

**Just say No:
When appearing like the Loser is the best Leadership Choice**

Kumbi Short and Rosemary Okolie

Abstract

This article explores the idea that a failed merger or acquisition can actually be considered a success when viewed from the management perspective of making seemingly compromising choices in order to preserve shareholder value. The article uses the failed acquisition of ABN Amro in a bidding war between Barclays Bank and “The Consortium” (The Royal Bank of Scotland, Grupo Santander and Fortis BV) as a case study.

Financial analysis tools helped determine financial strength and create a comparison of the pre-merger and post-merger values of all five banks. M&A tools were used to analyse the deal process and the drivers for each of the banks when entering the deal. Finally, the use of the Cultural Web strategy tool helped to further analyse how realistic the projected synergies would have been.

The share prices for The Consortium declined rapidly; the smallest constituent of The Consortium required government assistance soon after the deal was completed. From The Consortium shareholders’ perspective The Consortium deal was not a success. Barclays opted to walk away from the bidding war having acted with caution, and, in so doing, eventually saved their shareholders from losses. Barclays share prices increased after they walked away from the deal. For the Barclays shareholders’, walking away from the deal was a success.

Key Words

Mergers and acquisitions, shareholder value, management decision making, strategy, operational synergy.

Introduction

Often when an aspiring acquirer involved in a Mergers and Acquisitions (M&A) bidding war walks away, he or she tends to be considered the loser; the act is perhaps even described as failure. There is, however, a clear distinction between a merger and an acquisition. For the purposes of this article, the authors have used both words interchangeably. The hypothesis put forward is that deal abandonment is not essentially one and the same as failure; focus on target price in relation to required returns on investment is a more critical determinant to success in the M&A environment.

The secondary research used for this article examines general drivers of some M&A deals that have been undertaken and defines success and failure based on two distinct perspectives: The recurring barometer stakeholders have appeared to use in order to characterise those that have been thought of as more successful and the market's perception of deals.

Duncan Angwin, Whittington, and Bates (2007) state that like beauty, success and value are to some extent in the eyes of the beholder, in other words individuals have differing perspectives of success and failure. This article corroborates this by exploring what the authors consider oxymoron to be a successful non-deal – two words that some might consider an. It is embedded in a case study of the non-deal between Barclays plc's (Barclays) and ABN Amro Holding N.V. (ABN). The case study is supported by a literature review on the drivers of M&A and what value stakeholders hope to achieve in order to regard the deal as a success. An investigation into whether these drivers and values change in an economic downturn (the climate in which the events in the case study occurred) and the key drivers as to why certain deals fall through particularly those that have been abandoned by potential acquirers whom the authors have termed the 'runaway brides'. M&A is like a marriage as it involves two coming together to become one.

In his book, Angwin introduces the concept of M&A horizons by creating a list of images, assumptions and metaphors that encompass the practice of M&A in an attempt to highlight the different facets of M&A activities. Chris Smith addresses the concept of M&A as illusion, a facet where during the different stages of an acquisition, illusions and delusions of value begin to develop and grow as the process unfolds. Smith likens the M&A process to gambling; a bidder with delusions of grandeur places a bet and anticipates the outcome to determine whether he or she has been successful based on their definition of success.

Based on the efficient market hypothesis, the value of a listed company is its market capitalisation which is captured by its share price and the share price is the total discounted cash flow of the company into perpetuity. Acquirers however are not usually able to gain control of a target at market price without paying a control premium (Smith C, 2007). In their book *Intelligent M&A*, Moeller and Brady describe control premium as one of the most important factors in an M&A valuation, in order to take control of a company the current owners would need to be 'bribed' in order to sell their shares to the new owner

(Moeler, S. & Brady, C. (2007). Many bidders however overpay for the control, in a bidding war the perceived value of the purchase increases as others put a higher value on it, in other words an illusion of value begins to develop (Angwin, D., 2007).

According to Smith, value illusions lead to overpayment, the so called winners curse phenomenon, a phenomenon that has been offered as a likely explanation for the poor returns to buyers in M&A deals (Bruner, R., 2005). The fact that one bidder abandons a deal is in no way an indication that the bidder is less deluded, but simply means that reality has finally interfered. Another possible influence on attitudes that could lead to overpayment is the cognitive bias of overconfidence (hubris) as highlighted by Robert Bruner in his book *Deals from Hell* (Bruner, R.). He describes optimism in the context of M&A as a form of overconfidence about the ability to realise merger synergies which could ultimately encourage overpayment for a target. The herd mentality has been offered as another likely explanation for acquisition overpayment, mainly because groups tend to lean towards a common set of beliefs – sharing the same illusion. Further, individuals in groups become less responsible and knowledgeable compared with when they operate alone. “Men it has been well said, think in herds, it will be seen that they go mad in herds while they only recover their senses slowly, one by one” (Angwin, D.).

The analysis and concluding aspects of this article encompass a financial valuation of ABN and Barclays, available management options as well as a deconstruction of the events that ensued, the aim of which is to investigate the key influences over certain events and establish what biases or illusions developed as the process unfolded.

Methodology

The alternative hypothesis in the case study was that walking away from a bidding war and therefore not completing an M&A deal process could be the more successful option to take. The null hypothesis was that not completing an M&A deal process by walking away from a bid was an aspect to deal failure.

To address these, synthesis of the drivers of M&A and the definition of success and failure in the context of M&A were undertaken as well as research on the effects of an economic downturn on M&A activity, particularly in the banking sector where global economic downturn was a driver for acquisition and consolidation.

Qualitative data collection via semi structured face to face interviews and extensive gathering of articles and press releases relating to the case study was undertaken and these enhanced financial analysis and a review and analysis of the management choices within the case study.

In conclusion, the article reflects on the lessons learned from the case including observations on some other closed M&A deals where the acquirers could have benefited from the

lessons learned from the outcome of the case study and recommends, for further study, a compilation of both strategic and practical recommendations of key M&A considerations for potential acquirers based on the information gathered from the literature review and the outcome of the analysis of the case study.

Literature Review

Motives for banking M&A

Much research has been done into the rhyme and reason behind M&A in financial institutions. In his book *The Quest for Value*, G. Bennett Stewart states that the motivations behind mergers should be ones that will (1) increase financial performance (net operating profits), (2) enhance financial benefits through borrowing against the seller's unused debt capacity or against an increase in the consolidated debt capacity (lending capability for banks), and (3) introduce tax benefits derived from expensing the stepped-up basis of assets acquired or from the use of otherwise forfeited tax deductions or credits (Stewart, B III.,1991).

Synergy

When deals are announced, the increase in operating profits either from cost savings (operating synergy) or a combined increase in revenue (revenue synergy) is usually the primary motive for banking M&A. The word synergy is rarely ever absent from a deal announcement and in Patrick Gaughan's opinion is a bit overused. According to Gaughan it refers to the phenomenon "2 + 2 = 5" Gaughan, P. (2005). In other words, the combined revenue of the merged company will be far greater than the revenues of the individual banks. The anticipated revenues will be such that they warrant paying a premium above the market value of the target. Therefore the merger would reap a positive Net Acquisition Value (NAV), that is, the effect of the proposed synergy will be greater than the cost of the deal, making it a viable deal:

$$NAV = [VAB - (VA + VB)] - E$$

Where:

VAB = the combined value of the two firms

VA = value of A on its own

VB = value of B on its own

E = expenses of the acquisition process

Growth and increased market share

The search for growth and increase in market share through an expanded product offering and increased client base has resulted in financial institutions looking for partners to merge with. All institutions pursue growth and their shareholders expect growth. Generally when claimed as a merger motivation, growth is used interchangeably to mean growth in revenue or growth in profitability. Organic growth can be slow and with pressure from investors, the pace of organic growth may not be suitable and so when plans for organic growth fail or initiatives no longer become viable, the next option is M&A with an institution that has the product offering the buyer is seeking. M&A will offer existing and functioning business operations as opposed to growing a business unit from the ground up. Motyka et al (2005) give the example of the high rate of consolidation in Europe over the decade 1990 to 2000 in order to grow. In particular, financial institutions in Europe began to consolidate to form larger stronger institutions such as Santander, ABN Amro and Société Générale. In a few cases some institutions have engaged in M&A in order to survive (Steger, U. 2007) and remain competitive in an environment where others were consolidating, “the bandwagon effect”. The quest for growth can also come from outside pressure (Steger, U. & Kummer, C. (2007). Investors and analysts looking for double digit growth can put pressure on managers to look beyond organic growth to deliver those results.

