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The Study of Configuration Relationship Between Organizational Conditions and Post Merger Management: The Cases of Financial Industry in Taiwan

(Received Jul 1, 2009; First Revision Sep 29, 2009; Second Revision Mar 10, 2010; Accepted Aug 5, 2010)

Introduction

This paper aims to reveal the Taiwanese financial institution organizational configuration relationship between organizational conditions and post merger management. Although literature mentioned post merger organizational structure issues, yet there is rare research relating to dynamic and broad post merger managerial activities (Vaara 2002). Which is an obvious academic gap in M&A and post merger studies. Thru 4 case studies and 16 in-depth interviews, this paper can describe and explain the completed post merger configuration relationship between organizational conditions and post merger managerial activities. Through this research, we strive to bridge the long-term academic gap.

Theoretical Background

Based on literature review, we find that the organizational conditions when merger happen mainly are: (1) asymmetry of organiz ational power, (2) similarity of organizational structure and (3) similarity of organizational business (Bradley and Korn 1979; Siehl, Smith, and Omura 1990; Eynon and Nodine 1991; Radding, 1993; Burgelman and McKinney 2006; Ramaswamy 1997; Lubatkin, Schweiger, and Weber 1999; Weigelt 2001; Schneper and Guillen 2004).

Based on literature review, we find that the post merger organizational management behaviors mainly are: (1) top management team restructuring, (2) organizational structure re-design and (3) the integration of operation, service, working process and system (Lewin and Stephens, 1994; Goold and Campbell, 2002; Simons, 2005).

We use said literature findings to develope a unique sampling structure with two dimensions: (1) similarity of (organizational) structure and (2) similarity of (organizational) business. The operative definition of similarity of structure is: directly compare acquirer and acquired firm's organizational charts and reporting lines of all departments and divisions from open data and annual reports. For those no disclosure part which is implicit operation part, we adopt 16 respondents' experiences to explain and define them. Trying to make it more crystal clear although it's not so clear. The similarity of structure is more than 50%, we define it "similarity high"; otherwise lower than 50%, we see it "similarity low". The operative definition of similarity of business is: checking with FSC, Taiwan Financial Supervision Committee, for her announcements and regulations for directly comparing acquirer and acquired firm's business types, business importance which reflecting on revenue contribution percentage of business, to define business similarity. Similar with said description of similarity of structure, when the similarity of business is more than 50%, we see it "similarity high"; otherwise lower than 50%, we define it as "similarity low".

Methodology

Following this sampling structure we've developed, of all 40 merger and acquisition cases since 2002, we choose 4 merger and acquisition cases, there are:

(1) type one, case A, both similarity of structure and similarity of business are high, ABN AMRO Bank acquired Bank of America Taiwan consumer banking, 1999.

(2) type two, case C, similarity of structure is high and similarity of business is low, Fubon Financial Holding merged Taipei city bank, 2004.

(3) type three, case B, both similarity of structure and similarity of business are low, Standard Chartered Bank acquired Hsinchu International Bank, 2007.

(4) type four, case D, similarity of structure is low and similarity of business is high, Yuanta Financial Holding merged Fuhwa Financial Holding, 2006.

To summarize our sampling strategy, there are critical case sampling, typical case sampling and intensity sampling (Kuzel 1992). In this paper, we intend to provide very abundant insights(Denzin and Lincoln 2004), describing general post merger situations and to generalize it — properly and logically refer to any other post merger cases (Eisenhardt 1989).

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Cross-cases data display can deepen our understanding , reasoning and inference ability to research target firms to achieve research generalization (Miles and Huberman 1994). Therefore we integrate all key information into an abstract table, there are:

(1) integration period.

(2) acquirer and acquired firms' past merger experiences.

(3) high or low of asymmetry of power.

(4) high or low of similarity of (organizational) structure.

(5) high or low of similarity of (organizational) business.

(6) who lead top management team re-structuring, acquirer, acquired or their consensus.

(7) who lead organizational structure re-design, acquirer, acquired or their consensus.

(8) who lead the integration of operation, service, working process and system, acquirer, acquired or their consensus.

(9) is there post merger (financial) synergy.

In order to fulfill our pre-set research purpose, we draft a semi-structured questionnaire with explanation and key open questions as follows:

(1) research purpose briefing.

(2) explaining the definition of three organizational conditions: 1. asymmetry of power, 2. similarity of (organizational) structure and 3. similarity of (organizational) business.

