Africa – An emerging context for value creation with cross-border mergers and acquisitions

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Abstract: *Similar to most emerging markets, merger and acquisition (M&A) transactions in Africa have been on the rise as vehicles for firm growth and value creation, but research on this phenomenon on the African continent is scarce. In this paper, we provide an overview of M&A activity in markets on the African continent using secondary data on completed deals from 2009 to 2013. Specifically, we offer insights into aspects of current M&A trends, main actors in the deals, and nature of the transactions undertaken. Also, we discuss how two unique characteristics of the African landscape – government involvement in business transactions and contextual heterogeneity (i.e. a range of differences at the local, national and regional levels) – influence M&A value creation. Finally, we pose some research questions relevant in the African context which hopefully will help to shape the nature and direction of M&A research on the continent in the years ahead.*

Keywords: Mergers and acquisitions; International growth; Value creation; African market context, Intra-Africa heterogeneity; Deal characteristics; M&A trends; M&A actors

Introduction

Merger and acquisition (hereafter M&A) transactions have been well researched for their value creation potential (Haleblian, Devers, McNamara, Carpenter, and Davison, 2009; King, Dalton, Daily, and Covin, 2004; Seth, 1990b) and their great practical importance in strategic, monetary and social terms (Aklamanu, Degbey and Tarba 2015; Gomes, Angwin, Weber and Tarba, 2013), particularly in developed countries over the last half century. Yet, there is limited understanding of the overall relevance and sources of value creation associated with M&As in developing or emerging economies (Narayan and Thenmozhi, 2014) though firms are steadily expanding into these markets as a vital element of their internationalization strategy. For instance, despite the fragile and slow economic recovery in many developed nations, the value of global M&A transactions in 2013 alone exceeded 2.3 trillion US dollars (Bloomberg, 2013), and strong growth in continents comprised of emerging market economies such as South America and Africa have positively shaped this upward trend. In fact, M&As have increasingly become common in Africa over the last five to ten years as a relevant medium for foreign direct investment (FDI) for both international and regional market players. This strong growth has been supported by increased diversification across Africa, increased economic stability among the continent's nations, an abundance of natural resources throughout Africa, and the existence of sizable consumer markets in many African countries (Mergermarket, 2012; Triki and Chun, 2011). Figure 1 shows an overview of African M&A trends in terms of the number and value of deals from 2009 to 2013, a recent five-year period where there has been significant growth in M&A investments in Africa.

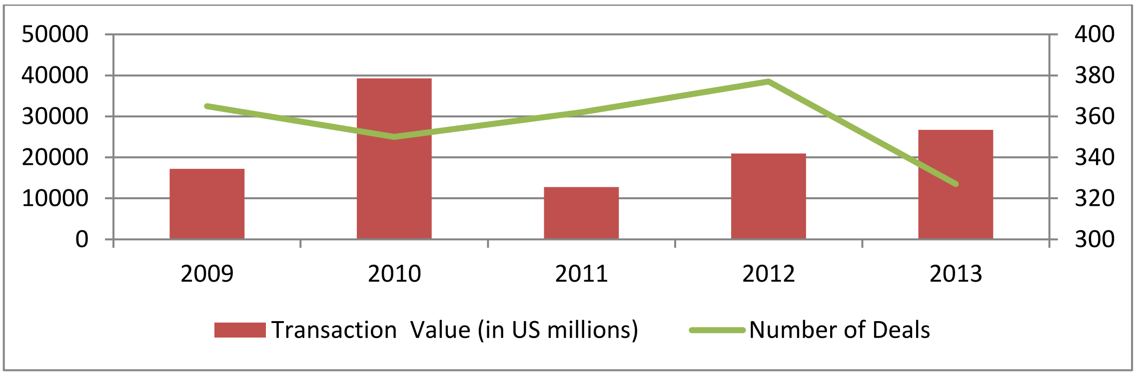

Figure 1. African M&A trends 2009-2013 [1]

In addition, cross-border acquisitions – i.e. those undertaken between companies of different national origins (Shimizu, Hitt, Vaidyanath and Pisano 2004) – have increased in number over the last decade and now constitute about half of all announced M&A

[1] Based on report generated from the Securities Data Corporation (SDC) Platinum International Mergers (IMA) Database. Search criteria included (1) deal announcement date from January 1, 2009 to December 31, 2013; (2) target nation region of North Africa (NA) or Sub-Saharan Africa (SF) to capture the entire continent; and (3) completed deat status. This process resulted in an initial sample of 1969 deals. We eliminated 188 deals in which the acquirer was listed as investor, shareholder, creditor, undisclosed, or unknown thus resulting in a final sample of 1781 deals. All figures and tables are based on the 1781 deals unless otherwise noted.

transactions globally (Clifford Chance, 2013). This trend is also evident on the African continent as the majority of M&As are cross-border in nature (African Development Bank, 2012; Degbey and Pelto, 2013; 2015). Also, it is worth noting that foreign firms, especially those headquartered in Western developed countries, made acquisitions in African countries even during the global economic downturn in 2010 resulting in near record levels of annual M&A activity on the continent (Mergermarket, 2012; Thomson Reuters, 2012). Moreover, annual growth in Africa as a target region for cross-border acquisitions significantly outpaced other regions in 2012 (Clifford Chance, 2013).

Yet, this phenomenal increase in M&A activity in Africa has attracted extremely little academic research (Ellis, Lamont, Reus, and Faifman, 2015; Gomes, Angwin, Peter and Mellahi, 2012). Indeed, the attractiveness of the African M&A market as a destination for seeking value creation is strongly catalyzed by high economic growth along with resilient energy, mining and utilities sectors, irrespective of its present size (no more than 3% of the global M&A market) relative to other regions in the world, and the wide intra-continental disparities in deal distributions (African Development Bank, 2012). Such trends highlight the fact that more scholarly works are urgently required to provide both recognition to and understanding of the value creation potential of M&As occurring on the African continent.

As a consequence, our objective in this paper is to shed light on the potential value creation opportunities this context may offer by specifying several M&A trends on the African continent. These include the sectors driving the M&A activity in Africa, the main actors involved in these deals in terms of key acquiring and target nations, and the nature and type of deals taking place. Also, we aim to highlight factors and conditions which may influence value creation on the African continent as well as discuss future prospects for the African M&A market. Finally, we seek to provide research insights on the significance of M&A activity in Africa for firms seeking international value creation using secondary data on completed deals from 2009 to 2013 and in doing so hope to spark an interest among other scholars that will result in the development of new conceptual models or in-depth analysis of the M&A strategy formation process in this rapidly growing context.