Strategic M&A

Being a number one or number two bulge bracket bank does not always end up as a success story however, particularly where the deals take place in a declining industry. Being at the top of a struggling industry will require more from management to yield results. In times of volatility such as the financial crisis of 2007, M&A can become a defence strategy against total decline. Governments may force mergers between failing banks that are deemed too big to fail to prevent further decline to the industry. Alternatively banks may seek targets to acquire who they perceive to be in a weaker position. Although seeming straightforward and logical, targeting a weaker bank does not always work. Where stronger banks in a declining environment are looking for weaker targets to acquire, unwilling targets do not have to accept any bid and can turn to another institution for protection. The target bank will select a friendly “white knight” to buy a large enough stake in the target bank to prevent a hostile take over from an unwanted bidder or acquirer. The mechanics of the agreement will be detailed in advance with clarity given to the voting rights and participation of the “White Knight”. (Greenbaum, S.; Thakor, A., 2007). In order to use M&A strategically however, Moeller and Brady (2007) suggest that it is best practise to maintain a pipeline of potential deals at all times, investing time and effort into building relationships with potential partners where appropriate. Moeller and Brady go on to say that M&A should be based on a sound corporate strategy (Moeller, S. Brady, C., 2007).

Risk Management

As part of an institution's risk management strategy, M&A is one of the most viable options. In the light of tighter financial regulations risk management is becoming a strategic resource Motyka et al (2005). M&A with the right partner can provide a larger capital base - allowing the combined bank to earn by lending more without looking for assistance from other partners. Beets et al (2001) evaluated the integration of general M&A principles with bank strategic risk management principles. Their research concluded that M&A can be an element of a bank's successful risk management when the banks actively assesses (a) its own position and the targets position, (b) the risks involved (c) the interrelationship of those risks (d) how the bank will position itself to not only meet those risk but leave itself in a legally compliant position.

Hubris

Finally personal motives and the self-interest of managers play a role in the motives behind M&A. Although difficult to quantify, personal motives have been researched by Carsten Lausberg (2009). Managers can get caught up in the 'merger game' with the thrill of the chase (Moeller and Brady). Richard Roll's Hubris Hypothesis investigates this common non-financial motive in M&A. The Hubris Hypothesis seeks to explain the impact of individual decision makers in bidding firms particularly where the valuation of the target clearly shows an error in the decision to forge ahead with the deal. Roll's hypothesis shows that the primary motive for managers in M&A is their own personal interest before the interests of the firm or of shareholders, such as when managerial pride imposes a premium on a target valuation that is above the market valuation. Perhaps because managers believe that synergies exist and there is inefficient management in the target, they will persist in bidding at a price far above the market price and force the deal through.

M&A in economic downturn (2007 – 2009)

From a target's perspective, M&A activity may be driven by liquidations, forced sales of distressed assets, or simply the need for over-extended organisations to de-leverage and free up cash (Weirens, J., 2009).

An article published by Deloitte in 2009 highlights the key differences between M&A activities from both buyers' and sellers' perspectives in an economic downturn compared with those in good market conditions.

- **Due diligence:** In friendly takeovers, sellers are inclined to provide the buyer with information, generally not too much information that could potentially lead to buyers backing out of the deal, but only the minimum information required in order to convince buyers to bid the highest price based on their understanding of the deal's upside and devised strategies to deal with the downside. A distressed target in a downturn however, has fewer options and may need to be more open with regards to the information they provide.

- **Deal timescales:** In downturns it is in the target's best interest to proceed as swiftly as possible because its value declines as time passes. Conversely, buyers will be inclined to carry out more rigorous due diligence when dealing with targets in financial distress which could slow down the process.
- **Negotiation:** Good market conditions tend to favour sellers predominantly because there is a greater demand from buyers with access to capital however in an economic downturn, the seller's advantage declines as the company becomes distressed or bankrupt. Most acquirers have a propensity to avoid targets in financial difficulty so as a result, competition reduces leaving the buyers with more of an advantage in negotiations.

According to McKinsey advisory board member George Mulhern's reflection (Mulhern, G., 2009) on the McKinsey analysis, during the last economic downturn in the technology sector between 2000 and 2002, companies that emerged as leaders made significant acquisitions that strengthened their portfolio and market position. The leaders made considerably more acquisitions than those companies that left the downturn as laggards. Further, they were 30% more likely to make acquisitions and made up to 26% more deals. The leaders were also inclined to wait until later in the downturn, when valuations of their targets were the most attractive.

Examples of successful M&A activities in previous economic downturns include:

- Diageo's acquisition of Seagram Wine & Spirits from Vivendi Universal during the 2001 downturn which made Diageo its global leader both in volumes and profitability and changed the beverage alcohol sector.
- Danaher's 2001 acquisition of Marconi's Commerce Systems and Videojet units, both businesses of which are now at the center of two of Danaher's fastest growing, most profitable businesses.
- Johnson & Johnson's acquisition of Frontier Contact Lenses in 1981 which has created the platform for what is now their industry leading Acuvue contact lens business (Aquila, F., 2009).

Credit crunch

An article published by Deloitte in 2009 states that as a result of the 2007 financial crisis, it is even more important for banks considering M&A activity in addition to thorough due diligence, to consider carefully the regulatory changes that have developed as a result of the crisis.

One such regulatory change is the 2007 revised Statement of Financial Accounting Standards (SFAS). The Financial Accounting Standards Board's (FASB) issued a revised statement in order to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The new statement 141R replaced the FASB Statement Number 141, Business Combination and became effective for acquisitions made on or after the financial year ending December 15, 2008.

The article by Deloitte goes on to list some of the impacts on M&A activity in the financial services industry as a result of the SFAS changes:

Fair value of acquired loan portfolios

The 141R requires assets acquired and liabilities assumed, with some limited exceptions, to be reported at fair value as defined under SFAS 157.

As SFAS 157 is based on a “market participant’s view”, the discount on acquired loan portfolios may include not only adjustments related to interest and credit but also include a discount related to market liquidity. The use of market rates under the new rules, which could impact the size of goodwill recorded (generally disallowed from Tier I capital) combined with the loss of the allowance for loan loss add-back to Tier II capital, has expanded the perceived “regulatory capital hole” in the downturn, to an extent that some CFOs have indicated that FAS 141R may prevent them from pursuing otherwise attractive targets.

Impact on goodwill

Acquisitions over the last five years have led to higher goodwill values on bank balance sheets. As a result of the downturn, banks have started to closely analyse goodwill as market capitalisations have dropped, an indicator that impairment may have occurred. Further, negative goodwill became more common in acquisitions of troubled banking institutions during 2008, and could continue to have an increasing implication with the implementation of SFAS 141R, where an acquirer is no longer required to allocate the “negative goodwill” amount as a pro-rata reduction to particular assets acquired as was the case under SFAS 141. With new accounting guidelines and current deal trends, negative goodwill may be more common than in the past and would be reported as a gain as of the transaction date under SFAS 141R.

Restructuring or exit activity

Previous purchase accounting guidance under the FASB Emerging Issues Task Force (EITF) 95-3 stipulated that if, for example, a plan of restructure was documented upon acquisition and finalised within a year, a liability could be included as part of the purchase price allocation. Converting to SFAS 141R however, companies are more likely to expense these costs as incurred since the criteria by which they record these plans will now fall under the 2002 SFAS 146 requirements. There is an expectation that this change will result in restructuring costs being recorded as a year one expense rather than being included in goodwill. As a result, if year one accretion is important for a deal then this change is a matter of concern.

