future inquiries into corporate acquisitions in the freight and logistics industry of South Africa should be able to answer these important questions so that they serve to cross-validate the current study, and thereby enrich the body of knowledge in the areas covered by this research.

The main driving forces found in this research are by no means exhaustive, and therefore could be expanded by a larger or differentiated sample of companies that can participate in the questionnaires and interviews.

Because there have been multiple merger waves throughout the years, the motives or objectives of M&As may vary from time to time and from one merger wave to the next. Therefore, it would be recommended that a replicate research effort be conducted to find out how constant or changing the drivers that motivate MNEs to pursue inorganic growth methods identified by this study are over the space of a certain timeframe. This continuing research will also contribute to a reflection on the changing nature of the broader environment.

#### 7.5. Limitations

One limitation of this study might be the relatively small size of the respondent groups, which consisted of three respondents. This might be seen as relatively small; however, as mentioned previously in the study, it is not about the size of the sample when using qualitative analysis, because, what they lack in reliability, they make up for in validity because they provide a broader, richer and deeper depiction than any statistical method can. The respondents who participated in the questionnaire and interviews all had significant positions in their firms' acquisition decision-making processes. Therefore, the study's integrity is not necessarily weakened by adopting a relatively small group of respondents.

#### 7.6. Contributions of the study

*“Good theory is practical precisely because it advances knowledge in a scientific discipline, guides research toward crucial questions, and enlightens the profession of management” (Van de Ven et al., 1989).*

This study attempted to fulfil the above-mentioned mission by identifying a practical foundation for much needed theory concerning the identification of the drivers of M&As in the freight and logistics industry of South Africa.

Since there are no previous theoretical or empirical works about the drivers of M&As in the freight and logistic industry of South Africa, this study focused on theory construction regarding ‘what’ questions, which are the building blocks of a good theory. This study's results can be considered a point of departure for future in-depth theoretical and empirical investigations for the questions of “when, how, and why.”

Additionally, this is a pioneering study for the freight and logistics industry. The integrated and incremental framework of the acquisition process developed and validated through this

research enhanced the academic arena's understanding of the important M&A phenomenon in the freight and logistics industry of South Africa.

Finally, the results of this study can be used to contribute to an ongoing stream of research to build the industry's practical knowledge base on this important topic.

## BIBLIOGRAPHY

Adams, S. 2009. Foreign Direct Investment, Domestic Investment, and Economic Growth in Sub-Saharan Africa. *Journal of policy modelling*, 31(6):939-949.

Adlung, R. & Morrison, P. 2010. Less than the Gats: 'Negative Preferences' in Regional Services Agreements. *Journal of international economic law*, 13(4):1103-1143.

Agarwal, S. & Ramaswami, S.N. 1992. Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalisation Factors. *Journal of international business studies*, 23(1):1-27.

Ahmad, E., Rydge, J. & Stern, N. 2013 Structural change drives tax reforms drives structural change. Paper presented at the China Development Forum.

Ajami, R., Cool, K., Goddard, J.G. & Khambata, D.M. 2007. International business: Theory and practice. New Delhi: Prentice-Hall.

Albuquerque, R. 2003. The Composition of International Capital Flows: Risk Sharing Through Foreign Direct Investment. *Journal of international economics*, 61(2):353-383.

Anderson, J. 2006. Well-Suited Partners: Psychoanalytic Research and Grounded Theory. *Journal of child psychotherapy*, 32(3):329–348.

Anderson, J.D. 2006. Qualitative and quantitative research: Grant and Evaluation Office, Ottawa, Canada. [http://www.academia.edu/4780163/Qualitative\\_and\\_Quantitative\\_Research](http://www.academia.edu/4780163/Qualitative_and_Quantitative_Research). Date of access: 15 Jan. 2015.

Anderson, J.E. & Van Wincoop, E. 2003. Gravity with gravitas: A solution to the border puzzle. *American economic review*, 93(1):170–192.

Anyanwu, J.C. 2006. Promoting of investment in Africa. *African development review*, 18(1):42-71, Apr.

Arvis, J-F., Mustra, M.A., Panzer, J., Ojala, L. & Naula, T. 2007b. *Connecting to Compete: Trade Logistics in the Global Economy - The Logistics Performance Index and Its Indicators*. Washington, DC: World Bank.

Asafo-Adjei, A. 2007. Foreign direct investment and its importance to the economy of South Africa. Pretoria: University of South Africa. (Dissertation – Mcom.) <http://uir.unisa.ac.za/xmlui/bitstream/handle/10500/1332/dissertation.pdf?sequence=1> Date of access: 2 Jan. 2015.

Asiedu, E. 2002. On the determinants of foreign direct investment in developing countries: Is Africa different? *World development*, 30(1):107-119.

Awad, H.A.H. & Nassar, M.O. 2010. Supply chain integration: Definition and challenges *Management and technology*, 1(1):1-5.

Aybar, B. & Ficici, A. 2009. Cross-Border Acquisitions and Firm Value: An Analysis of Emerging-Market Multinationals. *Journal of international business studies*, 40(8):1317-1338.

Baier, S.L. & Bergstrand, H. 2001. The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity. *Journal of international economics*, 53(1):1-27.

Baker, J.W. 2007. Quantitative Classification of Near-Fault Ground Motions Using Wavelet Analysis. *Bulletin of the seismological society of America*, 97(5):1486–1501, Oct.

Banga, R. 2003. Impact of government policies and investment agreements on FDI inflows. Working Paper 116. Indian council for research on international economic relations: New Delhi, India. p. 1-43.

Baumol, W.J. 1967. Macro-economics of unbalanced growth: the anatomy of an urban crisis. *American economic review*, 57(3):415-426.

Beamish, P. & Lupton, N. 2009. Managing joint ventures. *Academy of management perspectives*, 23(2):75-94.

Bellak, C. 2004. How Domestic and Foreign Firms Differ and Why Does it Matter? *Journal of economic surveys*, 18(4):483-514.

Bernard, A.B., Jensen J.B. & Schott P.K. 2009. Importers, exporters and multinationals: a portrait of firms in the US that trade goods. (In Clayton, R. & Spletzer, J.R., eds. *Producer dynamics: New evidence from micro data*. Chicago: University of Chicago Press. p. 513-552).

Bernard, A.B., Jensen, J.B., Redding, S. & Schott, P.K. 2009. The margins of US trade. Working papers 10-4. London: Centre for Economic Policy Research.

Bernard, A.B., Jensen, J.B., Redding, S.J. & Schott, P.K. 2011. The empirics of firm heterogeneity and international trade. Working Paper 17627. National Bureau of Economic Research. November 2011. *Annual Review of Economics, Annual Reviews*, 4(1):283-313

Bernard, H.R. 1988. Research methods in cultural anthropology. Newbury Park, Calif.: Sage.

Bernard, H.R. 1996. Qualitative Data, Quantitative Analysis. *Cultural anthropology methods journal*, 8(1):9-11.

Bertrand, A. 2004. Mergers and Acquisitions (M&As). Greenfield Investment and Extensions of Capacity. Washington: IMF. *Issue Papers*, 4:28-29  
<https://www.imf.org/External/NP/sta/bop/pdf/diteg42829.pdf> Date of access: 26 Feb. 2015.

Bezuidenhout, H. 2007. Trade and foreign direct investment in the Southern African Development Community. Potchefstroom: North-West University. (Unpublished PhD Thesis.)

Bezuidenhout, H. & Naudé, W.A. 2008. Foreign direct investment and trade in the Southern African development community. Working Papers RP2008/88. World Institute for Development Economic Research (UNU-WIDER).

Bhagwati, J. 1987. Trade in services and the multilateral trade negotiations. *World Bank Economic Review*, 1(4):549-569.

Bhandari, P., Song, M., Chen, Y., Burelle, Y. & Dorn, G.W. 2014. Mitochondrial contagion induced by Parkin deficiency in Drosophila hearts and its containment by suppressing mitofusin. *Circulation research*, 114(2):257-265.

Biermann, F. 2012. The impact of distance in seaborne trade: An analysis of bilateral container transport flows. Research Paper 134. Hamburg Institute of International Economics.

Bjorvatn, K. 2000. FDI in LDCs: Facts, theory and empirical evidence. Working Paper. Norwegian School of Economics and Business Administration and Norwegian Centre for Research in Organization and Management.

Blömstrom, M. & Kokko, A. 1996. The impact of foreign direct investment on host countries: A review of the empirical evidence. Policy Research Working Paper 1745. World Bank.

Blömstrom, M. & Kokko, A. 2001. Foreign Direct Investment and Spillovers of Technology. Washington. *International journal of technology management*, 22(5-6):435-454.

Blomström, M. & Kokko, A. 2002. FDI and human capital: A research agenda. Paris: OECD. OECD Development Centre Working Paper 195. p. 1-39. <http://www.oecd.org/dev/1950227.pdf> Date of access: 27 Feb. 2015.

Boddewyn, J.J., Halbrich, M.B. & Perry, A.C. 1986. Service Multinationals: Conceptualization, Measurement and Theory. *Journal of international business studies*, 17(3):41-57.

Boehm-Bawerk, A.V. 1903. Recent literature on interest. New York: Macmillan.

Borchert, I., Gootiiz, B. & Mattoo, A. 2012. Policy barriers to international trade in services: evidence from a new database. Washington. World Bank Policy Research Paper 6109.

Borchert, I., Gootiiz, B. & Mattoo, A. 2014. Policy barriers to international trade in services: evidence from a new database. Washington. *World Bank economic review*, 28(1):162-188.

Borensztein, Ede., Gregorio, J. & Lee, J. 1998. How Does Foreign Direct Investment Affect Growth? *Journal of international economics*, 45(1):115-135.

Breinlich, H. & Criscuolo, C. 2011. International Trade in Services: A Portrait of Importers and Exporters. *Journal of international economics*, 84(2):188-206.

Brigham, E.F. & Ehrhardt, M.C. 2005. Financial management: Theory and practice. Masson, OH: South-Western.

Brookhart, S.M. & Durkin, D.T. 2003. Classroom assessment, student motivation, and achievement in high school social studies classes. *Applied measurement in education*, 16(1):27-54.

Brooks, L.D., Feils, D.J. & Sahoo, B.K. 2000. The Impact of Shifts in Forecasted Earnings and Systemic Risk on Acquiring Firm Shareholder Wealth in Domestic and International Acquisitions. *Journal of financial and strategic decisions*, 13(3):1-7.

Bruner, J.S. 1986. A tribute to Roman Jakobson. Berlin: Walter de Gruyter.

Bruner, J.S. 2009. Actual minds, possible worlds. Cambridge, Mass.: Harvard University Press.

Bruner, R.F. 2004. Applied mergers and acquisitions. Hoboken, New Jersey: Wiley.

Bryson, J. & Daniels, P. 2010. Service worlds: the services duality and the rise of the Manu service economy. (In Maglio, P., Kieliszewski, C. & Spohrer, J., eds. The handbook of service science. Berlin: Springer. pp. 79-106).

Buch, C.M. & Lipponer, A. 2007. FDI versus Exports: Evidence from German Banks. *Journal of banking and finance*, 31(3):805-826.

Buckley, P.J., & Casson, M.C. 1985. The economic theory of the multinational enterprise. New York: St Martin's Press.

Burgess, R. & Venables, A.J. 2004. Toward a microeconomics of growth. (In Bourguignon, F. & Pleskovic, B., eds. Accelerating Development. (Annual World Bank Conference on Development Economics). Washington DC: World Bank and Oxford University Press.)

Burnard, P., Craft, A., Cremin, T. & Chappell, K. 2008. Developing methodology for exploring 'creative learning' and 'possibility thinking'. Paper presented at American Educational Research Association annual meeting, New York, March.