Value creation in M&As

Since the early 1990s, value creation has had a central position as a key driver and outcome of interest in the M&A literature (e.g., Seth, 1990a; 1990b; Haspeslagh and Jemison, 1991). Specifically, the review work of Shimizu et al. (2004) emphasizes value-creating strategy as one of three major perspectives for both theoretically and empirically examining cross-border M&As. And, even in a recent meta-analysis by Haleblian et al. (2009), the desire for value creation has again been reiterated as one of the major antecedents driving firms to undertake M&As. From a strategic management perspective, value creation in M&A tends to be justified particularly on the basis of the synergy hypothesis, and also in terms of competitive advantage (Calipha, Tarba and Brock, 2010).

According to the vast M&A literature examining the relatedness concept, value creation in M&As stems from the degree to which the acquiring and target firms are similar (usually assessed by comparing primary standard industrial classification or SIC codes) such that a higher relatedness yields enhanced value creation (Prabhu, Chandy and Ellis, 2005; Swaminathan, Murshed and Hulland, 2008). In the strategy discipline, ‘strategic fit’ is a closely used concept, and thus suggests that pre-M&A relatedness between target and acquiring firms, especially with respect to their respective resource portfolios or product market presence, is a source of synergy potential (Cartwright and Schoenberg, 2006; Gomes et al., 2013; Meyer and Altenborg, 2008). However, research findings are inconclusive in terms of a consistent linkage between relatedness of the combining firms and post-M&A value creation (Haspeslagh and Jemison, 1991; King et al., 2004). Despite the widespread dominance of the relatedness or similarity concepts in the M&A literature, other scholars suggest complementary differences between combining firms (i.e. strategic complementarity) to be more critical for improved value creation in M&A (Bauer and Matzler, 2014; Larsson and Finkelstein, 1999). Following the latter assertion, the wide heterogeneities within and among African countries may likely be useful sources to harness complementary differences for improved value creation, particularly in intra-African M&A deals. For example, the combination of African firms with strong corporate governance structures due to operating under stringent government regulations and African firms with proven abilities to build social capital as a result of weak government policies may facilitate the development of enhanced managerial capabilities which yield tremendous market benefits for the combined firm. Kim and Finkelstein (2009, p. 618) emphasize that strategic complementarities provide combining firms a "wider array of business opportunities to develop competencies that either firm could not create alone".

Furthermore, the cultural fit literature suggests that M&A value creation may be influenced by factors such as cultural distance, cultural similarity and compatibility, and cultural integration (Chatterjee, Lubatkin, Schweiger and Weber, 1992; Datta, 1991; Weber, Shenkar and Raveh, 1996). But like the literature examining the two firms' relative product market factors, cultural similarities or differences can have varying effects on post-deal value creation (Stahl and Voigt, 2008). Considering the level of diversity in values, beliefs, customs, norms, and akin factors influencing the attitudes and ways in which people act not only across the continent, but also in some cases within a given African country (Gomes et al., 2012; Richards and Nwanna, 2010; Zoogah, Peng, and Woldu, 2015), cultural issues are likely to be one of the major concerns in fostering value creation in M&A activity in Africa.

M&A activity in the African context

Despite the world's sluggish growth and uncertainty following the recent economic turbulence, M&A activity on the African continent has remained resilient. Moreover, recent surveys and reports of M&A practitioners operating in Africa shows that M&A activity on the continent is expected to continue increasing (Clifford Chance, 2013; Ernst and Young, 2012; Mergermarket, 2013). This robust M&A activity in the continent is supported by important factors such as increasing diversification among the region's economies (creating untapped investment opportunities in financial services; Technology, Media and Telecom (TMT); and business services, for instance), improving regulatory and financing conditions, implementing policies that increase economic growth and stability, and rapidly expanding middle class of more than one billion consumers (Clifford Chance, 2015). As such, expectations among M&A practitioners are upbeat in terms of continued growth in M&A activity over the next several years with most predicting sustained levels in the energy, mining and utilities sectors and strong, increasing performance in consumer-focused sectors (Clifford Chance, 2015; Mergermarket, 2013). These positive developments however are not without a sense of some political risks among investors in the region. While political risks are certainly present and also to a great extent well documented in some countries within the continent, investors with a long-term view recognize political risks as exceedingly country-specific phenomenon, and that the continent has attained significantly more stability as compared to other times in recent history (Ernst and Young, 2012).

Given the growth and stability being experienced in multiple African countries and increased access to capital by larger corporations and investment funds located on the continent, practitioners expect cross-border expansion among African companies (i.e. intra-African firms' expansion) to become a major driver of M&A activity in the years ahead (Clifford Chance, 2015; Krüger and Strauss, 2015). A key reason for this cross-border expansion among African companies is the need to secure a solid position and make use of the growing demand before competition intensifies from the ever growing presence of foreign firms and investors based outside the continent. However, there is some concern that it is relatively difficult for African firms – particularly small to mid-market firms – who seek growth through M&A to raise capital in comparison to most large foreign companies. This in turn hinders the ability of many African firms to engage in M&As in their home country markets as well as other countries on the continent thus having to relinquish opportunities to would-be acquirers from outside the continent. Data from our sample sheds additional light on some of these findings as will be discussed in the next section.

Who are the main actors in African M&A activity and where are they acting?

Consistent with the practitioner viewpoint, a recent study on FDI activity in Africa provides evidence that African companies have been the main source of M&A activity, particularly by deal volume since year 2006 (Krüger and Strauss, 2015). Intra-African M&A activity, which includes activity both among and within African countries, has remained steady since 2006 and accounts for 50–60% of total deal volume annually. As a consequence, competition in the region is increasing and the African corporations and investors are becoming more competitive through their complementary asset acquisitions, improvement in brand value and expansion in scale (BCG, 2010; Krüger and Strauss, 2015). The competitiveness of these African-based acquirers is also supported by other scholars who emphasize that M&As provide emerging economy firms' with access to resources that enable a faster transformation of status and reputation, and hence lead to improved capability and value creation (Du and Boateng, 2012; Uhlenbruck, Hitt, and Semadeni, 2006; Vermeulen and Barkema, 2001).

Table 1. M&A Activity Based on the Country Headquarters of the Acquirer and Target Firms

	2009	2010	2011	2012	2013
Domestic	49.6	42.6	40.3	50.4	41.0
Intra-Continent	10.7	14.6	13.0	11.7	15.3
Inter-Continent	39.7	42.9	46.7	37.9	43.7

As shown in Table 1, data from our sample supports the sustained level of M&A activity by acquirers headquartered in Africa. Between 2009 and 2013, the total percentage of deals involving acquirers headquartered in Africa ranged from 53.3 to 62.1%. It is also worth noting that during this five-year period the *Intra-Continent* category (deals where acquiring and target firms are headquartered in different African countries) had the most significant growth (+43%) while the *Domestic* category (deals where the acquiring and target firms are headquartered in the same African country) declined by 17%. This reveals the trend of African firms looking beyond their home markets and seeking to establish a presence in other countries on the continent. Finally, during this period there was a 4 percentage point (10%) increase in the *Inter-Continent* category which represents those deals in which the acquiring firm is headquartered in a country outside the African continent.