Failed Deals

Defining Failure

Suffering from the effects of the difficult debt and equity markets in 2008, the European banking sector was marked by numerous bailouts from governments. By the final quarter of 2008 the trend of failed deals had continued with Thompson Reuters reporting 264 deals withdrawn globally in that quarter at a value of \$325.9bn in comparison to the value of completed deals which totalled \$371.3bn.

Completed vs. Withdrawn Deal Volumes 2008

Source: Thompson Reuters

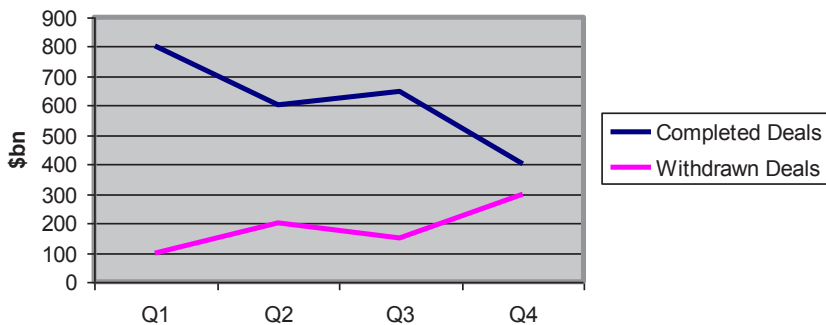


Figure 1: 2008 Completed versus Withdrawn deal volumes

Wedding un-Bliss

Arthur Levitt Jr considers six dimensions of completed deals that do not yield success as a means to identifying M&A failure (Bruner, R.,2005):

- Destruction of market value: a negative percentage change of share value or a change in benchmarking such as lower credit ratings.
- Financial instability: a deal becomes a financial liability
- Impaired strategic position: plans of increased market share are not realised or products or markets have to be abandoned.
- Organizational weakness: changes in human resources following a deal could weaken an organisation particularly if there is a loss of talent
- Damaged reputation: deals should improve the reputation of both the organisation and those active in the deal rather than destroy them
- Violation of ethical norms and laws: deals should not bring corporate governance and integrity into question.

Lloyds TSB / HBOS

As the UK's largest mortgage lender, HBOS was hit particularly hard by the credit crunch as it depended on the money markets for 40% of its operations. Following a failed Rights Issue in 2008, shares began sliding and the bank was in need of rescue. The takeover of HBOS by Lloyds TSB was brokered at the highest level with the UK Prime Minister making "strong recommendations to Lloyds to see the deal through. The £12 billion deal valued HBOS at 232 pence per share (Reuters) was ill fated right from the start because even with government backing, £2 billion was slashed off the value of the takeover a few days into trading as a merged company. As the integration continued the merged bank reported the loss of 8000 jobs and the possibility of further job losses, a topic that had been very much avoided at the time of the announcement of the deal.

Almost a year later, a Financial Times report (FT.com, March 2009) said "The enormity of Lloyds' ill-fated takeover of HBOS will be exposed, as the bank's board considers a Treasury rescue plan that could see the taxpayer take an economic stake of about 70% in the merged bank" Lloyds reported losses of £4 billion for the first half of 2009 as bad debts and loan losses at HBOS eroded the performance of the merged group. The HBOS loans and heavy portfolio of mortgages were described by group Chairman Eric Daniels as being "outside the traditional Lloyds low-risk appetite."

Runaway Brides

The other widely perceived aspect to deal failure is where the process of the deal fails. In this case bidders or targets pull out of and abandon the process before the deal is completed breaking off ill-suited relationships during the courtship. Suitor's remorse, i.e. deal process failure, can be caused by:

- Rejection of bid by target because they feel it is an undervaluation
- Failure of bidder to get adequate finance
- Slowness on the part of the bidder
- Material Adverse Effects Clause – a provision in agreements that allows a bidder or target to walk away from a deal if the counterparty suffers any adverse changes such as extreme market changes as described in their contract.

Case Study: Just Say No

A condensed version of a full case study follows here with a brief introduction to the merger discussions and a summary of the timeline that marks certain key events that ensued during the transaction. It is recommended, and was intended, that the case study be read in order to set the scene for the subsequent sections.

Merger Discussions

On the 21st of February 2007, The Children's Investment Fund (TCI) a UK based hedge fund that led the expulsion of Deutsche Bourse AG's top executive two years previous, publicly called on ABN Amro (ABN) to divest its different units, break itself up or merge as a result of poor share price performance over the previous years. According to TCI, ABN Amro was significantly undervalued. A banking analyst at Merck Finck & Co. in Munich cited "...selling off its units individually would be worth more than the whole company. Its weak profitability is making it so vulnerable" (Livesey, B. and Quintanilha, J.,2007).

A month later, ABN releases a statement reporting that it was in exploratory merger discussions with British bank Barclays PLC. One day later, they become exclusive. On the 13th of April less than a month later, ABN received an unsolicited letter from a consortium led by the Royal Bank of Scotland (RBS) inviting it to exploratory acquisition discussions.

Barclays plc

One of Barclays' strategies was to increase its earnings growth rate and increase its revenue and profit generated from outside the UK, as of financial year 2006 the majority of its profits were still from the UK. The acquisition of ABN by Barclays would have created one of the largest banks in the world and according to Varley CEO of Barclays, the acquisition of ABN created a platform for expansion; when the merger announcement was made he is reported to have said "This is the start, not the end. We are assembling a group uniquely qualified to compete for business all around the world".

The Consortium

The consortium consisted of three banks: The Royal Bank of Scotland, Banco Santander and Fortis. According to Peter Hahn, a Fellow at Cass Business School London, the consortium began with the existing relationship between The Royal Bank of Scotland and Banco Santander. Following an invitation from the Royal Bank of Scotland, Fortis joined the group to bid for ABN Amro, seizing the opportunity to acquire a retail business it could not have purchased without the assistance of another bank. For all three banks, the bid offered an opportunity to realize individual plans. Peter Hahn notes(Hahn, Peter, 2007) the consortium was the first of its kind in a cross-border acquisition by three banks with differing strategies.

Timeline

- 21st Feb: TCI publicly calls on ABN to divest its different units, break itself up or merge
- 19th Mar: Barclays PLC is in preliminary talks to acquire ABN Amro
- 16th Apr: RBS, Banco Santander and Fortis reveal they were interested in making a joint bid led by RBS and request access to due diligence information

- 23rd Apr: An announcement is made that ABN has agreed to be bought by Barclays in an all-share deal valued at approximately €66 billion. Part of the agreement is to sell its LaSalle division to Bank of America Corp. for \$21 billion
- 25th Apr: The RBS led consortium said it could bid around €72.2 billion for ABN, but only if the deal to sell LaSalle is stopped
- 3rd May: A Dutch judge in the Enterprise Chambers of the Amsterdam Appellate Court halts the sale of LaSalle, saying that ABN Amro would need to get shareholder approval to sell the division
- 29th May: The RBS led consortium officially launches its bid for ABN Amro, with a 79% cash component; the deal values ABN at approximately €71.1 billion
- 13th Jul: The Supreme Court rules that ABN can proceed with the sale of LaSalle without getting shareholder approval
- 16th Jul: The RBS led consortium renews its bid for ABN this time excluding LaSalle, raising the cash component to 93%
- 23rd Jul: Barclays announces revised offer for ABN, this time including a 37% cash component
- 30th Jul: ABN Amro board retracts backing of Barclays' bid, but does not however endorse the RBS led consortium
- 05th Oct: Barclays walks away

Analysis

Financial analysis

Competitive landscape

The European banking sector with returns of 18.5% exceeded overall market returns of 16.3% in 2006. 2006 also saw several acquisitions in the European banking sector, including BNP Paribas' bid for BNL, BBVA's expansion in the United States, and Dexia's acquisition of Denizbank in Turkey (European Banks Strategy, 2007).

The best performers by sub-sector in 2006 were reported to be the Portuguese banks with returns of 32% and domestic Spanish banks with returns of 27%. However, UK's HSBC still maintained its ranking of number one in Europe by market capitalisation, with RBS ranking third, Santander fourth and Barclays sixth. ABN however with a market capitalisation of approximately €43.7 billion ranked sixteenth as of January 2007.