Byrne, S. & Popoff, L. 2008. International joint ventures handbook. London: Baker & McKenzie.

Cartwright, S. & Schoenberg, R. 2006. Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities. *British journal of management*, 17(S1):S1-S5.

Caves, R.E. 1982. Multinational Enterprise and Economic Analysis. New York: Cambridge University Press.

Caves, R.E., 1974. Multinational firms, competition and productivity in host-country markets. *Economica*, 41(162):176-193.

Chari, L. 2008. Inorganic growth strategies: An empirical analysis of who benefits from them? Unpublished Dissertation: Indian Institute of Technology, Kanpur (IITK). p. 1-20.

Chatterjee, S., Mishra, P. & Chatterjee, B. 2013. Determinants of Inter-State Variations in FDI Inflows in India. *Eurasian journal of business and economics*, 6(11):93-120.

Chiplin, B. & Wright, M. 1987. The logic of mergers: The competitive market in corporate control in theory and practice. London: Institute of Economic Affairs.

Chopra, S. & Meindl, P. 2010. Supply chain management: Strategy, planning, and operation. Boston: Prentice Hall.

Clark, X., Dollar, D. & Micco, A. 2004. Port Efficiency, Maritime Transport Costs, and Bilateral Trade. *Journal of development economics*, 75(2):417:450.

Cohen, W.M. & Levin, R.C. 1989. Empirical studies of innovation and market structure. (In Schmalensee, R.C. & Willig, R., eds. *Handbook of industrial organization*. Amsterdam: Elsevier Science Publishers. p. 1059-1107).

Cotton, L. & Ramachandran, V. 2001. Foreign direct investment in emerging economies: lessons from Sub-Saharan Africa. WIDER Discussion Paper 2001/82. Helsinki: United Nations University, World Institute for Development Economics Research.

Council of Supply Chain Management Professionals (CSCMP). 2015. Supply Chain Management Definitions and Glossary [https://cscmp.org/imis0/CSCMP/Educate/SCM\\_Definitions\\_and\\_Glossary\\_of\\_Terms/CSCMP/Educate/SCM\\_Definitions\\_and\\_Glossary\\_of\\_Terms.aspx?hkey=60879588-f65f-4ab5-8c4b-6878815ef921](https://cscmp.org/imis0/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms.aspx?hkey=60879588-f65f-4ab5-8c4b-6878815ef921) Date of access: 30 Jun. 2015.

Creswell, J.W. 2009. *Research design: Qualitative, quantitative, and mixed methods approaches*. Los Angeles, California: Sage.

Creswell, J.W., & Tashakkori, A. 2007. Developing Publishable Mixed Methods Manuscripts. *Journal of mixed methods research*, 1(2):107-111.

Crum, M.R. & Morrow, P.C. 2002. The Influence of Carrier Scheduling Practices on Truck Driver Fatigue. *Transportation journal*, 42(1):20-41.

Dablanc L. 2010. Freight transport, a key element of the urban economy: Guidelines for practitioners. Transportation Research Board 89<sup>th</sup> Annual Meeting, 10-14 January, Washington DC.

Damodaran, A. 2002. *Investment Valuation: tools and techniques for determining the value of any asset*. New York: Wiley.

Davidson, W.H. & McFeteridge, D.G. 1985. Key Characteristics in the Choice of International Technology Transfer Mode. *Journal of international business studies*, 16(2):5-21.

Davies, M.B. 2007. *Doing a successful research project: using qualitative or quantitative methods*. New York: Palgrave Macmillan

- Davis, P.S., Ashay, B.D. & Francis, J.D. 2000. Mode of International Entry: An Isomorphism Perspective. *Journal of international business studies*, 31(2):239-258.
- De Groot, H.L., Linders, G.J., Rietveld, P. & Subramanian, U. 2004. The institutional determinants of bilateral trade patterns. *Kyklos*, 57(1):103:123.
- De la Torre L.E., Dolinskaya, I.S. & Smilowitz, K.R. 2012. Disaster relief routing: Integrating research and practice, *Socio-economic planning science*, 46(1):88-97.
- Dean, M. & Sebastia-Barriel, M. 2004. Why has world trade grown faster than world output? *Bank of England, Quarterly Bulletin*, 44(3):310-320. Date of access: 30 Jan. 2015.
- Debaere, P., Görg, H. & Raff, H. 2009. Greasing the Wheels of International Commerce: Market Thickness vs. International Offshoring. University of Virginia.
- Dee, P. & Findlay, C. 2008. Services: A 'deal-maker' in the Doha round? (*In Monitoring Trade Policy: A New Agenda for Reviving the Doha Round*. London: Trade Policy Monitoring Centre. p. 49-63).
- DHL. 2015. Annual Report : Smart Logistics. Deutsche Post DHL Group. [http://www.dpdhl.com/content/dam/dpdhl/Investors/Events/Reporting/2016/FY2015/DPDHL\\_2015\\_Annual\\_Report.pdf](http://www.dpdhl.com/content/dam/dpdhl/Investors/Events/Reporting/2016/FY2015/DPDHL_2015_Annual_Report.pdf) Date of access: 14 Mar. 2015.
- DHL. 2015. DHL Logbook in cooperation with Technical University Darmstadt: Definition of logistics. dhl-discoverlogistics p. 1-4. <http://www.dhl-discoverlogistics.com/cms/en/course/origin/defintion.jsp> Date of access: 3 Mar. 2015.
- Di Giovanni, J. 2005. What drives capital flows? The Case of Cross-Border M&A Activity and Financial Deepening. *Journal of international economics*, 65(1):127-149.
- Dier, M., Sturm, M., Junghanns, J. & Ali, S. 2012. Why M&A is the right option to capitalise on growth opportunities in the freight and logistics industry. p. 4-13. <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-High-Performance-Freight-Logistics-Mergers-Acquisitions.pdf> Date of access: 10 Jan. 2015.
- Doolan, D.M. & Froelicher, E.S. 2009. Using an existing data set to answer new research questions: a methodological review. *Research and theory for nursing practice*, 23(3):203-215.
- Du Toit, L., Fourie, J. & Trew, D. 2010. The sources of comparative advantage in tourism. Working Paper 01/2010. Departmental Working Paper Series: Stellenbosch.

Duce, M. 2003. Definitions of foreign direct investment (FDI): A methodological note. Banco de España. p. 1-16.

Dunning, J.H. 1977. Trade, location and economic activity and the multinational enterprise: A search for an eclectic approach. (In Ohlin, B., Hesselborn, O. & Wijkman, M., eds. The international allocation of economic activity. London: Palgrave Macmillan. p. 395-418).

Dunning, J.H. 1986. The investment development cycle revisited. *Weltwirtschaftliches Archiv*, 122(4):667-676.

Dunning, J.H. 1987. Explaining the international direct investment position of countries: Towards a dynamic or developmental approach. (In Kindleberger, C.P. International capital movements: based on the Marshall lectures given at the University of Cambridge, 1985. Cambridge: Cambridge University Press. p. 84-121).

Dunning, J.H. 1988a. Explaining international production. London: Unwin Hyman.

Dunning, J.H. 1988b. The Eclectic Paradigm Of International Production: A Restatement And Some Possible Extensions. *Journal of international business studies*, 19(1):1-31.

Dunning, J.H. 1989. Multinational Enterprises and the Growth of Services: Some Conceptual and Theoretical Issues. *The service industries journal*, 9(1):5-39.

Dunning, J.H. 1993. Multinational enterprises and the global economy. Reading, Mass.: Addison-Wesley.

Dunning, J.H. 1998. American investment in British manufacturing industry. London: Routledge.

Dunning, J.H. 2000. The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International business review*, 9(2):163-190.

Dunning, J.H. 2001. The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. *International journal of the economics of business*, 8(2):173-190.

Dunning, J.H. 2003a. The contribution of Edith Penrose to international business scholarship. *Management International Review (MIR)*, 43(1):3-19.

Dunning, J.H. 2003b. Some Antecedents of Internalization Theory. *Journal of international business studies*, 34(2):108–115.

Dunning, J.H. & Lundan, S.M. 2008. Institutions and the OLI Paradigm of the Multinational Enterprise. *Asia Pacific Journal of Management*, 25(4):573-593.

Dunning, J.H. & Lundan, S.M. 2008. Multinational enterprises and the global economy. 2<sup>nd</sup> ed. Cheltenham, UK: Edward Elgar.

Dunning, J.H. & Narula, R. 1996. The investment development path revisited: Some emerging issues. (In Dunning, J.H. & Narula, R., eds. Foreign direct investment and governments: Catalysts for economic restructuring. London: Routledge. p. 1-41).

Dupasquier, C. & Osakwe, P.N. 2003. Performance, promotion, and prospects for foreign investment in Africa: National, regional, and international responsibilities. Paper prepared for the "Eminent Persons" meeting on promotion of investment in Africa. Tokyo, February 2003.

Dupasquier, C. & Osakwe, P.N. 2006. Foreign Direct Investment in Africa: Performance, Challenges, and Responsibilities. *Journal of Asian economics*, 17(2):241-260.

Durrheim, K. 2004. Research design. (In Terre Blanche, M.J., Durrheim, K. & Painter, D., eds. Research in practice: Applied methods for the social sciences. Cape Town: University of Cape Town Press. p. 29-53).

Edvardsson, B., Edvinsson, L. & Nystrom, H. 1993. Internationalisation in Service Companies. *Service industries journal*, 13(1):80-97.

Edwards, L. 2006. Trade liberalization and labour demand in South Africa during the 1990s. (In Bhorat, H. & Kanbur, R., eds. Poverty and Policy in Post-Apartheid South Africa. Cape Town: HSRC Press. p. 232-261).

Eisenhardt, K.M. 1989a. Making Fast Strategic Decisions in High-Velocity Environments. *Academy of management journal*, 32(3):543-576.

Eisenhardt, K.M. 1989b. Building theories from case study research. *Academy of management review*, 14(4):532-550.

Ernst and Young. 2011. Trading places: The emergence of new patterns of international trade. Oxford Economics: Africa [http://emergingmarkets.ey.com/wpcontent/uploads/downloads/2011/11/TBF\\_212\\_\\_International\\_trade\\_white\\_paper\\_v24\\_Low\\_Res2.pdf](http://emergingmarkets.ey.com/wpcontent/uploads/downloads/2011/11/TBF_212__International_trade_white_paper_v24_Low_Res2.pdf) Date of access: 5 Mar. 2015.

Faeth, I. 2009. Determinants of Foreign Direct Investment – A Tale of Nine Theoretical Models. *Journal of economic surveys*, 23(1):165-196.

Farole, T. & Winkler, D. 2014. Making foreign direct investment work for Sub-Saharan Africa: local spillovers and competitiveness in global value chains. Washington, DC: World Bank.

Feenstra, R.C., Markusen, J.R. & Rose, A.K. 2001. Using the Gravity Equation to Differentiate among Alternative Theories of Trade. *Canadian journal of economics*, 34(2):430:447.

Feller, A., Shunk, D. & Callarman, T. 2006. Value chains versus supply chains. *Business Process Trends*, 1-7.

Fillat-Castejón, C., Francois, J.F. & Wörz, J. 2008. Cross-Border Trade and FDI in Services. Centre for Economic Policy Research discussion paper 7074. London: Centre for Economic Policy Research.

Fisher, I. 1907. The Rate of Interest: Its nature, determination and relation to economic phenomena. New York: Macmillan.

Fisher, I. 1930. The Theory of Interest: as determined by impatience to spend income and opportunity to invest it. New York: Macmillan.

Fixler, D.J. & Siegel, D. 1999. Outsourcing and productivity growth in services. *Structural change and economic dynamics*, 10(2):177-194.