(3) describing three major post merger managerial activities: 1. top management team re-structuring, 2. organizational structure re-design, and 3. the integration of operation, service, working process and system.

(4) asking respondents depict the background and key events when merger proceeding.

(5) asking respondents the real case and details of 1. asymmetry of power, 2. similarity of (organizational) structure and 3. similarity of (organizational) business.

(6) asking respondents the real case and details of 1. top management team re-structuring, 2. organizational structure re-design, and 3. the integration of operation, service, working process and system.

(7) the interaction and relationship among 1. top management team re-structuring, 2. organizational structure re-design, and 3. the integration of operation, service, working process and system.

Development of Propostions

In order to uplift reliability and validity of this research, we still take care of some aspects of this research paper. For each case, three researchers intend to interview with two acquirer and two acquired firms' top management team members. Case A, Case B and Case D are well-arranged for two acquirer firm's and two acquired firm's senior managers. Yet for Case C, we have interviewed with three acquired firm's senior managers and only one from acquirer's firm. As for triangulation process, through sources triangulation, analyst triangulation and theory-perspective triangulation (Patton 1990; Denzin and Lincoln 2004), our research design is as follows: each respondent should score: (1) his/her own "interview transcript" and (2) the "story" based on his/her transcript and secondary data which researchers have collected from major magazines, financial new papers, Taiwan stock exchange, annual reports and other open data in Taiwan. 16 respondents had scored their colleagues' stories with high score. In addition to that, we asked respondents to score each other's "story" within a same merger case. Let each respondent to act as reviewers for clearly demonstrating the accuracy of merger stories. 14 of 16 respondents had scored their colleagues' stories with relatively high score.

We adopted qualitative research method, following up Typology methodology to observe and find out ideal types (Ketchen, Thomas, and Snow 1993; Meyer, Tsui, and Hinings 1993; Ketchen et al. 1997). Complying with content analysis procedure, we record down all scripts for transcript which was provided by 16 senior managers and conceptualize them into 12 propositions divided by two parts: (1) "importance of integration objective" and (2) "possibility of integration objective". We tend to go into those senior managers' personal post merger world thru emic research channel.

After interviewing with 16 senior managers and analysis of 4 financial institution merger cases, each merger case interviewing for 4 people, we find that:

(1) During the period of post merger integration, in terms of "importance of integration objective" perspective, these three independent variables of organizational conditions negatively affect three dependent variables of organizational management of post merger integration. Of three organizational managerial behaviors, from bottom to top in the light of configuration relationship, will weaken the "importance of post merger management".

(2) During the period of post merger integration, in terms of "possibility of integration objective" perspective, these three independent variables of organizational conditions positively affect three dependent variables of organizational management of post merger integration. Of three organizational managerial behaviors, from top to bottom in the light of configuration relationship, will strengthen the "possibility of post merger management".

When propose proposition and interpret data, three researchers pay highly attention on the immersion and/or crystallization process. We utilize "theory-driven" immersion and/or crystallization for data interpretation (Crabtree and Miller 1999): goes to theory, looks for data, then goes to theory again…… Final proposition for configuration relationship between organizational conditions and post merger management are as following:

As for "importance of integration objective" part, Proposition 1: The type of organizational fit between acquirer and acquired firm will influence the importance of three post merger integration objectives (Vaara 2001; Epstein 2004; Ruigrok et al. 1999; Hoffman et al. 1992).

Proposition 1-1: The lower the asymmetry of power between acquirer and acquired firm, the higher the importance of top management team restructuring for securing and affirming leadership (Lubatkin, Schweiger, and Weber 1999; Schneper and Guillen 2004; Clegg, Courpasson, and Philips 2006).

Proposition 1-2: The lower the similarity of structure between acquirer and acquired firm, the higher the importance of organizational structure re-design, in order to reduce the communication cost among all departments of merged firm (Ennew, Wong, and Wright 1992).

Proposition 1-3: The lower the similarity of business between acquirer and acquired firm, the higher the importance of integration of operation, service, working process and system (Napier 1989; Siehl, Smith, and Omura 1990; Larsson and Finkelstein 1999; Bramson 2000).

Proposition 1-4: Through the integration of operation, service, working process and system, can achieve part of the function of organizational structure re-design, and lower the importance of organizational structure re-design (Greenberg and Baron 2003).

Proposition 1-5: Through the organizational structure re-design, can achieve part of the function of top management team restructuring, and lower the importance of top management team restructuring (Hambrick 1981).