Bank	Market Capitalisation (€m)	Region
HSBC	160,696	UK
UBS	99,125	Switzerland
Royal Bank of Scotland	97,988	UK
Banco Santander	89,436	Spain / Portugal
BNP Paribas	79,090	France
Barclays plc	74,742	UK

Source: *ING European Banks Valuations. January 2007*

Table 1: *European bank rankings, January 2007*

ABN Amro Revenue drivers

ABN's revenues were generated from its ten business units : the Netherlands business unit offered investment, commercial and retail banking products and services throughout the Netherlands and also included the ABN AMRO Mortgage.

The **Europe** business unit spanned across 27 countries.

The **North American** business unit was LaSalle Bank which offered a range of investment, commercial and retail banking products and services in the United States and Canada.

The **Latin America** business unit was present in nine Latin American countries with the presence of Banco Real representing the majority of the operations.

The **Asia** business unit covered a number of Asian countries.

The **Global Clients** was organised around six hubs: Amsterdam, London, New York, Hong Kong, São Paulo and Sydney. The financial results of the Global Clients business unit also combined ABN AMRO Mellon, a joint venture with the Mellon Financial Corporation that provides global custody and value added services to institutional investors globally.

The **Private Clients** business unit offered private banking services.

The **Asset Management** business unit operated in 26 countries, with institutional clients representing just over 50% of the assets managed by the business unit.

The **Private Equity** business unit was branded as ABN AMRO Capital and its function encompassed providing capital and expertise to non-listed companies in a variety of sectors. The **Group Functions** provided guidance on ABN's corporate strategy and supported the implementation of the strategy.

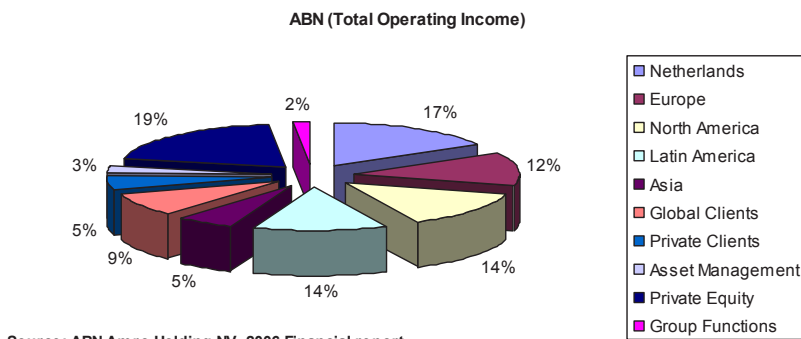


Figure 2: ABN income contribution by business units

Barclays Revenue drivers

Barclays' revenues are generated from its six core businesses: The **UK Banking business** is its retail banking segment. The **Barclaycard business** offers consumer lending to card holders, processes payments and offers transaction services for retailers and merchants.

The **International Retail and Commercial Banking** business contributed 15% of total income in financial year 2006.

Barclays Capital (BarCap) is the investment banking division of Barclays. Between 2000 and 2007, BarCap was the world's fastest growing investment bank.

Barclays Global Investors (BGI) is the asset management arm of Barclays and also provides investment management products and services with more than 3,000 institutional clients and approximately \$1.8 trillion of assets under management as of 31 December 2006.

Barclays Wealth serves high net-worth, affluent and intermediary clients globally.

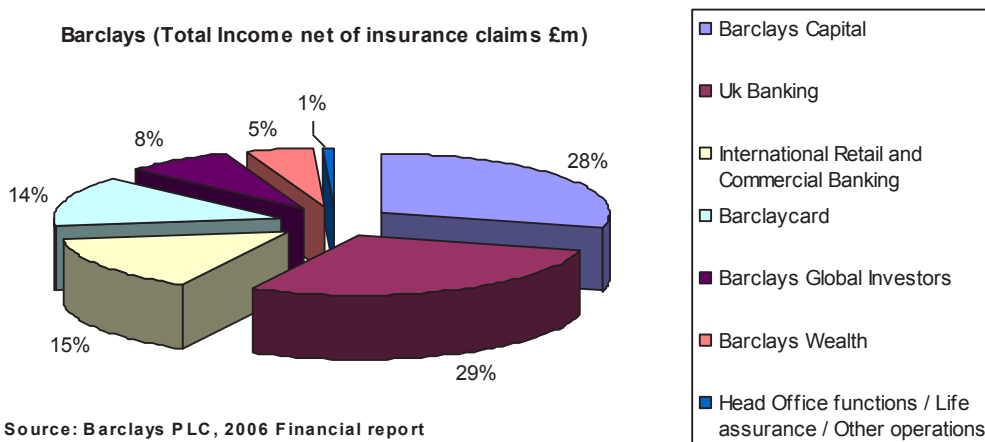


Figure 3: Barclays' income contribution by business unit

Barclays' financial strength

Barclays' credit rating of AA (Standards & Poor's) in financial year 2006, indicated that it was deemed to have a strong capacity to meet its financial commitments, in addition it has large scale operations which minimises business risk and benefits from revenue and profit diversification through its diverse businesses and geographic locations. The Price Earnings (PE) ratio of Barclays, a measure used to determine investors' expectations of earnings

growth however, declined from 11.2x in 2005 to 10.2x in 2006 implying that the market anticipated its earnings growth rate to slow down; it saw a further decline in financial year 2007, with a PE ratio of 7.3x. However compared to its peers Barclays has historically traded on lower PE multiples (RBS 24.6x in 2006 and HSBC 15.0x in 2006), further the decline in 2007 was most likely as a result of the uncertainty of future earnings across the banking sector due to the economic downturn, both HSBC and RBS also saw a decline in 2007.

Barclays / ABN Projected Synergies

A senior manager at Barclays Capital involved in the strategic planning of the ABN acquisition quotes:

We had an integration team for the purposes of determining achievable synergies for each business at an operational level. The group [Barclays plc] dealt with things like where the headquarters will be and so on, the integration team concentrated on synergies, so for instance identifying shared services, overlaying client lists.... (Interview 3, 2009)

According to a statement issued by Varley on the announcement day, the proposed merger between Barclays and ABN would facilitate an increase in the proportion of Barclays' profits generated from outside the UK to 50% , "ABN had many businesses in many geographic regions for example Asia where Barclays has next to no presence. This was a strategic objective..." (Interview 4, 2009).

The merger was forecasted to create €3.5 billion of pre-tax synergies, 5% cash earnings per share accretion in 2010 and a return on investment of 13% by 2010. In addition, the excess capital from the sale of LaSalle estimated at approximately €12 billion was to be returned to shareholder primarily through buybacks after completion of the Barclays offer which would ultimately benefit all shareholders of the new enterprise. The forecasted synergies took into account the implementation costs of €3.6 billion, a cost of capital of 9.5% and an implied rate of returning share buybacks of between 11 and 12%.

Synergy	Amount	%
Cost Synergies	€2.8 billion	80% (9% of combined cost)
Net revenue synergies	€700 million	20% (1.4% of combined revenue)
Total	€3.5 billion	

Table 2: Summary of Barclays' projected synergies

Source: Barclays – ABN Amro: Analyst and Investor Conference – Transcript. 23rd April 2007.

The synergies were to be realised by organising the new entity into two broad groups: Investment Banking and Investment Management, and Global Retail and Commercial Banking with a significant proportion of the cost synergies coming from Global Retail and Commercial Banking and net revenue synergies predominantly from Investment Banking.

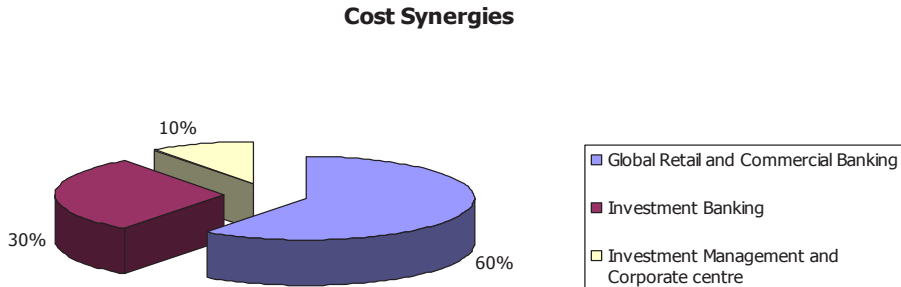


Figure 4: Barclays’ projected cost synergies by business unit

Source: Barclays – ABN Amro: Analyst and Investor Conference – Transcript. 23rd April 2007.