Fontangé, L. 1999. Foreign direct investment and international trade: complements or substitutes? Paris: OECD. OECD Science, Technology and Industry Working Papers 1999/3. <http://www.sourceoecd.org/10.1787/788565713012> Date of access: 10 Nov. 2015.

Fortanier, F. 2007. Foreign direct investment and host country economic growth: Does the investor's country of origin play a role? *Transnational Corporations*, 16(2):41-76. [http://unctad.org/en/Docs/iteit20072a2\\_en.pdf](http://unctad.org/en/Docs/iteit20072a2_en.pdf) Date of access: 8 Jan. 2015.

Fortanier, F., Muller, A. & Van Tulder, R. 2007. Internationalization and performance: The moderating role of strategic fit. (In Rugman, A. & Verbeke, A., ed. Research in global strategic management. Bingley: Emerald Group Publishing. p. 177-200).

Fourie, J. & Von Fintel, D. 2010. The dynamics of inequality in a newly settled, pre-industrial society: the case of the Cape Colony. *Cliometrica*, 4(3):229-267.

Fowkes, A.S., Firmin, P.E., Tweddle, G. & Whiteing, A.E. 2004. How Highly Does the Freight Transport Industry Value Journey Time Reliability – and for what Reasons? *International journal of logistics: research and applications*, 7(1):33-43.

- Francois, J. 1988. Trade in producer services and the realization of returns due to specialization. College Park: University of Maryland. (Dissertation - PhD.)
- Francois, J. & Reinert, K. 1996. The role of services in the structure of production and trade: stylized facts from cross-country analysis. *Asia-Pacific economic review*, 2:35-43.
- Francois, J. & Woerz, J. 2008. Producer Services, Manufacturing Linkages, and Trade. *Journal of industry, competition and trade*, 8(3):199-229.
- Francois, J., Van Meijl, H. & Van Tongeren, F. 2003. Economic Benefits of the Doha Round for the Netherlands, The Hague: Agricultural Economics Institute.
- Francois, J.F. 1990a. Producer services, scale and the division of labor. *Oxford economic papers*, 42(4):715-729.
- Francois, J.F. 1990b. Trade in Producer Services and Returns Due to Specialization Under Monopolistic Competition. *Canadian journal of economics*, 23(1):109-124.
- Francois, J.F. 1990c. Trade in Non-Tradables : Proximity Requirements and the Pattern of Trade in Services. *Journal of international economic integration*, 5(1):31-46.
- Francois, J.F. 2001. The Next WTO Round: North-South stakes in new market access negotiations. Adelaide: Centre for International Economic Studies.
- Frankel, J.A., Stein, E. & Wei, S.J. 1998. Continental trading blocs: are they natural or supernatural? (In Frankel, J.A., ed. The Regionalization of the World Economy. Chicago: University of Chicago Press. p. 91-120).
- Fuchs, V.R. 1968. The service economy. New York: Columbia University Press.
- Gardner, D.M. 1987. The product life cycle: A critical look at the literature. BEBR faculty working paper 1336. Urbana, Ill.: College of Commerce and Business Administration, University of Illinois at Urbana-Champaign.
- Geishecker, I. & Görg, H. 2008. Services offshoring and wages: Evidence from micro data. IZA Discussion Paper No. 2008/22. Research Paper Series: Globalisation and Labour Markets, University of Nottingham.
- Gephart, R. 1999. Paradigms and research methods. *Research methods forum*, 4(1):11. [http://division.aomonline.org/rm/1999.RMDForum\\_Paradigms-and-Research](http://division.aomonline.org/rm/1999.RMDForum_Paradigms-and-Research) Date of access: 28 Sep. 2015.

Ghuri, P.N. & Grønhaug, K. 2010. Research methods in business studies. 4<sup>th</sup> ed. New York: Prentice Hall.

Gibbs, M. & Mashayekhi, M. 1998. The Uruguay round negotiations on investment: Lessons for the future? UNCTAD. Geneva: Division on Trade in Goods and Services and Commodities, UNCTAD. p. 1-15 <http://unctad.org/en/Pages/Home.aspx> Date of access: 11 Jan. 2015.

Goldsbrough, D. & International Monetary Fund. 1995. Foreign private investment in developing countries. Occasional paper 33. Washington, DC: IMF.

Gorg, H. & Strobl, E. 2001. Multinational Companies and Productivity Spillovers: A Meta-Analysis. *Economic journal*, 111(475):723-739.

Greenaway, D. & Kneller, R. 2007. Firm Heterogeneity, Exporting and Foreign Direct Investment. *Economic journal*, 117(517):F134-F161.

Grosse. R. & Behrman, J.N. 1992. Theory in international business. *Transnational Corporations*, 1(1):93-126.

Grunfeld, L. & Moxnes, A. 2003. The intangible globalisation: Explaining patterns of international trade and FDI in services. Norwegian Institute of International Affairs Paper 657.

Guerrieri, P., Maggi, B., Meliciani, V. & Padoan, C. 2005. Technology Diffusion, Services and Endogenous Growth in Europe: Is the Lisbon Strategy Useful? IMF Working Paper 05/103. p. 1-49.

Harzing, A.W. 2002. Acquisitions versus Greenfield Investments: International Strategy and Management of Entry Modes. *Strategic management journal*, 23(3):211-227.

Havenga, J. & Simpson, Z. 2014. Reducing National Freight Logistics Costs Risk in a High-Oil-Price Environment: A South African Case Study. *International journal of logistics management*, 25(1):35-53.

Havenga, Simpson, King, Viljoen, De Bod & Braun 2015. Logistics Barometer 2015 by SU, CSIR and Imperial Logistics. Stellenbosch University, Department of Logistics. (e-Book).

Hawker, S., Soanes, C. & Spooner, A. 2001. Oxford Paperback Dictionary, Thesaurus, and Wordpower Guide. Oxford: Oxford University Press.

Helliwell, J.F. 1998. How much do national borders matter? Washington, DC: Brookings Institution Press.

Herger, N. & McCorriston, S. 2013. On discrete location choice models. *Economics letters*, 120(2):288-291.

Hijzen, A. & Swaim, P. 2007. Does offshoring reduce industry employment?. *National Institute economic review*, 201(1):86-96.

Hill, T.P. 1977. On goods and services. *Review of income and wealth*, 23(4):315-338.

Hindley, B. 1988. Service sector protection: considerations for developing countries. *World Bank economic review*, 2(2):205-224.

Hodge, J. 1997. Towards an understanding of world and South African trade in services. Development Research Policy Unit (DPRU). Cape Town: University of Cape Town.

Hodge, J. 1998. Developing a trade and industry policy agenda for service sectors in South Africa. Pretoria: Trade and Industrial Policy Strategies Annual Forum.

Hoekman, B. 1996. Assessing the general agreement on trade in services. (In Martin, W. & Winters, L.A., eds. The Uruguay Round and the developing countries. Cambridge: Cambridge University Press. p. 89-90).

Hoekman, B. 2008. The General Agreement on Trade in Services: Doomed to Fail? Does it Matter?" *Journal of industry, competition and trade*, 8(3-4):295-318.

Hoekman, B. 2012. WTO reform: A synthesis and assessment of recent proposals. (In Narlikar, A., Dauntton, M. & Stern, R.M., eds. The Oxford Handbook on the World Trade Organization. Oxford: Oxford University Press).

Hoekman, B. & Braga, C.A.P. 1997. Protection and trade in services: a survey. *Open economies review*, 8(3):285-308. World Bank. p. 2-34 [http://www.google.co.za/url?sa=t&drct=j&q=&esrc=s&frm=1&source=web&cd=5&ved=0CDYQFjAE&url=http%3A%2F%2Fwww.researchgate.net%2Fprofile%2FCarlos\\_A\\_Braga%2Fpublication%2F5153568\\_Protection\\_and\\_Trade\\_in\\_Services\\_A\\_Survey%2Flinks%2F0deec52b5fdfce4763000000000.pdf&ei=-iAlVamhl8uz7ga0qoCwCA&usg=AFQjCNEab8AnOqKpdczmknWUJYfJo8f2\\_A&sig2=XfXygR4oSVIFTSlsFVO9jA](http://www.google.co.za/url?sa=t&drct=j&q=&esrc=s&frm=1&source=web&cd=5&ved=0CDYQFjAE&url=http%3A%2F%2Fwww.researchgate.net%2Fprofile%2FCarlos_A_Braga%2Fpublication%2F5153568_Protection_and_Trade_in_Services_A_Survey%2Flinks%2F0deec52b5fdfce4763000000.pdf&ei=-iAlVamhl8uz7ga0qoCwCA&usg=AFQjCNEab8AnOqKpdczmknWUJYfJo8f2_A&sig2=XfXygR4oSVIFTSlsFVO9jA) Date of access: 10 Jan. 2015.

Hoekman, B. & Mattoo, A. 2007. Regulatory cooperation, aid for trade and the GATS. *Pacific economic review*, 12(4):399-418.

Hoekman, B. & Mattoo, A. 2008. Services trade and growth. World Bank Policy Research Paper 4461. Washington, DC: World Bank.

Hoekman, B. & Messerlin, P. 2000. Liberalizing trade in services: Reciprocal negotiations and regulatory reform. (In Sauvé, P. & Stern, R.M., eds. Services 2000: new directions in services trade liberalization. Washington, DC: Brookings Institution. p. 487-508).

Hoekman, B. & Nicita, A. 2008. Trade policy, trade costs and developing country trade. World Bank Policy Research Paper 4797. Washington, DC: World Bank.

Hoekman, B., Djankov, S. & Egyptian Center for Economic Studies. 1997. Towards a free trade agreement with the European Union: Issues and policy options for Egypt. (In Galal, A. and Hoekman, B.M., eds. Regional partners in global markets: Limits and possibilities of the euro-med agreements. London: Centre for Economic Policy Research.)

Hoekman, B., Mattoo, A. & Sapir, A. 2007. The political economy of services trade liberalization: a case for international regulatory cooperation? *Oxford Review of Economic Policy*, 23(3):367-391.

Hoekman, B.M. & Konan, D.E. 2001. Deep integration, nondiscrimination and Euro-Mediterranean free trade. (In Von Hagen, J. & Widgrén, M., eds. Regionalism in Europe: geometries and strategies after 2000. Boston: Kluwer Academic. p. 171-194).

Hoekman, B.M. & Kostecki, M.M. 2009. The political economy of the world trading system: the WTO and beyond. 3<sup>rd</sup> ed. Oxford: Oxford University Press.

Hoekman, B.M. & Sauvé, A. 1994. Liberalizing trade in services. World Bank Discussion Paper 243. Washington D.C.: World Bank.

Hummels, D. & Schaur, G. 2001. Time as a trade barrier. Cambridge, Mass.: National Bureau of Economic Research Working Paper Series 17758. <http://www.mgmt.purdue.edu/faculty/hummelsd/research/time3b.pdf>.

Hummels, D.L. & Schaur, G. 2013. Time as a Trade Barrier. *American economic review*, 103(7):2935-2959.

Hymer, S.H. 1960. The International operations of national firms: a study of direct foreign investment. (Dissertation - PhD. Published posthumously). Cambridge, Mass: The MIT Press, 1976.

Inklaar, R., Timmer, M.P. & Van Ark, B. 2007. Mind the gap! International comparisons of productivity in services and goods production. *German economic review*, 8(2):281-307.

Inklaar, R., Timmer, M.P. & Van Ark, B. 2008. Market services productivity across Europe and the US. *Economic policy*, 23(53):141-194.