Practitioners in the field expect intra-African transactions to continue to increase in the coming years. For example, a chief financial officer from Ethiopia reiterates that “there is a significant increase in cross-border activity in Africa and this is because of a rise in demand and improving performance levels of firms in this region. There is greater revenue growth, with a focus on operational efficiency and efforts to raise the bar will give rise to more and more deals in the market” (Mergermarket, 2013, p.15). Moreover, M&A activity in Africa by acquiring firms from outside the region are expected to increase during the upcoming years with Asia-Pacific, Europe and North American acquirers (in this order of prominence) dominating the M&A landscape (Clifford Chance, 2015; Mergermarket, 2013).

Our sample allows us to go beyond these general distinctions between African and non-African acquirers to provide a further breakdown in terms of the specific countries in which these acquirers are headquartered. Table 2 highlights the top twenty nations for both acquiring and target firms. Panel A details the leading countries that are home to the firms making M&As in Africa. Panel B provides a listing of the top African nations in which the firms being purchased are based. Given that a transaction value is not disclosed for 49% of the M&As in our sample, we rank the acquiring and target nations by the number of deals announced during the focal period. This same convention is used in constructing the remaining tables and figures in the paper unless otherwise noted.

Table 2. Top 20 Acquirer and Target Nations

Panel A: Acquirer Nation			Panel B: Target Nation		
Nation	Frequency	Percent	Nation	Frequency	Percent
1. South Africa	617	34.6	1. South Africa	824	46.2
2. Egypt	146	8.2	2. Egypt	232	13.0
3. United Kingdom	128	7.2	3. Morocco	93	5.2
4. United States	72	4.0	4. Nigeria	81	4.5
5. Australia	66	3.7	5. Mauritius	45	2.5
6. Canada	63	3.5	6. Tunisia	39	2.2
7. France	58	3.3	7. Kenya	37	2.1
8. Morocco	55	3.1	8. Mozambique	32	1.8
9. Nigeria	48	2.7	9. Namibia	31	1.7
10. India	36	2.0	10. Zambia	29	1.6
11. Utd Arab Em	32	1.8	11. Zimbabwe	29	1.6
12. Mauritius	28	1.6	12. Tanzania	28	1.6
13. Singapore	24	1.3	13. Ghana	27	1.5
14. Netherlands	23	1.3	14. Ethiopia	15	.8
15. Kenya	22	1.2	14. Ivory Coast	15	.8
16. China	21	1.2	14. Uganda	15	.8
16. Tunisia	21	1.2	17. Burkina Faso	14	.8
18. Germany	16	.9	17. Rep of Congo	14	.8
19. Switzerland	16	.9	19. Botswana	13	.7
20. Saudi Arabia	13	.7	19. Sierra Leone	13	.7
20. Zimbabwe	13	.7			

Although Table 2 does not capture the actual value creation of deals in our sample, it does provide a snapshot of (1) the countries whose firms are most active in engaging in M&A transactions in Africa and (2) the countries within the region where M&A activity is more prevalent. The table may also conceivably raise some questions why such nations have attracted more M&A activity relative to other African countries and why firms from some countries are more active in the Africa M&A market than others. Clearly, South Africa and Egypt top the chart as both the acquirer and target nations on the basis of deal volume while Morocco and Nigeria are among the top 10 on both lists. It is also noteworthy that almost

90% of the domestic M&As in Africa occur in these four countries. It is therefore reasonable to infer that as firms gain experience (Kengelbach, Klemmer, Schwetzler and Sperling, 2011) in their home of origin through direct or indirect series of M&A experiential learning, they are more likely to embark on acquisition activities beyond their domestic borders. However, while M&A experiential learning may not depend on the mere number of acquisitions undertaken previously either in firms' home of origin or outside of their national borders, frequent acquirers have a high likelihood of gaining some specific deal-type experiences (Degbey, 2015). In addition, other scholars argue that frequent dealmakers usually undertake heterogeneous and causally ambiguous transactions but many underlying sub-activities, e.g., identifying, screening and selecting acquisition targets, may be quite similar across deals and hence provide considerable latitude for valuable experience accumulation across acquisitions (Zollo and Winter, 2002). Finally, firms in a target nation may be afforded vicarious learning opportunities about different facets and benefits of the M&A process by observing actions and decisions of foreign acquirers. Such learning may then encourage firms from a target nation where there were a sizable number of M&As to consider becoming an acquirer in subsequent deals (Erhun, Demehin, and Erhun, 2005).

With regard to acquiring nations other than those on the African continent, those from North America and Western Europe are most represented, especially among the top 10, as shown in Panel A of Table 2. The United Kingdom, France, the Netherlands, and Germany were all former colonial powers on the African continent so their presence among the top acquiring nations is not totally surprising given historical trade patterns some of which still remain in intact (Athow and Blanton, 2002)[2]. Also, the United States, Australia, and Canada not only have close historical ties with the UK, but these countries are also home to many

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[2] The United Kingdom and France accounted for the majority of colonial relationships in Africa at the time of many African countries' independence. As such, parts of Africa are often referred to as being Anglophone or Francophone. See Athow and Blaton (2002) for a listing of British and French colonial ties.

large firms operating in the extractions sectors. Due to shared histories, it is likely acquiring firms from these countries have common administrative heritage and business practices with target firms in Africa which negates some liabilities of foreignness (Athow and Banton, 2002; Zaheer, 1995). Finally, there is some representation in the second half of the list of countries in Asia and the Middle East with India, United Arab Emirates, Singapore, and China leading the way. Firms in these countries not only have access to capital for FDI in foreign markets and need natural resources to build their infrastructure at home, but they are also accustomed to operating in business environments where the government plays an active role, informal relationships are critical, and various political, financial, or economic risks have to be managed (BCG, 2010; Nayyar, 2008; Wang et al, 2014). Such similarities with institutional conditions in some African countries may bode well for acquiring firms from these nations and provide a source of value-creating advantage.