The combined Global Retail and Commercial Banking would create the fourth largest retail and commercial bank in the world by market share whilst the merged Investment Banking and Investment Management business was projected to grow at 7 to 10% over the following ten years, a rate which was more than double the rate of global GDP growth at the time. The new entity would have been worth approximately €138.9 billion (see figure 15) making it the second largest bank in the UK and the fifth largest in the world.

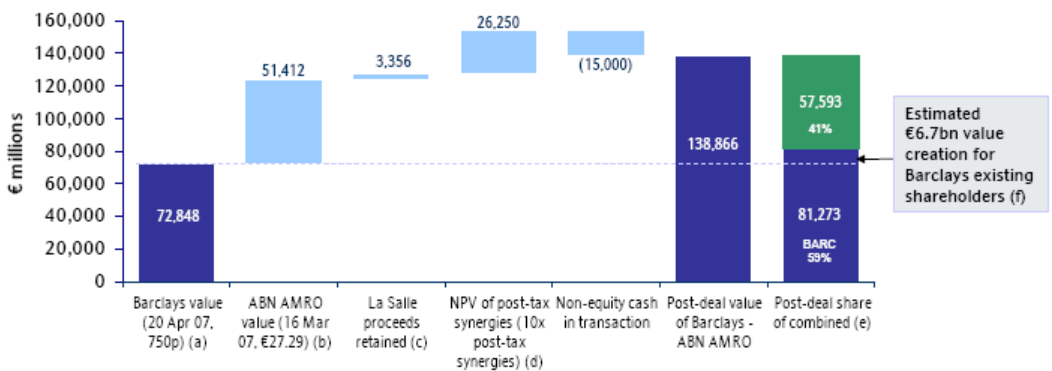


Figure 5: Barclays’ estimated post deal value

Source: Barclays – Investor Presentation August 2007.

Barclays / ABN Deal Characteristics

The initial offer from Barclays was an all share offer at the exchange rate of 3.225 new Barclays' shares per ABN share, which was equivalent to a price of €36.25 and gave ABN shareholders a 3% premium based on ABN's share price as of close of business March the 16th, the last trading day before negotiations were announced. The offer valued ABN at €66 billion more than 2.4 times its book value as of financial year 2006 (see Appendix, ABN AMRO Balance Sheet). The ownership of the combined entity was to be 52% to Barclays' shareholders and 48% to ABN's shareholders; the transaction also included the sale of LaSalle Bank to Bank of America Corp.

The revised bid offer from Barclays was valued at €35.73 based on the closing price of July the 20th and included a 37% cash component (€24.8 billion) valuing ABN at €67.5 billion. This would increase Barclays' equity proportion of the new entity to 57%; existing ABN shareholders would own 35%, CDB 6% and Temasek 2%.

Barclays Financing

Source	Amount	Type	Details
China Development Bank (CDB)	€7.6 billion	Equity (6.7% stake in combined entity)	€2.2 billion initial investment and €7.6 billion if the deal succeeds.
Temasek	€2.2 billion	Equity (2.5% stake in combined entity)	€1.4 billion initial investment and €2.2 billion after the purchase of ABN.
LaSalle proceeds	€12 billion	Cash	-
Available cash resources	€3 billion	Cash	-
Total	€24.8 billion		

Table 3: Barclays financing of 37% cash component

Source: Barclays to get \$11.2billion From Asia for ABN Bid (update 2), Bloomberg, 2007. Market Perception – Barclays / ABN

On the 19th of March, the day Barclays and ABN revealed they were in preliminary discussions about a possible acquisition, Barclays shares fell 0.8% to 677 pence (Livesey, B and Menon, J., 2007) whilst ABN's shares having risen 7.4% in the month through March 16th spurred by speculation of a takeover after TCI's statement that it was significantly

undervalued, increased a further 9.7% to €29.96 on the day, valuing it at €57 billion. Barclays' shares had however been on the decline prior to the announcement due to the volatility in the stock market during that period and the increase in US mortgage defaults. Barclays' shares continued to decline after the announcement on the 23rd of April which as a result reduced the value of its all share offer. According to Breakingviews "the bids value may be slipping because of what is known as the winner's curse. ABN's agreement to sell LaSalle has increased the likelihood of Barclays buying it. That in turn makes it less likely that Barclays will itself be on the receiving end of a bid. Further, it prompts questions about the deliverability of the synergies..." (Verdin, M.,2007).

Barclays' shares rose 3% to 735 pence after its revised bid valuing it at £48.1 billion, "Barclays is getting credibility in terms of how it is funding the bid," said Alex Potter, a London-based analyst at Collins Stewart. "The Chinese government and Temasek have an awful lot of liquidity and there is no doubt Barclays is a good business to invest in" (Livesey, B and Menon, J., 2007). In addition, on the day Standards & Poor's Rating Services (S&P) confirmed Barclays' long and short term credit rating of AA/A-1+, citing "While we continue to consider Barclays' capital policy to be aggressive and its capitalisation relatively weak in a global context, the increase in leverage would be consistent with this, and to some extent offset by merger benefits" (S&P, 2007).

Share price performance

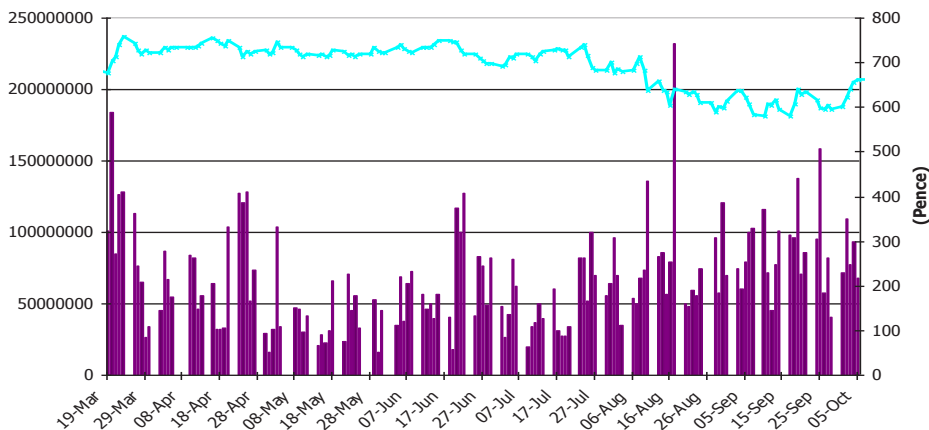


Figure 6: Barclays share price performance from mergers talks to 'runaway' day Source: Yahoo finance

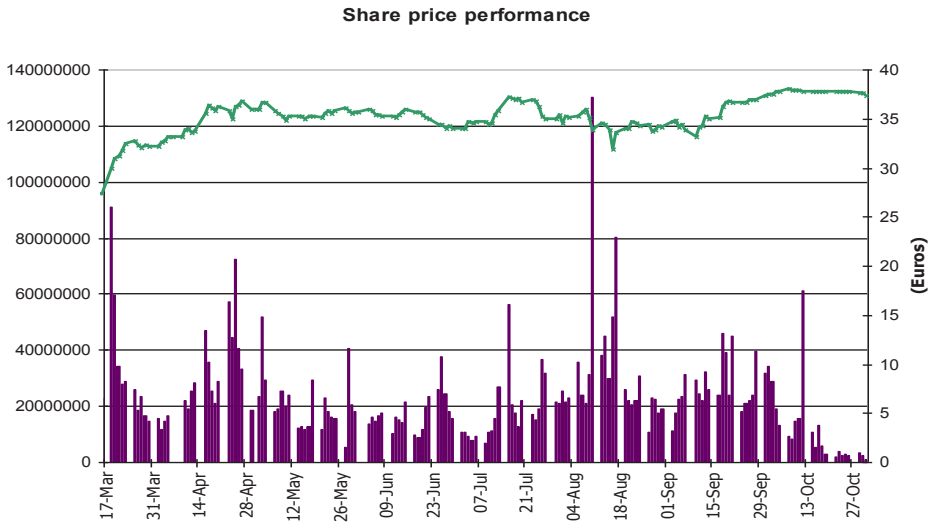


Figure 7: ABN share price performance from mergers talks to takeover day.