Institute of Mergers, Acquisitions and Alliances. 2015. Announced Mergers and acquisitions : Worldwide, 1985-2015e. Thomson Financial, Institute of Mergers, Acquisitions and Alliances (IMAA) analysis [https://imaa-institute.org/docs/announced%20mergers%20&%20acquisitions%20\(worldwide\).pdf](https://imaa-institute.org/docs/announced%20mergers%20&%20acquisitions%20(worldwide).pdf) Date of access: 19 Apr. 2016.

International Monetary Fund. 1999. World economic and financial surveys. World Economic Outlook International Financial Contagion May 1999. A survey by the staff of the International Monetary Fund. Washington, DC: IMF.

International Monetary Fund. South Africa – Various Issues. *Economica*, 201. 2015.

Jacob, M. 2006. Organic vs inorganic growth: A case study. Unpublished PhD Thesis.) Washington, DC. [http://www.academia.edu/1996738/Organic\\_Vs\\_Inorganic\\_Growth\\_A\\_Case\\_Study](http://www.academia.edu/1996738/Organic_Vs_Inorganic_Growth_A_Case_Study). Date of access: 3 Mar. 2015.

Jansen van Rensburg, M. 2010. Dimensions of Advertising Agency Client Satisfaction. *Journal of contemporary management*, 7:549-573.

Jensen, R. & Thursby, M. 1986. A Strategic Approach to the Product Life Cycle. *Journal of international economics*, 21(3):269-284.

Jones, G. 1996. The Evolution of International Business. *Management international review*, 40(1):97-100.

Jones, M.C., Marron, J.S. & Sheather, S.J. 1996. A Brief Survey of Bandwidth Selection for Density Estimation. *Journal of the American Statistical Association*, 91(433):401-407. <http://links.jstor.org/sici?sici=0162-1459%28199603%2991%3A433%3C401%3AABSOBS%3E2.0.CO%3B2-2> Date of access: 22 May 2015

Jones, R.W. 1965. The Structure of Simple General Equilibrium Models. *Journal of political economy*, 73(6):557-572.

Jones, R.W. & Kierzkowski, H. 1990. The role of services in production and international trade: A theoretical framework. (In Jones, R.W. & Krueger, A.O., eds. The political economy of international trade. Reading, MA: Basil Blackwell. p. 90-107).

Jones, R.W. & Kierzkowski, H. 2001. 10 Globalization and consequences of international fragmentation. (In Mundell, R.A., Calvo, G.A., Dornbusch, R. & Obstfeld, M., eds. Money, capital mobility, and trade: Essays in honor of Robert A. Mundell. Cambridge, Mass.: MIT Press. p. 365).

Jonsson, P. & Mattsson, S-A. 2005. Logistik – Läran om effektiva materialflöden. Lund: Studentlitteratur.

Jun, K.W. & Singh, H. 1996. The determinants of foreign direct investment: New empirical evidence. *Transatlantic corporations*, 5:67-106.

Kahn R.S., Kobayashi, S., Beuthe, M., Gasca, J., Greene, D., Lee, D.S., Muromachi, Y., Newton, P.J., Plotkin, S., Sperling, D. & Wit, R. 2007. Transport and its infrastructure. (In Metz, B., Davidson, O.R., Bosch, P.R., Dave, R. & Meyer, L.A., eds. Contribution of working group iii to the fourth assessment report of the intergovernmental panel on climate change Cambridge Cambridge: University Press.)

Kaplinsky, R. & Morris, M. 2001. A manual for value chain research. Ottawa: IDRC. [www.ids.ac.uk/ids/global/](http://www.ids.ac.uk/ids/global/) Date of access: 2 February 2016.

Kendall, L. 2008. The conduct of qualitative interview. (In Coiro, J., Knobel, M., Lankshear, C. & Leu, D., eds. Handbook of research on new literacies. New York: Lawrence Erlbaum. p. 133-149).

Kendall, L. 2008. The conduct of qualitative interviews: Research questions, methodological issues, and researching online. (In Coiro, J. Knobel, M., Lankshear, C. & Leu, D.J., eds. Handbook of research on new literacies. New York: Lawrence Erlbaum Associates. p. 133-149).

Kimura, F. & Lee, H-H. 2006. The gravity equation in international trade in services. *Review of world economics*, 142(1):92-121.

Kimura, Y. 1989. Firm-Specific Strategic Advantages and Foreign Direct Investment Behavior of Firms: The Case of Japanese Semiconductor Firms. *Journal of International Business Studies*, 20(2):296-314.

Knemeyer, A.M., Corsi, T.M. & Murphy, P.R. 2003. Logistics Outsourcing Relationships: Customer Perspectives. *Journal of business logistics*, 24(1):77-109.

Kogut, B. & Singh, H. 1988. The Effect of National Culture on the Choice of Entry Mode. *Journal of International Business Studies*, 19(3):411-432.

Kolstad, I. & Villanger, E. 2008. Determinants of Foreign Direct Investment in Services. *European journal of political economy*, 24(2):518-533.

Korinek, J. & Sourdin, P. 2011. *To what extent are high-quality logistics services trade facilitating?* OECD Trade Policy Working Papers 108. Paris: OECD Publishing.

Kox, H. 2004. The contribution of business services to aggregate productivity growth. The Hague: Centraal Plan Bureau.

Krauth, E., Moonen, H., Popova, V. & Schut, M. 2005. Performance indicators in logistics service provision and warehouse management – a literature review and framework. Paper prepared for the Euroma International Conference, Budapest, Hungary. 19-22 June. p. 19-22.

Krauth, E., Moonen, H., Popova, V. & Schut, M. 2005b. Performance Indicators in logistics service provision and warehouse management: a literature review and framework. Euroma International Conference. Vrije Universiteit Amsterdam, Amsterdam, The Netherlands. p. 19-22.

Krauth, E., Moonen, H., Popova, V. & Schut, M.C. 2005a. Performance Measurement and Control in Logistics Service Providing. 7th International Conference on Enterprise Information Systems (ICEIS), Miami, USA. 2:239-247.

Kuhn, T.S. 1977. Objectivity, value judgment, and theory choice. (*In* Kuhn, T.S. The essential tension: selected studies in scientific tradition and change. Chicago: University of Chicago Press.)

Lai, E.R., & Waltman, K. 2008. Test preparation: Examining teacher perceptions and practices. *Educational measurement: issues and practice*, 27(2):28-45.

Lather, P. 1986. Issues of validity in open ideological research: Between a rock and a soft place. *Interchange*, 17(4):63-84.

Leamer, E.E. 1995. The Heckscher-Ohlin model in theory and practice. Princeton, J.J.: Princeton University Press.

Lee, K. & Pennings, J.M. 1996. Mergers and acquisitions: strategic: Organizational tit and outcomes. Department of Management, The Wharton School. p. 1-41. <http://www->

management.wharton.upenn.edu/pennings/documents/Mergers\_Acquisitions.pdf Date of access: 4 Feb. 2015.

Leedy, P.D. 1997. Practical research: planning and design. 6<sup>th</sup> ed. Upper Saddle River, NJ: Prentice-Hall.

Lennon, C. 2008. Trade in services and trade in goods: Differences and complementarities. Working Paper 2008-52, Paris School of Economics.

Levchenko, A. 2004. Institutional quality and international trade. International Monetary Fund Working Paper 04/231. Washington, DC: IMF.

Limao, N, & Venables, A.J. 2001. Infrastructure, Geographical Disadvantage, Transport Costs and Trade. *World Bank Economic Review*, 15:451:79.

Lipsey, R.E. 2002. Foreign production by US firms and parent firm employment. (*In* Lipsey, R.E. & Mucchielli, J.L. Multinational firms and impacts on employment, trade, and technology: New perspectives for a new century. London: Routledge.)

Lipsey, R.E. 2004. Home-and-host-country effects of foreign direct investment. <http://www.nber.org/chapters/c9543> (*In* Baldwin, R.E. & Winters, L.A. Challenges to globalization: Analyzing the economics. Chicago: University of Chicago Press. p. 333-382. <http://www.nber.org/books/bald04-1> Date of access: 4 Mar. 2015).

Lumsden, K., Hulthén, L., & Waidringer, J. 1998. Outline for a conceptual framework on complexity in logistic systems. (*In* Proceedings of the Annual Conference for Nordic Researchers in Logistics-10<sup>th</sup> NOFOMA Vol. 98. Helsinki, Finland: Finnish Association of Logistics.)

Lumsden, K, Dallari, F. & Ruggeri, R. 2006. Improving the Efficiency of the Hub and Spoke System for the SKF European Distribution Network. *International journal of physical distribution & logistics management*, 29(1):50-66.

Mann, C & Stewart, F. 2000. *Internet communication and qualitative research: a handbook for searching online*. London: Sage.

Marks, D. & Yardley, L. 2004. Research methods for clinical and health psychology. London: Sage.

- Markusen, J.A. & Feenstra, R.C. 1998. Understanding the home market effect and the gravity equation: the role of differentiating goods. National Bureau of Economic Research (Cambridge, MA) Working Paper 6804.
- Markusen, J.R. & Maskus, K.E. 2001. General-equilibrium approaches to the multinational firm: A review of theory and evidence. Working paper series (National Bureau of Economic research), working paper 8334. Cambridge, Mass.: National Bureau of Economic Research.
- Markusen, J.R. & Venables, A.J. 1999. Foreign direct investment as a catalyst or industrial development. *European economic review*, 43(2):335-356.
- Markusen, J.R. & Venables, A.J. 2000. The Theory of Endowment, Intra-Industry and Multi-National Trade. *Journal of international economics*, 52(2):209-234.
- Markusen, J.R., Tarr, D.G., & Rutherford, T.F. 2000. Foreign direct investment in services and the domestic market for expertise. Working paper series (National Bureau of Economic research), working paper 7700. Cambridge, Mass.: National Bureau of Economic Research.
- Marshall, A. 1907. Principles of Economics. London: Macmillan.
- Marshall, M.N. 1996a. Sampling for qualitative research. *Family practice*, 13(6):522-525.
- Marshall, M.N. 1996b. The key informant technique. *Family practice*, 13(1):92-97.
- Martinez, D.A. 2004. Mergers and acquisitions: A survey of motivations. Doctorado en Finanzas de Empresa. p. 1-42. <http://www.ucm.es/data/cont/media/www/pag-19529/0401.pdf> Date of access: 27 Feb. 2015.
- Mascarenhas, O.A., Kesavan, R. & Bernacchi, M. 2004. Customer Value-Chain Involvement for Co-Creating Customer Delight. *Journal of consumer marketing*, 21(7):486-496.
- Mashayekhi, M. 2000. GATS 2000 Negotiations: Options for Developing Countries. Working paper 9. Geneva: South Centre.
- Mashayekhi, M. & Julsaint, M. 2002. Assessment of trade in services in the context of GATS 2000 negotiations. Working paper 13. Geneva: South Centre.
- Mattoo, A. & Payton, L., eds. 2007. Services trade and development: the experience of Zambia. Washington DC: World Bank.

Mattoo, A., Stern, R.M. & Zanini, G. 2008. A handbook of international trade in services. Oxford: Oxford University Press.

McCallum, J. 1995. National borders matter: Canada-US regional trade patterns. *American economic review*, 85(3):615:623.

McGuire, G. 2002. How important are restrictions on trade in services? Policy issues in international trade and commodities study series 19. New York: United Nations. p. 7-38. Date of access: 11 Jan. 2015.

McGuire, G. 2008. Measuring and modelling restrictions on trade in services: A case of Asia-Pacific economic cooperation economies. Macao Regional Knowledge Hub Working Paper 13, December 2008. p. 2-35 <http://artnet.unescap.org/markhub/WP/wp13.pdf> Date of access: 15 Jan. 2015.