Table 3. Top 15 Target Industry Sectors

Industry Sector	2009	2010	2011	2012	2013
Mining	18.4	17.4	16.0	11.7	14.4
Business Services	14.5	8.0	9.1	8.8	10.1
Investment Firms	8.2	10.0	8.0	8.8	5.8
Food Products	4.4	4.6	5.5	8.0	4.6
Oil & Gas	4.1	7.1	5.2	5.6	7.6
Banks	3.8	2.6	4.7	2.9	3.4
Telecommunications	3.8	3.7	2.2	3.4	3.4
Real Estate & Brokers	3.3	2.0	5.2	4.5	3.4
Transportation & Shipping	2.7	3.1	3.3	3.4	3.4
Wholesale Trade	2.7	2.3	1.9	2.1	2.8
Metal Products	2.2	3.1	2.2	1.6	2.1
Agriculture	1.6	2.9	1.7	3.2	2.4
Hotels and Casinos	0.0	1.7	2.2	0.8	0.6
Pharmaceuticals	0.5	1.7	1.9	1.6	2.8
Insurance	2.2	1.4	1.9	1.6	2.8

To provide a sense of the sectorial distribution of M&A transactions in Africa, Table 3 shows the sectors accounting for the most M&A deals in the African continent during our sample period. The table and related Figure 2 also provides a glimpse of the sectors which have traditionally gained the most attention of acquiring firms and those considered attractive and growing sectors on the African continent. In particular, while the mining sector accounts of the largest percentage of deals each year indicative of its traditional attractiveness to foreign investors, this percentage is declining over time. At the same time there has been an increase in M&A activity in another sector reflective of the continent's abundance of natural

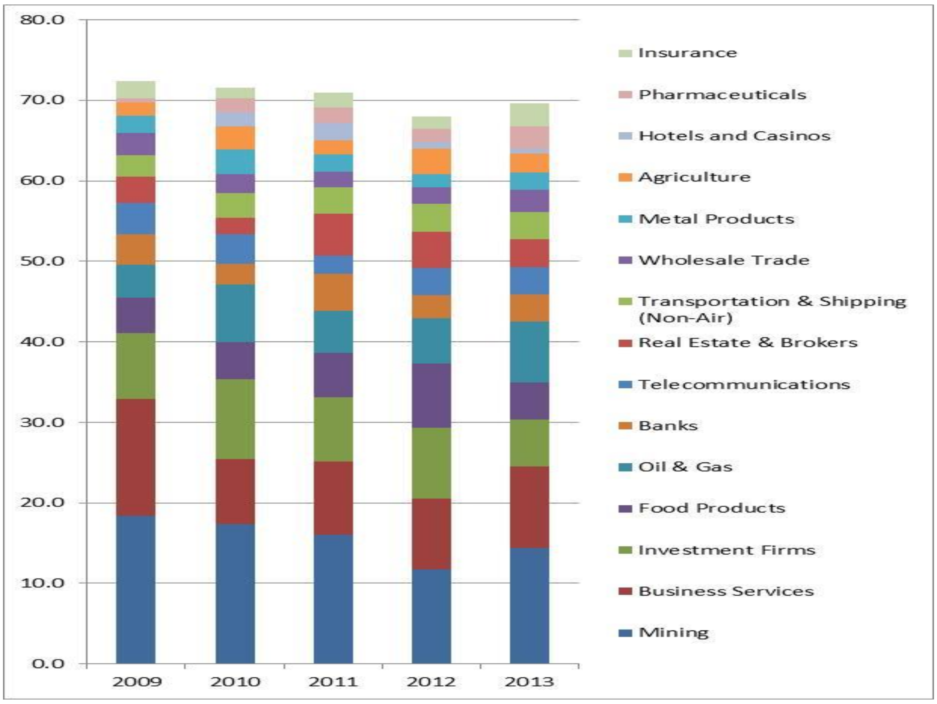

Figure 2. Top Industry Sectors by Year

resources, the oil and gas sector. In fact, this sector's percentage of annual deals has almost doubled going from 4.1% in 2009 to 7.6% in 2013. Changes in industries attracting the attention of firms engaging in M&As in Africa are also depicted in Figure 2. One interesting trend to note is that in 2009 the top three industries accounted for 40% of the deals in Africa while this had dropped to 30% in 2013. This suggests that M&A activity is taking place in a greater number of industries over the five-year period. Moreover, there is a noticeable shift toward consumer products and services sectors (e.g. food products, transportation and shipping, hotels and casinos, pharmaceuticals, and insurance). Collectively these trends reveal not only the level of diversification currently underway among the various economies in Africa, but also the investment attractiveness of the continent attributable to its sizeable consumer markets and growing middle class (Ernst and Young, 2012; Mergermarket, 2013).

What is the nature of African M&A deals?

Most of the surveys and reports by M&A practitioners, and our analysis up to this point, has focused on two primary factors: (1) who is engaging in M&As in Africa based on the nation or continent in which the acquiring and target firms are headquartered and (2) in which target nations and industries the M&A activity is occurring. In this section, we now expand our focus to include five features or core characteristics of African M&A deals. These features include the deal ownership types, government involvement in M&A transactions, deal relatedness types, deal sizes, and payment method used to finance the deal. The first two features are infrequently considered in the existing M&A literature while the latter three feature are among the most commonly studied (for reviews of the broad M&A literature see Haleblian et al., 2009; King et al., 2004).

The analyses that follow, which are primarily descriptive in nature, will help us along with other scholars interested in researching M&A activity in Africa, determine how deals in this specific context may be similar to and differ from those occurring in other emerging markets such as China, Brazil and India or in the more developed markets of North America and Western Europe upon which most existing M&A studies are based. Such understanding is crucial to advancing the M&A literature while offering insight of practical relevance.

First we consider ***ownership type*** based on the acquiring firm's equity position in the target firm. Though not incorporated in most M&A studies, the decision of the acquiring firm regarding ownership type or mode has important implications on the degree to which and nature of sharing and collaboration between the firms. In distinguishing between partial and full acquisitions, Brouthers and Hennart (2007) note that with a partial acquisition, regardless of the stake owned by the acquiring firm, aspects of the decision-making process and forms of control will be shared with the target firm. This distinction may be particularly important in the African M&A context where the potential for value creation is very promising, but the conditions in the target nations are often quite informal and volatile (Triki and Chen, 2011). As such, partial acquisitions may be critical, especially for acquiring firms headquartered outside the African continent, to gaining the cooperation of members of the African target firm, learning about the idiosyncrasies of a given country market on the continent, establishing relationships with key government personnel, suppliers, and other stakeholders, and understanding similarities and differences across African nations – all of which can facilitate value creation (Zaheer, 1995).