Management choices

Value created by a deal can be lost in the management of the deal process outside of the financial analysis. That an integration team was required from the start was a given. The only question then was who to put in the team and why. The Barclays team had a number of issues facing them that would need to be addressed to make the deal work and minimise the cost of any errors. The risks, including less tangible risks like Reputational Risk, would encompass managing possible pitfalls relating to shareholder and stakeholder issues and other governance issues.

Governance and Compliance: Moving headquarters to Amsterdam

Many press reports commenting on the proposal to move the Head Office of the merged bank to Amsterdam, expressed the opinion that the move was simply a concession to ABN Amro in order to get the deal done. The plan was for the combined bank to be a registered company in the United Kingdom with headquarters in Amsterdam, and dual-listed on the London and Amsterdam stock exchanges with extensive operations in the United States. But, concession or not, there were some very real issues to be considered because if the legal entity was to be in Holland and managed from there, then it followed that the lead regulator would have to be Dutch.

Later in the deal negotiations CNBC News reported that “A plan for the Dutch Central Bank to be lead regulator has been dropped and Britain’s Financial Services Authority is now favoured for that role.” Regardless of the eventual regulator, Barclays would need to carefully manage the execution risks that accompany the timings of both regulator approval and shareholder approval and also note that other regulators would monitor the merged entities operations in the different countries and regions.

Regulation and taxation

Barclays would not have been the first bank to form a large cross boarder banking group. Nordea, Dexia and Fortis are all examples of banking groups with regulators operating on multilateral agreements. Being headquartered in Amsterdam, Barclays would also have become another example of a large bank being supervised by a small regulator (perhaps an issue to be tackled in the near future by the Committee of European Banking Supervisors)

Corporation tax has a big effect on shareholder value. For shareholders of the merged entity, the Netherlands offered better tax concessions than the UK with more double taxation agreements than the UK. The UK has recently become one of the countries with higher corporation tax in the EU making it less attractive to big corporations. With the merged group operating from Amsterdam, international dividends paid back to the UK would not be eligible for taxation. If operations stayed the way they were it will not make a difference to shareholders.

Organisation and National Cultural integration

Integration takes time and will not happen overnight, nor does the process start after the deal. Before the deal, even with limited access to data and information the Barclays team could begin planning integration. A pre-requisite to integrating two cultures is for the individual cultures to be clearly understood and known by all involved in the integration. Given the size of Barclays it was quite likely that the ABN Culture would have been swallowed up by Barclays.

ABN had attempted to create a global universal bank and the plan didn’t quite work. Groenink’s chairmanship brought with it big cultural changes one of which was to change the language spoken in the bank to English, starting with the board meetings. Although a British bank, the investment banking arm of Barclays operated with a very American culture. However, external change management consultants along with change management leaders from both organisations could fill that gap and help the two cultures identify and create a new, single culture.

Integration of technology systems

The key to managing the integration of technology would be to create an achievable schedule for the migration and integration of systems. Peter Hahn of Cass Business school said in an article on eFinancial News that taking in to consideration that “ABN Amro’s businesses are scattered, numerous and rarely viewed as the most efficient; their successful

integration would be essential for this to be a worthwhile venture.” To add to the mix of issues, Barclays still had problems integrating systems from the Woolwich.

The operating models of the two teams were also very different:

- “ABN Amro uses SAP-based business processes and has a £1.2bn outsourcing deal which includes Accenture, IBM, Infosys and Tata Consultancy Services.
- Barclays has major outsourcing deals with BT, Siemens and Accenture, but has a much bigger in-house IT team compared to ABN. Barclays also uses SAP-based business processes, which may help the integration plans.”

Managing employees attitudes towards the merger

With the existing division of opinion towards the deal in both firms, how was employee buy-in to be secured? The merger would give the new bank employees in not only Europe but the US, South America, Africa and Asia. As key stakeholders in the new organisation, for employees, the merger would have to be in their interests too and not just the interests of shareholders.

Almost as soon as merger talks were announced, finance trade unions across Europe began to press for immediate talks with Barclays and ABN Amro over the merger plans. Immediately operating in defence mode, the unions said they were out to defend the interests of all employees. A meeting of UNI-Europa Finance in Athens said they would oppose compulsory redundancy plans. UNI Secretary General Philip Jennings said “We want to discuss the consequences of this merger with management immediately and we want our members’ rights to consultation to be fully respected”. The merger came at a time when Finance unions across Europe were starting to cooperate more across borders. Realistically the merger plans did not have immediate implications for employees below Head office level although some job losses were expected, particularly for ABN Amro employees. The three unions representing ABN’s employees publicly expressed a preference for the Barclays bid as the plans involved fewer job losses.

It would be essential for the merged entity to identify the most important skills needed, identify complementary skills and roles, identify overlapping skills and roles and encourage those with the essential skills to stay.

Managing investors attitudes towards the merger

Once merged, Barclays’ shareholders would own about 52% of the new company to be called Barclays Plc. For the most part, shareholders interests are about top-line growth and a good return on their investment through the merger. Barclays would have to be able to demonstrate clear plans for generating future value for shareholders both in the short term through the merger and in the long term via future growth initiatives. Regular and constant communication with shareholders would be key to managing shareholder relations through out the process.

Managing talent

Three issues have emerged consistently in cross-border banking mergers: the location of the head office, the new Chairman and the new CEO. Often hubris and the soothing of egos plays a large part in the choices finally made. The real business of the merger has to be attended to without being impeded by CEO egos.

Reuters reported the merger plans to include the following senior management appointments: John Varley and Bob Diamond would have the same positions in the enlarged group, with John Varley moving to Amsterdam; ABN's Arthur Martinez would become chairman; Rijkman Groenink would become a non-executive director; and Barclays' Chairman Marcus Agius would become deputy chairman and take over the top job at Martinez's retirement.

Those plans provided subtle incentives such as the appropriate job title and power and the assurance that autonomy would not be lost, encouraging those with the drive to succeed to continue doing so.

Conclusions and Recommendations

The analysis of the Barclays/ABN Amro case set out to test the alternative hypothesis, which is, that walking away from a bidding war and therefore not completing an M&A deal process can be the more successful option to take.

One of the major motives for Barclays beginning talks with ABN was the desire to increase its earnings growth rate and continue to expand outside of the United Kingdom. The UK banking market was virtually locked and ABN Amro offered an opportunity to expand into new geographies without the intense effort of doing so organically. Being the first to enter into serious talks with ABN, Barclays had the opportunity to carefully plan and structure the deal. According to an ABN Amro senior manager involved with deal, Barclays almost certainly had far more access to books and information than the consortium and as the information Barclays used for their due diligence was not recorded, it was not surprising that the consortium were given less information. The largely share offer from Barclays demonstrated caution on their part, but, once their offer was stacked against a largely cash offer from the consortium, Barclays found itself in a position where it had to either increase its offer or walk away. Although Barclays revised its offer, it was never increased above the consortium's offer

The evidence in the case, mostly the share price and post-deal positions of the banks in the consortium, indicate that the deal was not successful, in other words, the deal did not yield the required return on investment for shareholders for the following reasons: The share prices for all three constituents of the consortium declined following the deal; in addition, two of the three constituents (RBS and Fortis) experienced significant losses post deal; Fortis had to be nationalised and RBS partly nationalised following the deal in order to avoid collapse; it is also widely believed that the consortium over-paid for the acquisition

of ABN. As highlighted in the introduction, illusions of value begin to develop during a bidding war and the authors believe this lent itself to the consortium's overpayment of ABN.