McKinnon, A.C. 2010. European freight transport statistics: limitations, misinterpretations and aspirations. 5<sup>th</sup> ACEA Scientific advisory group meeting. Brussels: ACEA.

McMillan, J.H. & Schumacher, S. 2001. Research in education. a conceptual introduction. 5<sup>th</sup> ed. New York: Longman.

Meersman, H. & Van de Voorde, E. 1999. Is freight transport growth inevitable? (*In* ECMT., ed. Which changes for transport in the next century? Paris: European Conference of Ministers of Transport (OECD Publications Services). p. 23-48).

Mejza, M.C., Barnard, R.E., Corsi, T.M. & Keane, T. 2003. Driver Management Practices of Motor Carriers with High Compliance and Safety Performance. *Transportation journal*, 42(4):16-29.

Melvin, J.R. 1989. Trade in Producer Services: A Heckscher-Ohlin Approach. *Journal of political economy*, 97(5):1180-1196.

Mentzer, J.T., Flint, D.J. & Hult, G.T.M. 2001. Logistics Service Quality as a Segment-Customized Process. *Journal of marketing*, 65(4):82-104.

Midoro, R. & Pitto, A. 2000. A critical evaluation of strategic alliances in liner shipping. *Maritime policy & management*, 27(1):31-40.

Miles, M.B. & Huberman, A.M. 1994. Qualitative data analysis. 2<sup>nd</sup> ed. Thousand Oaks, California: Sage.

Miles, M.B. & Huberman, A.M. 1994. Qualitative data analysis: An expanded sourcebook of new methods. 2<sup>nd</sup> ed. Thousand Oaks: Sage.

Miller, S.R., Thomas, D.E., Eden, L., & Hitt, M. 2008. Knee deep in the big muddy: The survival of emerging market firms in developed markets. *Management international review*, 48(6):645-666.

Moeller S. & Brady C. 2007. Intelligent M & A: Navigating the mergers and acquisitions minefield. Chichester: Wiley.

Moore, K.J. & Lewis, D.C. 1999. Birth of the multinational: 2000 years of ancient business history, from Ashur to Augustus. Copenhagen: Copenhagen Business School Press.

Moore, K.J. & Lewis, D.C. 2000. Multinational Enterprise in Ancient Phoenicia. *Business history*, 42(2):17-42.

Moosa, I.A. 2002. Foreign Direct Investment: Theory, Evidence and Practice. New York: Palgrave.

Morgan, R.E. & Katsikeas, C.S. 1997. Export stimuli: Export intention compared with export activity. *International business review*, 6(5):477-499.

Morgan, R.E. & Katsikeas, C.S. 1997. Theories of international trade, foreign direct investment and firm internationalization: a critique. *Management decision*, 35(1):68-78. [http://www.standrews.ac.uk/business/distance/Economics/Reading/Critique\\_trade\\_theories.pdf](http://www.standrews.ac.uk/business/distance/Economics/Reading/Critique_trade_theories.pdf) Date of access: 6 Jan. 2015.

Muller, T. 2000. Analyzing modes of foreign entry: Greenfield investment versus acquisition. *Review of international economics*, 15(1):93-111. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.9.6299&rep=rep1&type=pdf> Date of access: 7 Feb. 2015.

Mundell, R. 1957. International trade and factor mobility. *American economic review*, 47(3):321-335.

National Treasury. 2011. A review framework for cross-border direct investment in South Africa. Pretoria, South Africa: Department of National Treasury. <http://www.treasury.gov.za/documents/national%20budget/2011/A%20review%20framework%20for%20crossborder%20direct%20investment%20in%20South%20Africa.pdf> Date of access: 27 Aug. 2016.

Naudé, W.A. & Krugell, W.F. 2007. Investigating geography and institutions as determinants of foreign direct investment in Africa using panel data. *Applied economics*, 39(10):1223-1233.

Newburry, W. & Zeira, Y. 1997. Implications for Parent Companies. *Journal of world business*, 32(2):87-102.

Notteboom, T. & Rodrigue, J.P. 2007. Re-assessing port-hinterland relationships in the context of global commodity chains. (In Wang, J.J., ed. *Ports, cities, and global supply chains*. Aldershot: Ashgate. p. 51-66).

Notteboom, T. & Rodrigue, J.P. 2009. Economic cycles and the organizational and geographical attributes of global value chains: Is the pendulum changing direction? (In *Integrating Maritime Transport in Value Chains Workshop*. p. 10-12).

Nunnenkamp, P. 2001. Foreign direct investment in developing countries: What policymakers should not do and what economists don't know. Kiel Institute for World Economics, Discussion Paper 380.

Ochiai, R., Dee, P. & Findlay, C. 2007. Services in free trade agreements," Discussion papers 07-E-015, Research Institute of Economy, Trade and Industry (RIETI).

OECD (Organisation for economic cooperation and development). 2013. OECD Economic Surveys: South Africa 2013. OECD Publishing.

OECD (Organisation for economic cooperation and development). 2012. Labour losing to capital: What explains the declining labour share? *Employment Outlook*. Paris: OECD, chap. 3.

OECD (Organisation for economic cooperation and development). 2008. OECD benchmark definition of foreign direct investment. London: HMSO (Energy Papers 23) FIX IT.

Olsen, M.E., Lodwick, D.G., Dunlap, R.E. 1992. *Viewing the World Ecologically*. Boulder, Colorado: Westview.

Organisation for Economic Co-operation and Development (OECD) and Statistics Canada (STATCAN). 2000. *Literacy in the Information Age: Final Report of the International Adult Literacy Survey*, Paris and Ottawa.

Otsuki, T., Mann, C.L. & Wilson, J.S. 2003. Trade facilitation and economic development – Measuring the impact. World Bank Development Research Group March 2003. Policy research working paper 2988.

- Oulton, N. 2001. Must the growth rate decline? Baumol's unbalanced growth revisited. *Oxford economic papers*, 53(4):605-627.
- Oxelheim, L., Randøy, T. & Stonehill, A. 2001. On the treatment of finance-specific factors within the OLI paradigm. *International business review*, 10(4):381-398.
- Panayides, P.M. & Gong, X. 2002. The Stock Market Reaction to Merger and Acquisition Announcements in Liner Shipping. *International journal of maritime economics*, 4(1):55-80.
- Park, S.C. 2002. Measuring tariff equivalents in cross-border trade in services. KIEP Working Paper 02-15. Seoul, Korea: Korea Institute for International Economic Policy.
- Piana, V. 2005. Foreign Direct Investment. Economics WEB instituted. Retrieved from <http://www.economicwebinstituted.org> Date of access: 15 January 2016
- Pope, C., Ziegland, S. & Mays, N. 2006. 'Analysing qualitative data', in C. Pope and N. May (eds), *Qualitative Research in Health Care*, London: Blackwell Publishing.
- Pope, J., Annandale, D. & Morrison-Saunders, A. 2004. Conceptualising sustainability assessment. *Environmental Impact Assessment Review*, 24(6):595-616.
- Porter, M.E. 2004. Competitive advantage, creating and sustaining superior performance, NY: Free Press.
- Price Waterhouse Coopers (PWC). 2010. Transportation and logistics 2030: Volume 3, Emerging markets: New hubs, new spokes, new industry leaders. Africa: SMI (Transportation, Logistics 3).
- Pugel, T.A. 1999. Foreign investment in the US food-marketing system. *World development*, 25(1):1399-1407.
- Pugno, M. 2006. The service paradox and endogenous economic growth. *Structural change and economic dynamics*, 17(1):99-115.
- Price Waterhouse Coopers (PWC). 2012. Intersections Second-quarter 2012 transportation and logistics industry mergers and acquisitions analysis. Washington DC: Price Waterhouse Coopers. <https://www.pwc.com/us/en/industrial-products/assets/pwc-intersections-q2-2012.pdf> Date of access: 11 Oct. 2015.
- Quazi, R.M. 2007. Investment Climate and Foreign Direct Investment: A Study of Selected Countries in Latin America. *Global journal of business research*, 1(1):1-13.

- Raff, H. & Von der Ruhr, M. 2001. Foreign direct investment in producer services: Theory and empirical evidence. CESifo working paper 598. Munich: CES.
- Raff, H. & Von der Ruhr, M. 2007. FDI in Producer Services: Theory and Empirical Evidence. *Applied Economics Quarterly*, 53(3):299-321.
- Rangasamy, L. & Visser, F.J. 2009. Note on global growth, international trade and South African exports. South African Reserve Bank. *Quarterly bulletin*, 4(6):8.
- Rappaport, A. 1986. Creating shareholder value: The new standard for business performance. New York: The Free Press.
- Rappaport, A. 1998. Creating Shareholder Value: A guide for managers and investors. New York: The Free Press.
- Reinsdorf, M.B. & Slaughter, M.J., eds. 2009. International Trade in Services and Intangibles in the Era of Globalization. Chicago: University of Chicago Press.
- Remenyi, D., Williams, B., Money, A. & Swartz, E. 1998. Doing research in business and management. An introduction to process and method. Thousand Oaks, California.: Sage
- Ritchie, J. & Lewis, J. 2003. Qualitative research practice: A guide for social science students and researchers. Thousand Oaks, California.: Sage.
- Rodrigue, J.P. 2010. Maritime transportation: drivers for the shipping and port industries. International Transport Forum p. 3-23. <http://www.internationaltransportforum.org/pub/pdf/10FP02.pdf> Date of access: 9 Feb. 2015.
- Rugman, A. 1987. Multinationals and trade in services: A transaction cost approach. *Review of world economics*, 123(4): 651-667.
- Russell, B. 1996. Qualitative Data, Quantitative Analysis. *Cultural anthropology methods journal*, 8(1):9-11. <http://www.wjh.harvard.edu/nsfqual/Ryan%20Paper.pdf> Date of access: 19 Feb. 2015.
- Ryan G.W. & Bernard, H.R. 2000. Data management and analysis methods. (In Denzin, N.K. & Lincoln Y.S., eds. Handbook of qualitative research. 2<sup>nd</sup> ed. Thousand Oaks, California.: Sage. p. 769-802).

Sachwald, F. 2005. Mondialisation et attractivité de la France pour la R&D des entreprises. (In Larédo, P. & Sachwald, F., eds. *Le système français d'innovation dans l'économie mondiale: enjeux et priorités*. Paris: IFRI-Institut de l'Entreprise.)

Samitas, A.G. & Kenourgios, D.F. 2007. Impact of Mergers and Acquisitions on Stock Returns of Tramp Shipping Firms. *International journal of financial services management*, 2(4):327-343.

Santos Silva, J.M.C. & Tenreyro, S. 2006. The log of gravity. *The review of economics and statistics*, 88(4):641-658.

Sapir, A. & Lutz, E. 1980. Trade in non-factor services: past trends and current issues. World Bank staff working paper 410. Washington, DC: World Bank.

Sapir, A. & Lutz, E. 1981. Trade in services: economic determinants and development related issues. World Bank staff working paper 480. Washington, DC: World Bank.

Saunders, M., Lewis, P. & Thornhill, A. 2009. Research methods for business students. 5<sup>th</sup> ed. New York: Prentice Hall.

Saunders, M.N.K., Lewis, P. & Thornhill, A. 2003. Research method for business students. 3<sup>rd</sup> ed. New York: Prentice Hall.

Sauvant, K.P. & Zimny, Z. 1987. Foreign direct investment in services: the neglected dimension in international service negotiations. *World competition*, 11(3):27-55.

Sauvant, K.P., Maschek, W.A. & McAllister, G. 2009. Foreign direct investment by emerging market multinational enterprises, the impact of the financial crisis and recession and challenges ahead. (In Sauvant, K.P., McAllister, G.A. & Maschek, W.A. *Foreign direct investments from emerging markets*. New York: Palgrave Macmillan. p. 3-29).