Table 4. Ownership Type Based on Shares Owned after Focal Deal

Type	Frequency	Percent
Full (95% and higher)[3]	850	47.7
Partial_Controlling (50.1-94.9%)	339	19.0
Partial_Half (50.0%)	46	2.6
Partial_NonControlling (49% and less)	431	24.2
Not Reported	115	6.5

In Table 4 we show the ownership type of M&A deals ranging from partial to full ownership on the basis of shares owned after the focal acquisition. We chose to place emphasis of the acquiring firm’s ownership stake after completing the focal deal because about 15% of the deals in our sample represented toehold investments where the acquiring firm already had an equity position in the target firm at the time of the focal deal. In our sample about 48% of the deals are full acquisitions and 46% are partial acquisitions. The almost equal representation of both overall ownership types may be indicative of the perceived level of risks and instability on the African continent. In this context, acquiring firms may engage in more partial acquisitions than normal in order to share more decision-making activities and risks with the African target firm. This would in turn allow the

[3] Consistent with the work of Chen (2008) and others, we use a 95% stake and higher as the cutoff point to classify a deal as a full acquisition.

acquiring firm to tap more fully into the target firm's knowledge of local market conditions (Lord and Ranft, 2000) or minimize potential losses in the event that its operations are unprofitable and a subsequent divestiture is necessary (Gleason et al., 2002; Johanson, and Vahlne, 1977). Also government restrictions particularly with respect to foreign ownership, investor screening and approval, and other operational restrictions (see, UNCTAD, 2006; Kalinova, Palerm and Thomsen, 2010 for country and sector reviews) exist in some African countries at the overall country level or within certain industries considered critical to a country's economic development thereby compelling acquiring firms to engage in a partial acquisition (Curwen and Whalley, 2011). These contextual factors collectively suggest it may be fruitful to develop theoretical models which place emphasis on the antecedents to or consequences of ownership type as determined by the percent of ownership stake the acquiring firm purchases in the African target firm.

Another deal characteristic we consider is ***government involvement*** as a buyer or seller in the M&A transactions. This construct is rarely considered in M&A studies though a recent study by Holburn and Vander Bergh (2014) found that firms invested more in developing government ties by increasing their political campaign contributions in the period leading up to an acquisition. It is posited that such political influence and connections would favorably affect the regulatory approval process in ways that facilitate value creation (Brockman, Rui and Zou, 2013). Governments must not only approve any M&As within their borders, but often in emerging markets that are privatizing once state-owned enterprises and transitioning to more liberal market-based economies such as those on the African continent, governments establish as one of the conditions for approval their maintenance of an ownership position in local firms (Curwen and Whalley, 2011; Portelli and Narula, 2006; Rondinelli and Black, 2000). Also, in some African countries and other emerging economies there are often concerns about political stability, corruption within government ranks, enforcement of laws, and other aspects of the political governance structure (Erhun et al., 2005; Ernst and Young, 2012; Triki and Chun, 2011; Wang et al., 2014). When the focal government in a host country has an ownership position in the target firm these concerns may be elevated as government officials seek participation in the decision-making process and benefits from providing the acquiring firm with a license to operate in their country (Brockman et al., 2013). Such factors can hinder an acquirer's ability to create value thus negatively affecting its overall performance. Conversely, it is possible that government owning a stake in the post-deal entity (either the acquiring firm purchasing the stake or the target firm retaining a stake) may provide an avenue of avoiding some political risks present in the country or helping to strengthen local value chains and related private sector firms thereby facilitating value creation (Portelli and Narula, 2006; Rondinelli and Black, 2000). Also, government involvement may influence other deal characteristics such as ownership type. In particular, acquiring firms may be prevented from engaging in a full acquisition so the government can retain a stake in the local target firm (Curwen and Whalley, 2011; Portelli and Narula, 2006).

About 10% of the M&As had government involvement as denoted by the government owning a stake in either firm. The government involvement was on both the buyer and seller sides of the transaction. Moreover, these deals occurred in 17 of the top 20 target nations listed in Table 2, Panel B and 12 of the top 15 target industry sectors highlighted in Table 3. In addition, the deals included domestic, intra-Africa, and foreign acquirers (45, 12, 43% respectively which is consistent with figures reported in Table 1). Given these attributes of M&A activity in Africa, this seems to represent a context in which our understanding of the role of government involvement in M&As can be greatly enhanced. One obvious question is what are the implications of the local government maintaining a stake in the firm as a condition of approving the M&A on factors such as deal structuring, human resource integration, and knowledge transfer between the firms? Studies examining if continued local government involvement as an equity stakeholder affects the ability of acquiring firms to create value and how so would definitely make a contribution to the broad M&A literature.

Given its inclusion in a vast of M&A studies, we also considered ***deal relatedness***. Building on diversification theory and the "synergy hypothesis", M&As involving firms that operate in related industries, typically assessed by comparing the two firms' standard industrial classification (SIC) codes, are posited to outperform unrelated deals (King et al., 2004; Seth, 1990a). By combining business operations of firms that produce similar or complementary products and services, related M&As offer the potential for performance improvements linked primarily to economies of scale, market power, and economies of scope (Haleblian et al., 2009; Larsson and Finkelstein, 1999). These sources of value creation are viewed as superior to those associated with unrelated deals (Seth, 1990b).

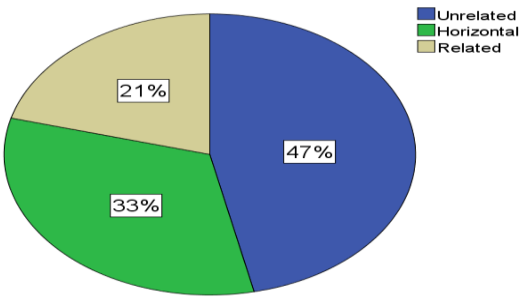

Figure 3. Relatedness Type

Consistent with existing studies, we classified the relatedness of deals in our sample based on SIC code matches (Ellis, Reus, Lamont, and Ranft, 2011; King et al., 2004; Larsson and Finkelstein, 1999). As shown in Figure 3, 33% of the firms in our sample had in the exact same 4-digit primary SIC code hence referred to as horizontal. Another 21% of the deals were classified as related given their operations in either the same 2-digit primary SIC code or a 4-digit SIC code match among their secondary operations (i.e., non-primary lines of business). In their study Triki and Chun (2011) combined this two category and reported that 48% of the M&As made by US acquiring firms in Africa were considered related deals.