The authors of this article hold a unified opinion that Barclays made a sensible choice by walking away. The consensus reached by the authors is that, in this case, walking away equated to success for the following reasons: Barclays' action throughout bidding process demonstrated caution and sensitivity to risk exposure, it was the beginning of the fall in the Financial Markets and the signs of the fall had begun to show although at the time it was not clear how difficult the markets would become. Barclays also demonstrated caution throughout the process for example when they revised their offer, the offer was not increased but rather it was changed to include a cash component. There is no doubt that they could have paid more but they erred on the side of caution.

The conclusion, therefore, is that the alternative hypothesis can be accepted: walking away from a bidding war can be the more successful option.

List of Tables

Table 1: European bank rankings, January 2007

Table 2: Summary of Barclays' projected synergies

Table 3: Barclays financing of 37% cash component

List of Figures

Figure 1: 2008 Completed versus Withdrawn deal volumes

Figure 2: ABN income contribution by business units

Figure 3: Barclays' income contribution by business unit

Figure 4: Barclays' projected cost synergies by business unit

Figure 5: Barclays' estimated post deal value

Figure 6: Barclays share price performance from mergers talks to 'runaway' day.

Figure 7: ABN share price performance from mergers talks to takeover day.

References

ABC (2009). <http://www.abcmoney.co.uk>

ABN Amro Holding NV (2000). *Annual Report 1997 / 1998 / 1999*

_____ (2003). *Annual Report 2000 / 2001 / 2002*

_____ (2005). *Annual Report 2003 / 2004*

_____ (2006). *Annual Report, 2004 / 2005*

_____ (2008). *Annual Report, 2006 / 2007*

Angwin, D. (2007). *Mergers and Acquisitions*. Victoria : Blackwell Publishing.

Barclays PLC (2000). *Annual Report 1997 / 1998 / 1999*

_____ (2003). *Annual Report 2000 / 2001 / 2002*

_____ (2005). *Annual Report 2003 / 2004*

_____ (2006). *Annual Report 2004 / 2005*

_____ (2008). *Annual Report 2006 / 2007*

Barclays PLC (2009). <http://group.barclays.com>

Barclays PLC / ABN Amro Holding NV (2009). <http://www.merger.barclays.com>

BBC News (2009). <http://news.bbc.co.uk>

Beets, Soretha and Styger, Paul , (July 2001). *Strategic Risk Management Practices As a Prerequisite in Bank Merger and Acquisition Feasibility Studies*. Potchefstroom: University for Christian Higher Education.

Breakingviews (2009). <http://www.breakingviews.com>

Bloomberg (2007). *Royal Bank-Led Group Bids \$98.5 Billion for ABN Amro (update 11)*, Bloomberg, April 25, 2007.

_____ (2007). *Barclays Says It's in Exclusive Talks to Buy ABN Amro (update 3)*, Bloomberg, March 19, 2007.

_____ (2007). *Bank of England Loaned 1.6 Billion Pounds at 6.75% (Update8)*, Bloomberg, August 30, 2007.

_____ (2007). *Barclays Agrees to Purchase ABN Amro for \$91 Billion (Update10)*, Bloomberg, April 23, 2007.

_____ (2007). *Barclays Drops ABN Bid, Clearing Way for Royal Bank (Update 4 / 14)*, Bloomberg, October 5, 2007.

_____ (2007). *Barclays Outlook Raised by Fitch After Dropping ABN Amro Bid*, Bloomberg, October 5, 2007.

_____ (2007). *Barclays Raises ABN Offer on China, Singapore Funding (update 7)*, Bloomberg, July 23, 2007.

_____ (2007). *AFX: Barclays Bank Ratings Affirmed on Revised ABN AMRO Bank*, Bloomberg, July 23, 2007.

_____ (2007). *Royal Bank Pays 'Big Price', Takes Control at ABN*, Bloomberg, October 8, 2007.

Bruner, Robert (2005). *M&A Lessons That Rise Above The Ashes: Deals from Hell*. New Jersey : Wiley Press, Hoboken, USA.

Businessweek (April 2009). A smart strategy in a downturn, <http://Businessweek.com>.

Coeurdacier, Nicolas; De Santis, Roberto A.; Aviat, Antonin (2009). Cross-border mergers and acquisitions and European integration. *Economic Policy*, 24 (57), 55-106.

De Vincenzo, Alessio; Doria, Claudio ; Salleo, Carmelo. (2005).The Motivations for Bank Takeovers : Some Empirical Evidence from Italy. *Giornale degli Economisti e Annali di Economia*, 64 (4), 327-358

Deal Breaker (2009). <http://dealbreaker.com/barclays>

Deloitte (2009). Boom or Bust: Keep Doing M&A Deals or Hunker Down? , Deloitte debates, <http://www.deloitte.com>. May 14, 2009

_____ (2009). Distressed M&A, Leveraging opportunity in a downturn, <http://www.deloitte.com>, March 23, 2009.

_____ (2009), Winning the race in a consolidating banking environment. Financial Foresight, <http://www.deloitte.com>, April 1, 2009.

Economist (2009). Barclays' big ambition, <http://www.economist.com>.

_____ (2009). Barclays in the money, <http://www.economist.com>, April 30, 2009.

_____ (2007), Braveheart two, <http://www.economist.com>, May 31, 2007.

European Central Bank (2000), Mergers and acquisitions involving the EU banking industry – facts and limitations. European Central Bank, Frankfurt, Germany

Financial Accounting Standards Board (2009). <http://www.fasb.org>

Forbes (2009). Why most M&A deals end up badly, <http://www.forbes.com>, June 16, 2009.

Fortis (2007). *Financial Statements*, 2004 / 2005 / 2006

Fortis (2009), <http://www.holding.fortis.com>

Funding Universe (2009). <http://www.fundinguniverse.com>

Gaughan, P (2005). *Mergers: What Can Go Wrong and How to Prevent It*. New Jersey : Wiley Press, Hoboken.

Global Newswire (2009), <http://www.globenewswire.com>

Greenbbaum, Stuart and Thakor, Anjan (May 2007). *Contemporary Financial Intermediation*. Academic Press Advanced Finance, Kidlington, Oxford United Kingdom.

Guardian (2008), City Limits, <http://www.guardian.co.uk>, February 16, 2008.

_____ (2003), Barclays names new boss, <http://www.guardian.co.uk>, October 9, 2003.

Herndon, M., (2005). *M&A Integration: Deal Killers and Best Practices*. Parkwood Advisors LLC, Texas, USA

Independent (1993). Family Vault, <http://www.independent.co.uk>, January 24, 1993

_____ (2007). Hedge fund TCI lobbies for break-up of bank giant ABN Amro, <http://www.independent.co.uk>, February 22, 2007

ING (2007). European Banks Valuations 2006, ING

ING (2007). Fortis, Santander, RBS – ABN break-up: Three's not a crowd, ING

KPMG (2009). Hungry for more? Acquisition appetite and strategy in the private banking and wealth management industry. <http://www.kpmg.dk>, Global Update .

2009Kwon, Simon and Wilcox, James, Hidden Cost Reductions in Bank Mergers: Accounting For More Productive Banks. Federal Reserve Bank of San Francisco, San Francisco, USA, Working Papers

Laderman, Elizabeth (17/11/1995) The Rhyme and Reason of Bank Mergers. *Weekly Letter*, Federal Reserve Bank of San Francisco, Number 95-39, San Francisco, USA

Lausberg, Carsten (October 1, 2006). Motives and Non-Economic Reasons for Bank Mergers and Acquisitions. *The Icfai University Journal of Bank Management*, Vol. 8, No. 1, pp. 7-30, February 2009.

Market Watch (2009), <http://www.marketwatch.com>

McKinsey Quarterly (2009). <http://www.mckinseyquarterly.com>

Moeller, S. (2008). *Case Studies in Mergers & Acquisitions 2007*. Revised Version, Harlow: Pearson Education Limited.

Moeller, S. (2009). *Lectures in Mergers and Acquisitions elective*, Cass Business School.