Scherer, A.G. & Smid, M. 2000. The downward spiral and the US model principles - why MNEs should take responsibility for the improvement of world-wide social and environmental conditions. *Management international review*, 40(4):351-371.

Scherer, A.G., Palazzo, G. & Matten, D. 2009. Introduction to the special issue: Globalization as a challenge for business responsibilities. *Business ethics quarterly*, 19(3):327-347.

Schettkat, R. & Yocarini, L. 2006. The shift to services employment: A review of the literature. *Structural change and economic dynamics*, 17(2):127-147.

SEDA. 2016. Seda Technology Programme: A year in review. 2008/09. Annual Review For the Year Ended 31 March 2009. Pretoria: DTI, SEDA. <http://www.seda.org.za/Publications/Publications/Stp%20Annual%20Review%202008-09.pdf> Date of access: 1 Apr. 2016.

Shapiro, R.D. & Heskett, J.L. 1985. Logistics strategy: cases and concepts. St Paul, Minnesota.: West Publishing.

Shatz, H. & Venables, A.J. 2000. The Geography of International Investment. World Bank Policy research working paper 2338. Washington, DC: World Bank.

Shenkar, O. 2007. Foreign direct investment: theory and application. [www.sagepub.com.upmdata/18594\\_chapter3.pdf](http://www.sagepub.com/upmdata/18594_chapter3.pdf) Date of access: 3 June 2014

Sherman, A.J. & Hart, M.A. 2006. Mergers and acquisitions from A to Z. 2<sup>nd</sup> ed. New York: Amacom.

Slaughter, M.J. 2000. Skill upgrading in developing countries: has inward foreign direct investment played a role? OECD Development Centre working paper 192. August 2002 CD/DOC(2002)04.

Smith, S. 1997. Restrictive policy toward multinationals: Argentina and Korea (*In Case Studies in Economic Development*. 2<sup>nd</sup> ed. New York: Pearson. p. 178-189).

South Africa. Council for Scientific and Industrial Research (CSIR). 2013. 10<sup>th</sup> annual state of logistics survey for South Africa: Bold steps forward. State of logistics survey 10. Pretoria: CSIR.

Stank, T.P., Keller, S.B., & Daugherty, P.J. 2001. Supply Chain Collaboration and Logistical Service Performance. *Journal of business logistics*, 22(1):29- 48.

Steffens, P.R. 2002. The Product Life Cycle Concept: Buried or Resurrected by the Diffusion Literature? Academy of Management Conference, Technology and Innovation Management Division, Denver, August 2002.

Stern, R.M. & Hoekman, B.M. 1988. The service sector in economic structure and in international transactions. (*In Castle, L.V. & Findlay, C.C., eds. Pacific trade in services. Boston: Allen & Unwin.*)

Stewart, F. 1985. Planning to meet basic needs. London: Macmillan.

Stewart, M & Maughn, R.D. 2015 International joint ventures, a practical approach. In Tremaine, D.W. Defining success together. [http://www.dwt.com/files/Publication/1b841dbe-3453-4983-97cd-d6f5b44e5b2f/Presentation/PublicationAttachment/47d38fc0-1cc3-4c3e-b91f-d8aacd2ce6d1/International%20Joint%20Ventures%20Article\\_Stewart.pdf](http://www.dwt.com/files/Publication/1b841dbe-3453-4983-97cd-d6f5b44e5b2f/Presentation/PublicationAttachment/47d38fc0-1cc3-4c3e-b91f-d8aacd2ce6d1/International%20Joint%20Ventures%20Article_Stewart.pdf) Date of access: 20 Mar. 2015.

Sun, X. 2002. Foreign Direct Investment and Economic Development: What do States need to do? Working Paper. Capacity Development Workshops and Global Forum on Reinventing Government on Globalization. Marrakech, Morocco. UNPAN website p. 2-20. <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan006348.pdf> Date of access: 4 Jan. 2015.

Tatoglu, E. & Glaister, K.W. 1998. Western MNC's FDI in Turkey: An analysis of location specific factors. *Management international review*, 38(2):133-159.

Te Velde, D.W. 2006. FDI and development: An historical perspective. Overseas Development Institute. p. 1-29. <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/850.pdf> Date of access: 29 Feb. 2015.

Terpstra V. & Sarathy R. 2000. International marketing. 8<sup>th</sup> ed. Fort Worth: Dryden Press.

Terpstra, V., & Yu, C.M. 1988. Determinants of Foreign Investment of US Advertising Agencies. *Journal of international business studies*, 19(1):33-46.

Terre Blanche, M.J. & Durrheim, K. 1999. Research in practice. Cape Town: University of Cape Town Press.

Tesch, R. 1990. Qualitative research: Analysis types and software tools. New York: Falmer Press.

DTI. 2015. Industrial Policy Action Plan Economic Sectors and Employment Cluster IPAP 2013/- 2015/16. Pretoria: Department of Trade and Industry. [http://www.thedti.gov.za/news2013/ipap\\_2013-2016.pdf](http://www.thedti.gov.za/news2013/ipap_2013-2016.pdf) Date of access: 15 Mar. 2015.

The Economist. 2015. Free exchange economics: Economic history: When did globalisation start? <http://www.economist.com/blogs/freeexchange/2013/09/economic-history-1> Date of access: 1 Mar. 2015.

Tinbergen, J. 1962. Shaping the world economy: suggestions for an international economic policy. New York: Twentieth Century Fund.

Trefler, D. 1995. The case of the missing trade and other mysteries. *American economic review*, 85(5):1029-1046.

Tseng, Y., et al. 2005. The role of transportation in logistics chain. *Proceedings from the Eastern Asia society for Transportation Studies*, 5:1657-1672.

Twarowska, K., & Kakol, M. 2013. International Business Strategy: reasons and forms of expansion into foreign markets. Active citizenship by knowledge management & innovation: proceedings of the management, knowledge and learning international conference 2013. p. 1005-1011.

Ulhas, D. & Wadivkar, B.E. (Elect), PGDIM, MBA (Finance) Management Consultant, Retired Vice President (Works), Graphite India Limited. Nashik & Bangalore. 1 August 2011.

UNCTAD, World Investment Report. 1999. Foreign direct investment and the challenge of development. New York: United Nations.

UNCTAD, World Investment Report. 2001. Promoting linkages. New York, Geneva: United Nations.

UNCTAD, World Investment Report. 2002. Transnational corporations and export competitiveness. New York, Geneva: United Nations.

UNCTAD, World Investment Report. 2003. Foreign direct investment policies for development: national and international perspectives. New York, Geneva: United Nations.

UNCTAD, World Investment Report. 2014. Investing in the SDGs: An action plan. Switzerland: United Nations Publications.

UNCTAD. 2005/2006. FDI in least developed countries at a glance. United nations conference on trade and development. New York: United Nations. UNCTAD/ITE/IIA/2005/7. UNITED NATIONS PUBLICATION. ISSN 1819-8937. p. 4-6.

UNCTAD. 2006. FDI from Developing and Transition Economies: Implications for Development. Geneva: World Investment Report.

UNCTAD. 2008. Handbook of statistics 2007. Geneva: UNCTAD.

UNCTAD. World Investment Report. 1997. UNCTAD Report. New York: African Publishers.

UNCTAD. World Investment Report. 1999. UNCTAD Report. New York: African Publishers.

- UNCTAD. World Investment Report. 2000. UNCTAD Report. New York: African Publishers.
- UNCTAD. World Investment Report. 2001. Promoting Linkages. New York & Geneva.
- UNCTAD. World Investment Report. 2002. UNCTAD Report. New York: African Publishers.
- UNCTAD. World Investment Report. 2013. Global value chains: Investment and trade for development (UNCTAD/WIR/2013). 27 Jun 2013. p. 236.
- UNCTAD. World Investment Report. 2014. Investing in the SDGs: An action plan. United Nations Publication Sales. New York: United Nations.
- UNCTAD. World Investment Report. 2015. Reforming International Investment Governance. United Nations conference on trade and development. United Nations Publication Sales. Geneva: United Nations.
- Union Budget & Economic Survey. 2013-2015. Sector. <http://indiabudget.nic.in/es2012-13/echap-10.pdf>.
- United Nations Statistical Division's website. 2015. <http://unstats.un.org/unsd/pubs/>.
- United Nations Statistics Division. 2014. Economic Statistics. [http://unstats.un.org/unsd/economic\\_main.htm](http://unstats.un.org/unsd/economic_main.htm)
- United Nations, Department of Economic and Social Affairs, Population Division. 2015. World Population Prospects: The 2015 Revision. New York: United Nations.
- United Nations. 2008. International standard industrial classification (ISIC codes) of all economic activities. Statistical papers series M 4/Rev.4 United Nations, New York, 2008.
- United Nations. 2010. United Nations manual on statistics of international trade in services (MSITS 2010). Statistical Commission. Geneva: United Nations.
- US Census Bureau. 2014. Annual & Quarterly Services - Census.gov <https://www2.census.gov/services/qss/2014/qssq2-14pr.pdf> Date of access: 5 Mar. 2015.
- Van de Ven, A. H., Angle, H. L., & Poole, M. S. 1989. Research on the management of innovation: The Minnesota studies. New York: Ballinger/Harper & Row.
- Van Donselaar, K., Van Den Nieuwenhof, J. & Visschers, J.W.C.H. 2000. The Impact of Material Coordination Concepts on Planning Stability in Supply Chains. *International journal of production economics*, 68(2):169-176.

Van Lynden, W.C.E. 2011. The determinants of trade in goods and services. Rotterdam: Erasmus University.

Vernon, R. 1966. International Investment and International Trade in the Product Cycle. *Quarterly journal of economics*, 80(2):190-207.

Vernon, R. 1979. The product cycle hypothesis in a new international environment. *Oxford bulletin of economics and statistics*, 41(4):255-267.

Vernon, R. & Wells, L.T. 1966. International Trade and International Investment in the Product Life Cycle. *Quarterly journal of economics*, 81(2):190-207.

Viljoen, N., Bean, W., Havenga, J., Simpson, Z., Jankauskaite, Z., Gounder, S., Steyn, W., De Jonge, G., Sambandan, M., Laubscher, C., Ittmann, H., Luke, R. & Heyns, G. 2013. 9<sup>th</sup> state of logistics survey for South Africa: connecting neighbours - engaging the world. Imperial logistics: Germiston, South Africa: Council for Scientific and Industrial Research. p 1-93.

Voss, C., Tsikriktsis, N. & Frohlich, M. 2002. Case Research in Operations Management. *International journal of operations and production management*, 22(2):195-219.

Walsh, K. 2006. Trade in services: Does gravity hold? A gravity model approach to estimating barriers to services trade. The Institute for International Integration Studies Discussion Paper Series 183, IIS.

Wang, S. 2008. Cross-border mergers and entry modes of FDI inflows. Department of Economics, McGill University. p. 1-25. <http://economics.ca/2008/papers/0266.pdf> Date of access: 9 Feb. 2015.

Wanjialin. G. 2004. An international dictionary of accounting and taxation. Lincoln: Universe.

Weerahewa, J. 2009. Impact of trade facilitation measures and regional trade agreements on food and agricultural trade in South Asia. Asia-Pacific Research and Training Network on Trade Working Paper Series 69. June 2009.

Wilhelms, S.K.S., Stanley, M. & Witter, D. 1998. Foreign direct investment and its determinants in emerging economies. African economic policy paper discussion paper 9. Washington, DC: United States Agency for International Development, Bureau for Africa, Office of Sustainable Development.

World Bank Group. 2011. National accounts: Output and expenditure. Washington: World Bank. <http://econ.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,print:Y~is>

CURL: Y~contentMDK:20451590~menuPK:64133152~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html Date of access: 13 Jan. 2015.