The African context may provide a few qualities that influence the effects of relatedness on M&A decisions and outcomes in ways different from existing studies thus placing boundary conditions of established theoretical models. First, building on arguments presented by Ellis et al. (2011), it is possible that perceived surface-level similarities in the product markets of the two firms based on SIC codes may mask deep underlying differences between the two firms' business operations that adversely affect longer-term value creation. Supporting this view are several studies based on in-depth case analyses of M&As by foreign acquirers of local firms in select industries and/or Africa countries (Curwen and Whalley, 2011; Erhun et al., 2005; Portelli and Narula, 2006). These studies document difficulties encountered by foreign acquirers of African targets operating in the same primary industry, some of which can be linked directly to the two firms' primary operations. Differences were noted in terms of customer adoption and uses of products/services, distribution channels being utilized, stage of technology and processes in use, and industry regulations/standards which often hamper longer-term value creation. Second, with regard to unrelated deals it may be useful to consider the M&A activity involving investment firms and funds which accounted for 46% - almost half - of this deal type. Of particular interest may the nations in which these investment entities are located and the top individuals or investors associated with these entities. In particular, M&A practitioners suggest that both global and Pan-Africa private equity funds are becoming more active in the Africa M&A landscape (Clifford Chance, 2015). Also, there is anecdotal evidence that Africans who currently live abroad are very active in some of these equity and investment funds/firms. M&A studies examining this specific acquirer type are limited and with noted differences among them in the African context, there seems to present an opportunity to contribute to the broader M&A literature.

Many theories used to predict different M&A decisions and outcomes posit that ***deal size*** (or transaction value) influences the amount of managerial attention given to the focal acquisition. In particular, large deals are posited to demand more time, consideration, and involvement of an acquirer's top managers and place more operating pressures of them thus more directly affecting firm-level actions as well as performance outcomes (Hayward and Hambrick, 1997; Narayan and Thenmozhi, 2014). Also, large deals are more likely to garner the attention of firms' board of directors and regulatory agencies (Holburn and Vander Bergh, 2014). Conversely, small deals often are managed at the unit or subsidiary level and have limited effects on the firm's overall performance (Kitching, 1967).

Table 5. Deal Size Categories

Size	Frequency	Percent based on full sample	Total value per category
$ 1 billion and up	26	1.5	64,554.87
$500-$999 million	23	1.3	15,192.42
$250-$499 million	38	2.1	12,464.18
$100-$249 million	80	4.5	12,469.88
$50-$99 million	80	4.5	5,511.39
$1-$49 million	541	30.4	6,670.81
Less than $1million	123	6.9	55.71
Undisclosed	870	48.8	--
			$116,919.26

As shown in Table 5, the largest single deal size category for M&As based on the number of deals comprises a range from $1 to $49 million USD and the smallest category represents deals valued between $500 and $999 million USD. Also, it is noteworthy that deals valued at $1 billion USD and higher accounted for less than 2% of the deals, but over 55% of the total value of M&As in Africa during the five-year period of our study.

A traditional criterion used to classify an M&A as large is $100 million USD (Hayward and Hambrick, 1997; Ellis et al., 2011). Less than 10% of the deals in full sample and 20% of those in the subsample reporting transaction values meet this criterion. Instead, the vast majority of the deals taking place in Africa are less than $100 million (42% based on the full sample and 81% based on the subsample of deals reporting a transaction value). These facts when combined with the small volume of deals in general (average of 356 per year in our study) and even fewer that disclose a transaction value creates some challenges for researchers examining M&A activity in this region. For example, traditional theories used in the M&A literature like agency theory and managerial hubris theory may have limited relevance in this context given the small deal sizes.

The ***payment type***, or consideration paid, is another commonly studied deal attribute in the M&A literature. Basic arguments assert that acquiring firms use cash to finance acquisitions when they believe their firms are undervalued or they are confident in their ability to create value in the target firm (Haleblian et al., 2009; King et al., 2004). As such, cash payments are posited to result in positive or less negative market returns, usually short-term in nature, for acquiring firms. However, results are equivocal with regard to the relationship between cash payment and market-based measures of M&A performance. Also, few studies theorize the effects of cash payments on other indicators of M&A value creation (Narayan and Thenmozhi, 2014). Yet, it is probable that the signaling and confidence inferred by payment method also influences how acquirers interact with target firm members thereby affecting their willingness to engage in actions critical to achieving deal outcomes.

In our sample, 79% of the acquiring firms used only cash as the method of payment as noted in Figure 4. This is comparable to a study of US acquirers in Africa which reported that 82% of the deals were financed by cash only (Triki and Chun, 2011). An explanation for this can be found in a study of cross-country determinants of M&As which reports that the likelihood of an all-cash bid decreases with the level of shareholder protection in the acquirer nation (Rossi and Volpin, 2004). Thus, it is reasonable to infer that weak shareholder/investor protection in most of African nations involved in the intra-continental and domestic deals may largely explain the high percent of all-cash bids observed in our sample.

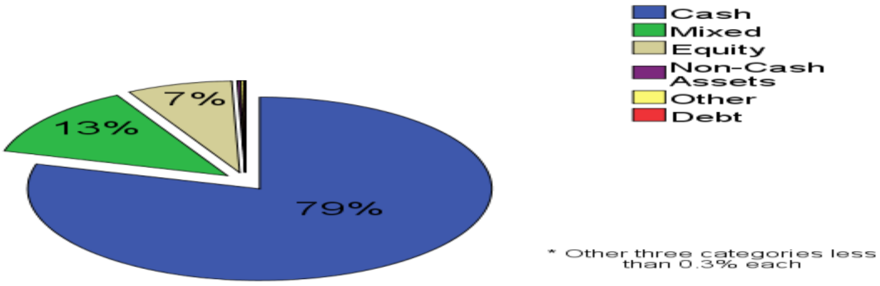

Figure 4. Consideration Paid

Certainly, the typical preferences of large foreign investors, e.g., seeking sizable investments, proven investment managers, and diversification across Africa may cause them to disregard some attractive – and growing –country and sector lucrative business opportunities. Hence, multinationals seeking enhanced value might find it economically viable to pursue mid-size African firms as M&A targets in order to take advantage of the mismatch between rapidly growing opportunities and relatively inadequate investments to meet them (cf. Green, Kehoe and Sedjelmaci, 2014). In addition, these large foreign investors (e.g. intercontinental acquirers) are also likely to have better investor protection in their home countries than their African target counterpart which has usually poorer investor protection and thus employing the cross-border deal as a governance mechanism to improve the level of investor protection within the acquired firm (Rossi and Volpin, 2004).

How do intra-African heterogeneities impact M&A activity?

By deal volume, African companies are the most active deal makers within the continent. However, the wide heterogeneities among and within countries in the continent is also very revealing when it comes to the pattern of M&A activity at local, national and regional levels. Understanding the heterogeneities among the countries in the continent is a vital starting point for posing essential research questions on M&A activity. In fact, investors already engaged in economic activities understand the heterogeneous nature of the region and recognize that political conflicts and other uncertainties can be very country-specific just as each African economy will carve its own unique growth path.