Moeller, S and Brady, C (2007). *Intelligent M&A: Navigating the Mergers and Acquisitions Minefield*. Chichester : John Wiley & Sons Ltd.

Motyka, R. and Fawson, J. (December 2005). *Financial Institutions M&A: Finding your Strategy*. UBS Investment Banking Publications, New York, USA.

Mulhern, G. (2009). M&A opportunities in an economic downturn, <http://www.highway12ventures.com/2009/04/21/ma-opportunities-in-an-economic-downturn/>, April 21, 2009.

Roll, Richard (1986). The Hubris Hypothesis of Corporate Takeovers. *Journal of Business* 1986, 59 (2), 197 – 210.

Royal Bank of Scotland (2007). *Annual Report and Accounts, 2004 / 2005 / 2006*.

Santander (2007). *Annual Report, 2004 / 2005 / 2006*.

Santander (2009). <http://www.santander.com>

Steger, U. and Kummer, C. (2007). *Why Mergers and Acquisitions Waves Reoccur – The Vicious Circle from Pressure to Failure*, IMD Business School, Lausanne, Switzerland.

Smit, J (2009). *The Perfect Prey: the fall of ABN Amro, or What Went Wrong in the Banking Industry*. Quercus, London, UK

Telegraph.co.uk (2008),. Credit Crunch timeline: From Northern Rock to Lehman Brothers, <http://www.telegraph.co.uk>, September 15, 2008

Thomson One Banker (2009). <http://banker.thomsonib.com>

Timesonline (2008). Barclays' odd couple John Varley and Bob Diamond, <http://business.timesonline.co.uk>, February 17, 2008.

_____ (2007). Activist investors flex their biceps, <http://business.timesonline.co.uk>, June 17, 2007

Yahoo Finance (2009). <http://uk.finance.yahoo.com>

Ms Kumbi Short is an Operations Management Expert. Her areas of competence are operational turnaround and performance improvement in both distressed and non-distressed operations environments Over the past couple of decades, her experience included Managed Service Desk Design and Implementation projects for global organisations including Goldman Sachs, SchlumbergerSema and Philips NV. She also spent many years consulting in post-merger environments, helping merger clients achieve IT Service integration. Ms Short holds a BSc Software Engineering from the University of Greenwich, UK and a Masters of Business Administration from Cass Business School, UK.

Ms Rosemary Okolie is currently an Industry Strategist at Demandware, a Technology Company. Ms Okolie's has previously worked as an Equity Market Analyst for Dow Jones, having previously worked as an Investment Banking Technology Analyst in and around the City of London. Ms Okolie holds a Masters of Business Administration from Cass Business School, UK.

Enhancing Corporate Social Responsibility in the public and private sectors in Botswana

Mpho Gilika and Baakile Motshegwa

Abstract

In a democratic country like Botswana, organisations and business should strive towards improving the livelihoods of the citizens that they operate within. Of recent, companies have even gone to the extent of building houses for the needy and less fortunate. In government, The Ministry of Labour and Home Affairs has been mandated to spearhead community services from the government's point of view and several projects have been undertaken to help both individuals and the communities. Desktop research methodology was used to collect data for the paper. This paper will follow the following format: First, it covers an introduction about Corporate Social Responsibility (CSR); second, literature review on CSR; thirdly, methodology adopted; fourth, Botswana government conception of CSR; fifth, Private sector conception of CSR and lastly, results and analysis followed by a conclusion. The paper argues that there has been an increase in the uptake of social responsibility activities by organisations and the business community in Botswana mainly to increase their visibility in society by advertising their services.

The public sector has expanded its activities in order to enhance corporate social responsibility in the country and has acted as a catalyst for development in that respect. Activities have been carried out the country to develop the less privileged in society to the extent of building houses for needy. The private sector on the other hand, has been more open and diversified their CSR activities. Some of the private sector companies included in this study are cellular phones, banks and parastatals. Like government, some activities carried out by the private sector benefits the less privileged people in the society, employees working for such organisations, the sporting codes, local communities, environmental conservation activities and others. The paper gives recommendations / suggestions on how organisations can enhance their visibility in the communities where they work by getting involved in CSR projects. Finally, the paper concludes by emphasising the importance of CSR activates in both the public and the private sectors.

Key words: corporate social responsibility, Botswana, business community, stakeholders, private sector, government

Introduction

Corporate social responsibility has become dominant in business reporting (Crowther & Arus, 2008). Corporate social responsibility in Botswana has of recent been embraced and recognised by government, private companies (foreign and local) and recipients. Major companies like cell phone companies (Orange, Be Mobile and Mascom), banks (Barclays, Bank ABC, Standard Chartered) and parastatals (Botswana Power Corporation, Botswana Telecommunications Corporation and others) have been in the forefront of spearheading Corporate Social Responsibility (CSR) in the country. The mining sector has also been involved in corporate social responsibility (Solis & Moroka, 2011). BCL Mine in Selibe Phikwe for example, has a CSR policy with the following objectives: to give back to the community & enhance the caring and supportive image of BCL; to maintain good relationships, goodwill and loyalty with community & stakeholders; to improve employee loyalty and morale; to contribute to the Vision 2016 Pillars (caring and compassionate nation) and to provide opportunities to build relationships with business partners (Molosankwe, 2014). According to the KPMG's Botswana country profile report of 2012, small companies are still lagging behind when it comes to corporate social responsibility (KPMG, 2012).

Literature Review on the Conceptions of CSR

Definitions

Several definitions of corporate social responsibility (CSR) have been given by different organisations. Corporate social responsibility according to Crowther and Arus (2008, p. 8) 'is concerned with what is – or should be - the relationship between global corporations, government of countries and individual citizens'. The European Commission defines corporate social responsibility as referring 'to companies taking responsibility for their impact on society' (European Community, 2015, para 1). The European Commission website goes on to argue that, 'CSR is increasingly important to the competitiveness of enterprises. It can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity (European Community, 2011, 3). According to Investopedia (2015, para 2), 'corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change'. The Government of Canada in its website defines CSR 'as the voluntary activities undertaken by a company to operate in an economic, social and environmentally sustainable manner' (Government of Canada, 2015, para 1). CSR are initiatives by companies that are aimed at benefiting the societies that they operate in. Though the above definitions have several aspects in common, Change (2012) argues that 'Corporate social responsibility (CSR) is not well understood and is widely viewed as a philanthropic gesture of goodwill rather than an attribute of good corporate citizenship' (Change, 2012, 23). CSR it is reasoned should become part of an organisations philosophy. However, according to Grigoryan (2011, 48) 'firms cannot participate in CSR if their work provides no scope for it'. Therefore, corporations should have CSR policies within their corporate policies.

Theories of Corporate Social Responsibility:

Triple bottom line

Several theories have suggested ways in which corporations should incorporate the concept of CSR in their daily activities. Elkington (1994) coined the theory of the 'triple bottom line'. According to Elkington, organisations should prepare for three bottom-lines of corporate profit (profit and loss), peoples account (how socially responsible a company has been towards people in their functions) and the companies 'planet' (how environmentally responsible the company has been). The triple bottom line (TBL) which has three Ps of profit, people and planet measures the financial, social and environmental performance (The Economist; Slaper, 2011).

The stakeholder theory

Freeman's (nd) theory posits that before organisations and companies are formed, stakeholders must be identified (both individuals and groups) that are going to be affected by the existence of the organisation. The theory is anchored on five important stakeholders who are: shareholders, workers, customers, suppliers, and community. In addition to these there are creditors, government entities, local businesses and other companies (Fontaine et al., 2006; Freeman et al., 2010).

Corporate Social Responsibility Theory

Espoused by Carol (1991), the theory describes four types of CSR: economic, legal, ethical and philanthropic responsibilities. This theory is discussed in details below and has been chosen to guide this paper. In conclusion, on the above theories, the overarching themes are profit, environmental sustainability, fair trade, ethics and philanthropy.

Types of Corporate Social Responsibility:

Carroll (1991) distinguishes four types of social responsibilities that organisations should take into consideration when doing business in communities. He refers to them as the pyramid of social responsibility (see figure 1).