World Bank, 2013. GDP Growth Rate. <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=2>.

World Bank. 2010. Connecting to compete: Trade logistics in the global economy. [www.worldbank.org/lpi](http://www.worldbank.org/lpi) Date of access: 26 Jul. 2011.

World Bank. 2013. GDP Growth Rate. <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=4>.

World Bank. 2013. GDP Growth Rate. <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=3>.

World Bank. 2013. GDP Growth Rate. <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=1>

World Trade Organisation. 1996. WTO News: Press Releases. Trade and foreign direct investment. Geneva: WTO. [https://www.wto.org/english/news\\_e/pres96\\_e/pr057\\_e.htm](https://www.wto.org/english/news_e/pres96_e/pr057_e.htm).

World Trade Organisation. 2010. Measuring trade in services. Geneva: WTO.

World Trade Organisation. 2016. Growth, jobs, development and better international relations: how trade and the multilateral trading system help. [https://www.wto.org/english/thewto\\_e/minist\\_e/min99\\_e/english/book\\_e/stak\\_e\\_3.htm](https://www.wto.org/english/thewto_e/minist_e/min99_e/english/book_e/stak_e_3.htm).

World Trade Organization Website. 1996. Trade and foreign direct investment. Geneva: WTO. [https://www.wto.org/english/news\\_e/pres96\\_e/pr057\\_e.htm](https://www.wto.org/english/news_e/pres96_e/pr057_e.htm) Date of access: 15 Jan. 2015.

World Trade Organization. 2011. Factors shaping the future of world trade: The evolution of international trade: insights from economic history. [https://www.wto.org/english/res\\_e/books\\_p\\_e/wtr13-2b\\_e.pdf](https://www.wto.org/english/res_e/books_p_e/wtr13-2b_e.pdf) Date of access: 2 Jan. 2015.

WTO. 1998. Report of the working group on the relationship between trade and investment to the general council, December 1998, WTWGT1/2. [http://docsonline.wto.org/~kesne arch.asp](http://docsonline.wto.org/~kesne/arch.asp) Date of access: 2 Apr. 2015.

WTO. 1999. Report of the Working Group on the relationship between trade and investment to the general council, WTMrGTI131.

WTO. 2000. Report of the working group on the relationship between trade and investment to the general council, 27 November 2000, WT/WGTI/4, <http://docsonline.wto.org/archive.asp> (Date of access: 2 April 2015).

WTO. 2006. Measuring trade in services. Geneva: WTO.

WTO: see World Trade Organisation.

## **ANNEXURE A: LETTER OF INVITATION TO PARTICIPATE IN THE STUDY'S QUESTIONNAIRE AND INTERVIEW**

*(Participant's address)*

*(Date)*

Dear Mr/Ms *(Participant's name)*

The reason for this letter is to ask for your assistance with a study regarding cross-border M&As in the freight and logistics industry of South Africa. Please regard this letter as an invitation to participate in this research exercise.

The reason for conducting this study is to determine what the drivers of FDI through inorganic growth methods are, with a specific focus on M&As in the freight and logistics industry of South Africa. Considering the fast-growing nature of the freight and logistics industry globally at an infrastructure, policy and intercontinental level, it could prove beneficial for a large international company to obtain information on the current trend of M&As in the industry showing a sectorial shift towards an oligopolistic economy. The results of this study will be used to contribute to further research on this topic.

As mentioned above, the study seeks to discover patterns such as possible casual links or changes over time in the freight and logistics industry of South Africa with regard to mergers and acquisitions. Because qualitative research is exploratory and open-ended, focusing mainly on collecting, analysing and interpreting data by observing what people do and say, collecting information can range from having questionnaires completed to doing individual in-depth interviews. The interviewer will obtain the information he/she needs by exploring the participants' responses, opinions, perceptions and feelings about a certain topic. The participants in the interviews will also provide experienced answers to the questions they are asked with regard to their specific field of expertise, and involvement in the merger or acquisition. For this study, a questionnaire will first have to be completed, followed by a face-to-face or telephonic interview with the respondent.

The questionnaire consists of two sections. Section A consists of 12 questions that will be used to build a company profile (pre-merger/-acquisition). Section B consists of 16 questions formulated to focus on the specific transaction (merger and/or acquisition) that took place. There are two annexures attached to the questionnaire, marked A and B – please refer to these pages should you be uncertain of any terminology used herein. Annexure A defines and describes in detail some of the main terms used in the questionnaire. Annexure B provides a list of the abbreviations for section A, question 5.

It is kindly request that you answer all 28 questions presented in this questionnaire as they are all important to our end results. If you feel that any important factor/question(s) have been missed that might contribute to the study, please list it in the blocks numbered A1, A2, A3 provided on the last page of the questionnaire. It is estimated that completing the questionnaire will take approximately 30 to 45 minutes of your time.

After the completed questionnaire is received back, a meeting request will be sent to you via e-mail to determine a date, time and place to conduct the face-to-face interview. If, however, it proves too difficult to meet face-to-face due to geographical or time constraints, a telephonic interview can also be arranged.

A set of pre-determined questions will be compiled and sent to you prior to the interview. The interview questions will depend on the information received from you in the completed questionnaire. A few open-ended questions will also be asked according to the topical trajectories of the conversation.

It has been recognised that there is only limited data and information available to assist multinational enterprises (MNEs), investors and other stakeholders to understand the dynamics of this significant industry phenomenon. Your views and opinions expressed in the questionnaire and later in the interview will be used to add valuable new data to the already existing research on cross-border M&As in the freight and logistics industry of South Africa. Therefore, it would be much appreciated if you could give just a small amount of your very valuable time to assist in building the required body of knowledge in this industry.

Thank you for your time and consideration of this request. Hope to hear back from you at your soonest convenience.

Best regards

Chantelle de Villiers

## ANNEXURE B: THE QUESTIONNAIRE



### CROSS-BORDER MERGERS AND ACQUISITIONS IN THE FREIGHT AND LOGISTICS INDUSTRY OF SOUTH AFRICA

#### QUESTIONNAIRE 2015

##### Interview details:

|                       |  |
|-----------------------|--|
| Date of interview     |  |
| Location of interview |  |
| Start time            |  |
| End time              |  |

##### Respondent information

|                                  |         |
|----------------------------------|---------|
| Name                             |         |
| Surname                          |         |
| Current position held in company |         |
| Number of years at the company   |         |
| Phone number:                    | E-mail: |

**Section A: Company profile, pre-merger/acquisition**

1. Target company pre-merger/acquisition company name:

|  |
|--|
|  |
|--|

2. Which of the following categories of staff size does the company mentioned in question 1 fall into?

|           | X |
|-----------|---|
| 1-50      |   |
| 51-200    |   |
| 201-500   |   |
| 501-1 000 |   |
| 1000+     |   |

3. Please indicate the geographic locations of the company mentioned in question 1 as well as the year in which operations commenced in such location; If possible, please also specify the specific countries for each geographic location.

| Geographic location | X | Year | Specific country(ies) |
|---------------------|---|------|-----------------------|
| Africa              |   |      |                       |
| Antarctica          |   |      |                       |
| Asia                |   |      |                       |
| Australasia         |   |      |                       |
| Europe              |   |      |                       |
| North America       |   |      |                       |
| South America       |   |      |                       |

4. Please select from the list provided below any/all of the free trade areas (*of which you are aware*) that the company mentioned in question 1 is part of (please refer to Annexure B).

|        | X |      | X |         | X |
|--------|---|------|---|---------|---|
| AU     |   | SADC |   | EAC     |   |
| COMESA |   | SACU |   | CEN-SAD |   |

5. Please select the main business activities (services provided) of the company mentioned in question 1, and also roughly indicate the % of total revenue generated by each of these activities (i.e. out of 100%, warehousing generates 25%).

| Business Activities / Services Provided                                 | X | % Revenue generated (0-100%) |
|-------------------------------------------------------------------------|---|------------------------------|
| Air transport                                                           |   |                              |
| Land transport                                                          |   |                              |
| Water transport                                                         |   |                              |
| Rail transport                                                          |   |                              |
| Warehousing                                                             |   |                              |
| Other support activities for transportation ( <i>please specify**</i> ) |   |                              |
| **                                                                      |   |                              |
| **                                                                      |   |                              |
| **                                                                      |   |                              |

6. Please select the main product/commodity categories that the company mentioned in question 1 specialises in; and also roughly indicate the % of total revenue generated by each of these product/commodity categories (i.e. out of 100%, agricultural products generate 25%).

| Product/commodity category             | X | % Revenue generated (0-100%) |
|----------------------------------------|---|------------------------------|
| Agricultural                           |   |                              |
| Aerospace, defence and security        |   |                              |
| Automotive                             |   |                              |
| Energy                                 |   |                              |
| FMCG                                   |   |                              |
| Metals (precious and base)             |   |                              |
| Medical, chemistry and pharmaceuticals |   |                              |
| Mining and minerals                    |   |                              |
| Telecommunications                     |   |                              |
| Other ( <i>please specify**</i> )      |   |                              |
| **                                     |   |                              |

7. What type of legal entity is the company mentioned in question 1 (pre-merger)? (Please select one.)

|                                   |          |
|-----------------------------------|----------|
|                                   | <b>X</b> |
| Private company                   |          |
| Public listed company             |          |
| Close corporation                 |          |
| Partnership                       |          |
| Other ( <i>please specify**</i> ) |          |
| **                                |          |

8. In terms of *market size/market capitalisation*, how does the company mentioned in question 1 rank against its main domestic competitors in the industry? (please specify a reason for your answer.\*\*)

|          |          |
|----------|----------|
|          | <b>X</b> |
| Top 2    |          |
| Top 5    |          |
| Top 10   |          |
| Other    |          |
| Reason** |          |

9. In terms of *geographical reach*, how does the company mentioned in question 1 rank against its main domestic competitors in the industry? (please specify a reason for your answer.\*\*)

|          |          |
|----------|----------|
|          | <b>X</b> |
| Top 2    |          |
| Top 5    |          |
| Top 10   |          |
| Other    |          |
| Reason** |          |

10. Which of the following best describes your firm's growth or decline in revenue over the past three years? (please check one)

|                                                      |          |
|------------------------------------------------------|----------|
|                                                      | <b>X</b> |
| Fast growth (average annual growth of 20% or more)   |          |
| Moderate growth (average annual growth of 10-19%)    |          |
| Slow growth (average annual growth of 1-9%)          |          |
| Stable (unchanged for three years)                   |          |
| Slow decline (average annual decline of 1-9%)        |          |
| Fast decline (average annual decline of 10% or more) |          |

11. Would you say that your answer in question 10 contributed towards the acquirer's decision to merge with or acquire the company mentioned in question1?

|           |  |    |  |                                                                        |
|-----------|--|----|--|------------------------------------------------------------------------|
| Yes       |  | No |  | Please specify a reason for your answer in the block provided below.** |
| <p>**</p> |  |    |  |                                                                        |

12. How often has the company been involved in similar merger and/or acquisition transactions in the past 10 years?

| Year           | Type of transaction (merger/acquisition) | Your role (target/acquirer) | Other party (company name) |
|----------------|------------------------------------------|-----------------------------|----------------------------|
| (i.e.)<br>2010 | Merger                                   | Target                      | Company X                  |
| 2005           |                                          |                             |                            |
| 2006           |                                          |                             |                            |
| 2008           |                                          |                             |                            |
| 2007           |                                          |                             |                            |
| 2008           |                                          |                             |                            |
| 2009           |                                          |                             |                            |
| 2010           |                                          |                             |                            |
| 2011           |                                          |                             |                            |
| 2012           |                                          |                             |                            |

|      |  |  |  |
|------|--|--|--|
| 2013 |  |  |  |
| 2014 |  |  |  |
| 2015 |  |  |  |