Heterogeneities in this context can be explicated along many lines but in this study we focus on areas that may provide useful information to dealmakers and researchers interested in conducting and understanding M&A activity in the continent. Intra-continent growth disparity is one of the variables determining the direction of M&A activity. Although the economic structures and challenges are broadly similar across the African continent, only a few countries really account for majority of its growth. A 2009 GDP growth average for Africa revealed that only five countries (i.e. Algeria, Egypt, Morocco, Nigeria, and South Africa) account for 60% of its growth (BCG, 2010). Thus, assessing growth potential across a heterogeneous continent using average values especially in the case of Africa can be misleading. A McKinsey Global Institute (MGI) research, for instance, suggests that segmentation of the various countries on the basis of their level of diversification and export per capita will help us understand better the different growth paths, and hence, offered a framework based on four broad classifications: diversified economies, oil exporters, transition economies, and pre-transition economies (Roxburgh et al., 2010). The latter authors argue that the framework will help in the assessment of growth potential across this heterogeneous continent and thus may impact the direction and magnitude of M&A activity as one of the growth vehicles, for example, within a specific country's sector in the continent.

Besides, cultural heterogeneities are pervasive and have long been a major distinguishing variable across all layers of the continent, i.e. local, national and regional levels (Zoogah et al., 2015). In some countries within the continent, local and national disparities may be quite blurring as opposed to others which may be very glaring. For example, consider the country Nigeria, where a single major state (i.e. local level) such as Lagos – with a population greater than all Scandinavian countries combined – may have wide variations ranging not only from the level of local and divisional leaders' exertion of power, e.g. in a scramble for certain business/economic projects under their local/divisional municipalities (cf. Hofstede, 2001), but also deeply rooted differences in individual beliefs, customs, and traditional practices as lifestyles may influence M&A activity (cf. Gomes et al., 2012). Some of these cultural differences often driven by tribal antagonisms can even be much greater across states or between rural and urban areas (i.e. national level) and oftentimes the root cause of unhealthy competition and social unrest (Zoogah et al., 2015). A recent merger case within the Nigerian banking sector supports some of our assertions about cultural differences on the basis that employees from the Northern part of the country perceived their southern counterparts as not trustworthy, while the Southerners also see the Northerners as incompetent in banking practices (Gomes et al., 2012). This deeply rooted intra-country cultural heterogeneity can easily destroy the expected value of an M&A.

Furthermore, at the regional level, not only are these differences based on language and religious beliefs, but also constructed along perceived colonial lines of thought. For example, it may not be surprising that most North African investors who are seeking value through M&A within the region are more likely to begin their search for target(s) and/or targets' leaders who share the same religious belief with them, especially if the disparity between expected economic rents is not too wide. Related to the Nigeria bank merger finding concerning employees from North and South (see Gomes et al., 2012), similar views can also be observed among regional blocs within the continent. For example, some countries in North Africa prefer to work closely with the Arab League rather than the African Union. These actions may directly influence the pattern of M&A activity within the region. In a nutshell, intra-African heterogeneities not only influence the pattern of M&A activity within the continent, but also have significant implications for value creation (as discussed in the following section).

What is the source of value creation in African M&A deals?

It is without debate that the context in which M&As take place matters when assessing value creation (i.e., different means may generate different ends of value). Building on several recent studies examining the complexity of capturing value creation associated with M&As (i.e., Cording et al, 2010, Meglio and Risberg, 2011; Zollo and Meier, 2008), it is important to seriously consider how we assess value in terms of measurements (i.e., financial or nonfinancial performance domain; firm-level or country-level of analysis) and for whom the value is appropriated (i.e., shareholders or other stakeholders; acquiring firm/nation or target firm/nation perspective). The synergy hypothesis has been well established in the M&A literature as a fundamental driver of enhanced value for the combined firms, principally measured in financial terms (Haleblian et al., 2009; Seth, 1990). This focus has been driven by the assumption that post-M&A value is derived primarily from combining the firms' internal resources and capabilities (Amit and Zott, 2001) with the intention of creating various synergistic benefits that maximize shareholder worth (Haleblian et al., 2009). This view is supported by several theoretical perspectives on value creation dating back to the 1930s such as transaction cost theory (Coase, 1937), the theory on innovation (Schumpeter, 1934), and the resource-based perspective of the firm (Penrose, 1959). However, traditional financial measures (i.e., stock market-based returns, profitability ratios, sales growth, etc.) are only one side of how value is created following M&As and thus limiting in scope (Meglio and Risberg, 2011). Hence, what seems quite clear is that value can neither be measured solely on the basis of financial or accounting indicators nor solely derived from the combination of the two firms' internal resources and capabilities (Zollo and Meier, 2008).

Several unique characteristics of M&A activity in Africa provide a suitable setting to expand our traditional views to consider the influence of other factors on post-deal value creation. In particular, the diverse nature of African deals (i.e. domestic, intra-continent and inter-continent), limited number of publicly traded African acquirers, smaller transaction sizes, and higher propensity to purchase varying equity positions as compared to those in more developed markets, suggest that taking a pluralist view on value creation seems more appropriate. Given these and other contextual conditions present in emerging markets of the African continent, we posit that value can take different forms and be created in other places beside the combined firms' internal architecture thereby necessitating the consideration of non-financial performance measures (Meglio and Risberg, 2011). Also, initial evidence exists that M&As in the African context affect other external stakeholders beyond the acquiring firm's shareholders (Abdelaziz and Bilel, 2012; Portelli and Narula, 2006) and have significant influence on national-level economic growth and societal development (Emeni and Okafor, 2008; Curwen and Whalley, 2011; Nwankwo, 2013). Consequently, our chapter advocates two specific non-financial drivers of post-deal value creation that place greater emphasis on the external stakeholder perspective of the value proposition.

In line with the uniqueness of the African deals, we suggest among other things, that value is created (and perhaps destroyed) through *government involvement* (i.e. government as an equity stakeholder of either the acquiring or target firm) in the deals. This deal attribute, which can be a significant effect on value creation in M&As observed in the African context, is largely uncommon to the traditional M&A literature. As such, there might be boundary conditions on established theoretical models, including the relatedness thesis (see Prabhu et al., 2005; Swaminathan et al., 2008) or the 'strategic fit' hypothesis (see Cartwright and Schoenberg, 2006; Meyer and Altenborg, 2008) which are typically linked to financial performance measures. Government minority equity stake, particularly in intra- and inter-continent deals, could help lower the liability of foreignness concerns (cf. Athow and Banton, 2002; Zaheer, 1995), lower potential fears among the indigenous population regarding foreign domination, facilitate the development of ties with government, and help minimize regulatory hurdles for investing firms. Each of these factors can have a critical impact on the acquiring firm's ability to realize intended deal benefits and thus be a source of post-deal value creation. Additionally, government involvement as a source of value creation may manifest in the form of providing added stimulus for the acquiring firm to enhance its development programs and commence other initiatives of social relevance in the host nation. The realization of the created value, e.g. improved economic and social development for the host nation through government involvement in the focal deal should not be conceived of as self-interested and one-sided, but the acquiring firm's value is equally enhanced via improved corporate social responsibility and favorable reputational benefits in the host nation.