As for "possibility of integration objective" part, Proposition 2: The type of organizational fit between acquirer and acquired firm will influence the possibility of three post merger integration objectives (Harwood 2006).

Proposition 2-1: The higher the asymmetry of power between acquirer and acquired firm, the higher the possibility of top management team restructuring (Baldridge and Burnham 1975; Kreitner and Kinicki 2001).

Proposition 2-2: The higher the similarity of structure between acquirer and acquired firm, the higher the possibility of organizational structure re-design (Burke 2008).

Proposition 2-3: The higher the similarity of business between acquirer and acquired firm, the higher the possibility of integration of operation, service, working process and system (Brealey, Myers, and Marcus 2001; Haleblian, Kim, and Rajagopalan 2006).

Proposition 2-4: Through top management team restructuring, we can uplift the possibility of organizational structure re-design (Davis and Stout 1992; Lewin and Stephens 1994).

Proposition 2-5: Through organizational structure re-design, we can uplift the possibility of operation, service, working process and system (Barkema and Schijven 2008; Vaara 2002; Briscoe 1980).

Conclusions

For theoretical contribution, after dialogue with major literatures and immerse and/or crystallize from data and theories, we propose 12 propositions as explosive research results. Which can benefit relatively rare research paper for this post merger research field.

Traditional organizational configuration theory focus on multi-, related-, key and different organizational features and their ideal types. Our research integrate these perspectives and bundle these key organizational characteristics for first step "ideal type" and for further research of more completed ideal type of financial institution merger in the future.

Prior research (Vaara 2001) argues that many social political powers bring in many serious conflicts in post merger organizational context. Our research clearly point out three organizational fit as organizational conditions: (1) asymmetry of power, (2) similarity of structure and (3) similarity of business. Through a rigor and comparative logic (Eisenhardt 1991), we can build up a completed post-merger managerial structure as main merger objective: (1) top management team restructuring, (2) organizational structure re-design and (3) the integration of operation, service, working process and system.

To summary, theoretically, our research solve the long lasting theoretical gap and draw a completed configuration relationship between different organizational conditions and major post merger management activities.

As for managerial implication and practical contribution, we highlight three parts:

(1) The efficient measurement of organizational fit degree in a merger case.

The organizational fit is reflected on 1. asymmetry of power, 2. similarity of structure and 3. similarity of business. Practically, our research findings can assist for post merger managers to 1. understand different organizational conditions within different organizational context. And to 2. objectively screen and select the right target firm which comply with acquirer firm's merger strategy. At the same time, 3. for acquired firm to objectively screen and select the right target firm which comply with acquired firm's merger (for selling) strategy.

Moreover, through these clear indicators for acquirer and acquired firm, as a major start of a successful merger case which was reflecting on: 1. financial synergy, 2. high staff satisfaction ratio of post merger integrative firm, and 3. high customer satisfaction ratio of post merger integrative firm.

(2) To bird-eye-view organizational context of post merger integration period through a macro way.

We have pinpointed three major post merger management activities through two perspectives of literature review: 1. the definition and implication of organizational design, and 2. concerns of post merger management activities. There are the importance of: 1. top management team restructuring, 2. organizational structure re-design and 3. the integration of operation, service, working process and system. This finding can benefit post merger managers to design appropriate and optimal post merger management indicators and to achieve it step by step.

(3) The positioning of "importance of integration objective" and "possibility of integration objective" can benefit the business resources integration and focusing of post merger integration period.

The six propositions of "importance of integration objective" and six propositions of "possibility of integration objective" are two categories important findings of this paper. Especially for said two "configuration relationship" both demonstrating the "weakening" (importance) and "strengthening" (possibility) process clearly. Once practitioners understand this proven process, all the integration resources can be integrated and focused on right managerial activities on the right timing. At the same time, senior managers can avoid low possibility managerial issues for wasting resources and crucial time.

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The study is aimed at the assessment of the effect of mergers and acquisitions on the fundamental value of acquiring companies in BRICS countries. The approach based on the residual income model was applied.Â In an empirical study of the financial sector in BRICS countries Grigorieva and Grinchenko (2013) analyzed the impact of M&A on the value of target companies. In 2000 â€“ 2012 the positive effect of these deals on the value of target companies was confirmed for a short-term time horizon for companies in Brazil, India, China and South Africa. As for the Russian deals, effect was negative.Â transaction (realized post-acquisition fundamental value). The basic model for the study is the. residual income valuation model (RIV).