### **Section B: The transaction (merger/acquisition)**

1. What best describes the way in which the transaction (foreign investment) took place? *(Please select one.)*

|                                                                                    |          |
|------------------------------------------------------------------------------------|----------|
|                                                                                    | <b>X</b> |
| Creation of a new operation as a wholly foreign-owned enterprise (merger)          |          |
| Creation of a new operation as a joint venture (Greenfield joint venture)          |          |
| Purchase parts of pre-existing assets from domestic private owners (acquisition)   |          |
| Purchase of pre-existing assets from foreign private owners (acquisition/takeover) |          |
| Purchase of pre-existing state-owned assets (privatisation)                        |          |
| Other <i>(please specify**)</i>                                                    |          |
| **                                                                                 |          |
| **                                                                                 |          |

2. Please state the name of the acquiring company/acquirer *(company that acquired or merged with the target company mentioned in section A, question1):*

|  |
|--|
|  |
|--|

3. Was the transaction mentioned in Section B, question 1 friendly or hostile?

|          |  |         |  |
|----------|--|---------|--|
| Friendly |  | Hostile |  |
|----------|--|---------|--|

4. Did the company's name change after the transaction took place? If so, please state both the new trading and company name below:

|     |  |    |  |                   |  |
|-----|--|----|--|-------------------|--|
| Yes |  | No |  | New trading name: |  |
|     |  |    |  | New company name: |  |

5. What year did the foreign investment take place in South Africa?

|  |
|--|
|  |
|--|

6. Select any/all of the reason(s) or motivations for the transaction with the company mentioned in section B, question 2 and also provide a brief explanation for each chosen reason/motivation:

|                                                                                                                                                                                                                                                                                                                                              |  |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------|
| i.e. : To grow/expand the company's global footprint                                                                                                                                                                                                                                                                                         |  | <b>x</b> |
| Reason: Company X was looking for an inorganic growth method, to expand its footprint into the African continent as they only had a presence in Europe. Strategically, merging with or acquiring company Y provided the opportunity to have a larger market cap/size and be more competitive in the freight and logistics industry globally. |  |          |
| To grow/expand the company's global footprint                                                                                                                                                                                                                                                                                                |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |
| To have the benefits of economies of scale                                                                                                                                                                                                                                                                                                   |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |
| To have efficient access to capital markets                                                                                                                                                                                                                                                                                                  |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |
| To grow the company's competitive advantage                                                                                                                                                                                                                                                                                                  |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |
| To enter new product markets due to reduced opportunities in current economy                                                                                                                                                                                                                                                                 |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |
| To fully utilise the existing financial resources of the company                                                                                                                                                                                                                                                                             |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |
| To benefit from the tax and incentives available                                                                                                                                                                                                                                                                                             |  |          |
| Reason:                                                                                                                                                                                                                                                                                                                                      |  |          |

|                                                                                      |  |  |
|--------------------------------------------------------------------------------------|--|--|
| To overcome excessive competition in the industry                                    |  |  |
| Reason:                                                                              |  |  |
| To gain access to critical resources/overcome critical lacks (factors of production) |  |  |
| Reason:                                                                              |  |  |
| To reduce business uncertainty by improving product portfolio                        |  |  |
| Reason:                                                                              |  |  |
| Merger took place because the parent companies abroad merged                         |  |  |
| Reason:                                                                              |  |  |
| To exploit an opportunity that arose                                                 |  |  |
| Reason:                                                                              |  |  |
| Any other ( <i>please specify</i> )                                                  |  |  |
| Reason:                                                                              |  |  |

7. With reference to the above merger or acquisition, please answer the following:

Who was associated with preparing the initial list and final selection of the target companies (please tick all the relevant options below):

|                                                |          |
|------------------------------------------------|----------|
|                                                | <b>X</b> |
| Board of directors                             |          |
| Shareholders                                   |          |
| External consultants                           |          |
| Internal divisions ( <i>please specify**</i> ) |          |

|                                       |  |
|---------------------------------------|--|
| **                                    |  |
| Any other ( <i>please specify**</i> ) |  |
| **                                    |  |

8. Please tick any/all of the criteria used for the identification and final selection of the target company:

|                                               |          |
|-----------------------------------------------|----------|
|                                               | <b>X</b> |
| Size of target company                        |          |
| Sales growth                                  |          |
| Profitability                                 |          |
| Similarity to the company's existing business |          |
| Total assets                                  |          |
| Net worth                                     |          |
| Position in market                            |          |
| Product lines                                 |          |
| Price/earnings ratio                          |          |
| Management competency in the target company   |          |
| Any other ( <i>please specify</i> )           |          |

9. How was the target company's equity determined?

|                                           |          |
|-------------------------------------------|----------|
|                                           | <b>X</b> |
| Book value of assets                      |          |
| Market value of shares                    |          |
| Relative valuation/comparable             |          |
| Replacement value of assets               |          |
| Weighted average of all the above methods |          |
| Any other ( <i>please specify**</i> )     |          |
| **                                        |          |

10. What was the form of the final offer?

|                                       | X |
|---------------------------------------|---|
| Cash                                  |   |
| Share swaps                           |   |
| A mix of cash and shares              |   |
| Any Other ( <i>Please specify**</i> ) |   |
| **                                    |   |

11. What was the total value of the foreign investment?

12. What is the estimated contribution of the target company (mentioned in section A, question 1) in the total global revenue of the acquiring company (mentioned in section B, question 2)?

|          | X |
|----------|---|
| (0-5%)   |   |
| (5-10%)  |   |
| (10-25%) |   |
| (25-50%) |   |
| (50% +)  |   |

13. Has the foreign ownership share changed over the past five years? (Please select one)

|                     | X |
|---------------------|---|
| No, stayed the same |   |
| Yes, it increased   |   |
| Yes, it decreased   |   |

14. How successful would you consider your most recent acquisition to be in achieving its strategic goals/objectives? (rate on a scale of 1 to 3, where 1 = least successful and 3 = most successful)

|         | X |
|---------|---|
| 1 (One) |   |
| 2 (Two) |   |

|           |  |
|-----------|--|
| 3 (Three) |  |
|-----------|--|

15. Please specify why you would consider your latest acquisition a success or failure?

|         | X | Reason(s) |
|---------|---|-----------|
| Success |   |           |
| Failure |   |           |

16. In your opinion, from an industry perspective, would you say that the freight and logistics industry globally is becoming more interlinked because of the cross-border M&As that are taking place? (Please feel free to elaborate on your answer.)

|  |
|--|
|  |
|--|

If you feel that any important factor/question have been missed that might contribute to the study, please list it in the blocks numbered A1, A2, A3 provided below:

**Block A:**

|  |
|--|
|  |
|--|

**Block B:**

A large, empty rectangular box with a thin black border, intended for content within Block B.

**Block C:**

A large, empty rectangular box with a thin black border, intended for content within Block C.

## ANNEXURE C: LIST OF ABBREVIATIONS FOR FREE TRADE AREAS (ANNEXURE A)

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Merger                               | The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.                                                                                                                                                                                                                                                           |
| Acquisition                          | A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. |
| Joint venture                        | A business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate and apart from the participants' other business interests.         |
| The transaction                      | In this questionnaire, "the transaction" indicates the merger or acquisition deal                                                                                                                                                                                                                                                                                                                                                         |
| Target company                       | A company that is the subject of a merger or acquisition attempt.                                                                                                                                                                                                                                                                                                                                                                         |
| Acquiring company                    | A company that is the initiator of a merger or acquisition attempt.                                                                                                                                                                                                                                                                                                                                                                       |
| Pre-merger/-acquisition              | The situation before the merger or acquisition took place                                                                                                                                                                                                                                                                                                                                                                                 |
| Post-merger/-acquisition             | The situation after the merger or acquisition took place                                                                                                                                                                                                                                                                                                                                                                                  |
| Cross-border merger and acquisitions | A company in one country can be acquired by an entity (another company) from other countries. The local company can be a private, public or state-owned company. In the event of the merger or acquisition by foreign investors, referred to as cross-border mergers and acquisitions, this will result in the transfer of control and authority in operating the merged or acquired company.                                             |
| Freight and logistics industry       | This is a combined term including all of the sectors in the transportation Industry such as: warehousing and water/ocean-, air-, rail-, and road transportation                                                                                                                                                                                                                                                                           |
| Free trade areas                     | Free trade areas allow the agreeing nations to focus on their comparative advantages and to produce the goods they are comparatively more efficient at making. Such agreements also involve cooperation between at least two countries to reduce trade barriers – import quotas and tariffs – and to increase the trade of goods and services with each other.                                                                            |
| Legal entity of a company            | An association, corporation, partnership, proprietorship, trust or individual that has legal standing in the eyes of the law. A legal entity has the legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions.                                                                                                         |

|                                   |                                                                                                                                                                                                                                                   |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Private company                   | A company whose shares may not be offered to the public for sale and that operates under legal requirements less strict than those for a public company.                                                                                          |
| Public listed company             | A public, publicly traded, publicly held company, or public corporation is a corporation whose ownership is dispersed among the general public in many shares of stock that are freely traded on a stock exchange or in over-the-counter markets. |
| Market size/market capitalisation | Market capitalisation (market cap) is the total market value of the shares outstanding of a publicly traded company; it is equal to the share price times the number of shares outstanding.                                                       |
| Foreign investment                | Flows of capital from one nation to another in exchange for significant ownership stakes in domestic companies or other domestic assets.                                                                                                          |
| Inorganic growth method           | Inorganic growth is the rate of growth of business and sales expansion by increasing output and business reach by acquiring new businesses by way of mergers, acquisitions and take-overs.                                                        |

## ANNEXURE D: LIST OF ABBREVIATIONS FOR FREE TRADE AREAS (ANNEXURE B)

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AU      | The African Union (AU) is a continental union consisting of 54 countries in Africa.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| SADC    | The Southern African Development Community (SADC) is a regional economic community comprising 15 member states, namely Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Established in 1992, the SADC is committed to regional integration and poverty eradication within Southern Africa through economic development and ensuring peace and security.                                                                                  |
| EAC     | The East African Community (EAC) is a regional intergovernmental organisation of five partner s, namely the Republics of Burundi, Kenya, Rwanda, the United Republic of Tanzania and the Republic of Uganda, with its headquarters in Arusha, Tanzania.                                                                                                                                                                                                                                                                                                                  |
| COMESA  | The Common Market for Eastern and Southern Africa (COMESA) is a free trade area with 20 member states stretching from Libya to Swaziland. COMESA was formed in December 1994, replacing a Preferential Trade Area, which had existed since 1981. Nine of the member states formed a free trade area in 2000 (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe), with Rwanda and Burundi joining the FTA in 2004, the Comoros and Libya in 2006, and Seychelles in 2009. COMESA is one of the pillars of the African Economic Community. |
| SACU    | The Southern African Customs Union (SACU) is a customs union among five countries in Southern Africa, namely Botswana, Lesotho, Namibia, South Africa and Swaziland. Its headquarters is in the Namibian capital Windhoek.                                                                                                                                                                                                                                                                                                                                               |
| CEN-SAD | The Community of Sahel-Saharan States. Funding members were Libya, Sudan, Burkina Faso, Chad, Mali and Nigeria. Since the beginning of the venture, these countries have expressed the wish to see other Arab and Saharan states joining them. By 2002, Egypt, Tunisia, Morocco, Somalia et Djibouti, Eritrea, Gambia, Senegal and Central African Republic, Togo and Benin (the last two ones became members in July 2002) had joined.                                                                                                                                  |