Second, we observe *contextual heterogeneity* as a major source of value in African M&A transactions. According to Michailova (2011, p. 130) context is a "dynamic array of factors, features, processes or events which have an influence on a phenomenon that is examined". Indeed, as can be observed from Table 1 on the three categorization of M&A activity into domestic, intra-continent and inter-continent and their respective growth patterns, the African context is seldom uniform, but rather quite multidimensional and multifaceted in nature (see Johns, 2006). As firms establish operations within multiple country markets of highly complex and dynamic context, they are more suitably positioned to learn the rules of the game, and thus achieve value as a result of its institutional familiarity. Benefits of such familiarity combined with perceived similarities across the African countries should facilitate quick adaptation to sources of contextual heterogeneity thereby positioning the acquiring firm to create different types of value for multiple stakeholders. In contrast, those acquiring firms which engage in M&A activity in relatively homogenous and more stable contexts are likely to lack this institutional familiarity/maturity and only see surface-level similarities. For example, Ellis et al. (2011) argue that perceived surface-level similarities in the organizational cultures of the two firms may mask deep underlying differences between the two firms' operating philosophies thus negatively influencing post-deal value creation. Such may also be the case when firms undertaking M&As primarily in South Africa attempt to transfer experiences gained in this country to deals within other African nations. Though aspects of the countries' institutional markets seem similar, countries to the north of South Africa are often viewed as less developed and more volatile than South Africa (Curwen and Whalley, 2011). This can have significant implications on how M&A activity affects multiple stakeholders within a given African country. Such effects in turn can influence the role government plays in the M&A process and drive concerns about changes to societal welfare along with overall national economic development after the deal.

Thus, examining M&A activity in Africa offers an opportunity to answer recent calls in the literature to enhance our understanding of value creation. In particular, conditions in this context require researchers to study the effects of M&As on multiple stakeholders thus expanding the consideration of value creation for whom beyond the firms' shareholders (Cording et al, 2010). Also, the African context facilitates the utilization of approaches to assess value creation that are not linked to traditional financial indicators such as profitability ratios and stock market returns (Haleblian et al., 2009; Meglio and Risberg, 2011).

A look ahead for African M&A activity and research

In this section, we provide conclusions, pose some questions and re-echo the need for M&A academic research in this context. Africa is the world's second-fastest-growing economic region, and a home to 8 of the world's 15 fastest-growing economies between 2000 and 2013 (Leke, Lund, Manyika and Ramaswamy, 2014). Indeed, GDP growth has been steady and stronger than in developed countries and thus generating enthusiasm from international investors seeking to engage in M&A deals. With the burgeoning middle class, discretionary spending across the African continent is expected to increase and thus generate a solid, viable consumer industry for future M&A activity. For inbound acquirers who seek international growth and enhanced value in the consumer-facing sectors (e.g. retail, telecommunication and banking), African firms are attractive targets to pursue. Moreover, a recent McKinsey publication notes that Africa provides a higher rate of return on FDI – of which M&A constitute a huge portion – than most emerging economies (Leke et al., 2014). Conversely, as shown earlier in the paper, African firms as targets in an M&A deal often negotiate partial acquisition of their assets by foreign firms. This may in turn allow African firms as targets to gain experiences from the acquirers headquartered outside of Africa (some from emerging markets like India, China, and Latin America) in managing the M&A process to build a global network and then take the lessons learned to launch an M&A program or strategy outside of the African continent.

Although academic research lags behind practitioner publications on the subject matter (Ellis et al., 2015), academicians need to recognize that M&A activity is still at its infant stages on the continent, and it is critical for them to lead the way in developing conceptual/theoretical insights and asking relevant questions about African M&A activity in order to generate understanding for prospective dealmakers and advance the M&A research literature. Some fundamental questions of interest include: Is the nature of M&As occurring on the African continent unique? If so, in what ways and how can these uniquenesses help advance our knowledge and theory of M&As in general? What mindset is driving the main actors of M&A transactions in this region? Do intra-African and foreign actors share a similar or have a different mindset on the African M&A trajectory? What are the primary motivations of these two key groups of acquirers and how do they influence the M&A process and subsequent value creation? What opportunities or threats do intra-African heterogeneities pose to M&A activity in Africa? What are the most appropriate ways to assess post-M&A value creation, especially in light of the complex interactions between and involvement of multiple stakeholders, small deal sizes, and other deal factors in this context?

These are just few of the myriad questions in urgent need of theoretical understanding and explanations from future scholarly studies as M&A activity in this context rapidly evolves. Certainly, identifying factors such as primary actors, key deal characteristics, diversity within the continent as well as emphasizing the growth potential in this study is a good starting point, but future research has to move further to theorizing/developing frameworks, determining how best to operationalize core constructs, and empirically testing hypothesized linkages. We cannot afford to let practitioner-oriented publication outlets and reports by institutional agencies assume this academic role. Hence, our study is a microcosm of the tremendous scholarly works that can be achieved as scholars nurture future research in this direction to help advance knowledge in the M&A and international business fields.

For practitioners, this work provides a glimpse of factors influencing the value enhancing potential Africa offers with respect to M&A activity. As succinctly stated by Scott Nelson of ENSafrica (a leading law firm) “the opportunities, growth and returns on the continent are arguably the most exciting of any market in the world and investors are waking up to this” (Mergermarket, 2013 p. 25). Also, our work together with other studies (Krüger and Strauss, 2015; Leke et al., 2014; Richards and Nwanna, 2010) support the assertion that Africa’s long-term economic prospects are strong although each national economy will follow its own unique growth path owing to the inherent heterogeneity within the continent.

In sum, we believe that the discussion in this paper with the accompanying descriptive statistics, tables, and figures provides general insight to business executives and investors developing M&A strategies for the continent. Moreover, we trust that our initial observations and questions will serve as an impetus for management researchers interested in developing new theoretical models or identifying boundary conditions of existing theoretical perspectives to explain various M&A decisions and outcomes in the African context.

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