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# **M&A and post merger integration in banking industry: the missing link of corporate culture**

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The intense concentration process taking place in the financial systems of the major countries has attracted substantial attention from stakeholders and academics.

The impact of M&A on value creation and efficiency / effectiveness improvements of banks involved appears, on the whole, disappointing and still hard to create benefits for customers. The reason seems to lie in the difficulty of governing a post-merger integration process, which generally requires good governance and management practices, significant experience and attention to cultural profiles and individuals' behavior.

More in detail, management literature recognizes the importance of corporate culture, considered as the set of values and decisions that drive individuals' behaviors within organizations, for explaining alliance success in M&A operations. In fact cultural clashes could determine conflicts and negative effects, on one hand, on the timing and the effectiveness of the post-merger integration process and, on the other hand, on motivation and turnover of individuals.

Set in Italian banking industry, this paper proposes a framework, applied to a representative sample of cases (about 78,2% of market share, based on total assets), for assessing cultural similarity of actors involved in M&A operations.

Corporate culture is measured using an ethnographic approach focusing on language as its special artifact. The assessment is based on the definition of some key concepts that are relevant for the banking industry (e.g., competencies, competition, customer, disclosure, human resources, innovation, risk) and on a text-analysis model applied to a corpus of reference texts produced by the surveyed banks three years before M&A. The elaboration of data uses Wordsmith 4, a text analysis software developed by Oxford University.

The paper is organized as follows: at first, we analyze and explain how low levels of cultural compatibility before M&A could limit the success of post-merger integration processes of banks. After, we propose and describe the measurement procedure of the cultural fit among bidder and target banks, based on text analysis. Lastly, we conclude with the discussion of the results obtained for each couple of banks involved in M&A and with suggestions for future applications of our framework.

**Keywords: Banks; Merger & Acquisitions, Post-merger Integration, Corporate Culture.**

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# **M&A and post merger integration in banking industry: the missing link of corporate culture**

## **Introduction**

The topic of bank mergers and acquisitions is of particular relevance as a subject of research, for the simple fact that the studies carried out and the statistics available point to the need for a decidedly cautious approach in assessing the results of such operations. For while the number of banks is on the decline in almost all the economically advanced countries, the structure of financial systems remains variegated, in terms of the level of concentration, the composition of revenues, conditions of efficiency and performance and the impact of competition (Finmonitor, 2006). This is explained, in large part, by the banks' difficulty in translating external growth into a real competitive advantage while making decisive progress in terms of their positioning.

Generally speaking, the impact of mergers and acquisitions on the value creation, on the operating efficiency and on the competitive effectiveness of the banks involved would appear to be, all things considered, disappointing, though a number of years have gone by since the start of the move towards integration. In short, the process of concentration has proven more meaningful for the system as a whole than for the individual corporate entities, though it has been slow to "translate" into more favourable conditions for clients, given that the effect on competition – regarding which there is still debate – has not made it possible to reap the advantages of concentration.

The importance and the complexity of the topic of mergers and acquisitions, for that matter, has favoured the proliferation of an ample body of literature presenting outlooks of study and analysis that are often partial, with the result that treatment of the subject is less than systematic and organic.

The studies have focussed on the key factors underlying the strategic decision and, more broadly speaking, on the macroeconomic level (the system's competitiveness, the availability and cost of the financing services offered to the market, the level of client satisfaction during and after the transition) and on the microeconomic level (the profitability/efficiency of firm operations, the creation of value for the shareholders, the performance of the stocks of the firms involved in the transactions, the motivation and management of the human resources, the effectiveness of procedures of corporate governance, auditing and consulting in the enactment of the transactions).

The underlying assumption of the present work is that the failure of M&A operations does not depend only on errors made before the deal, concerning strategic and organisational analysis, but rather on the procedures for the implementation of the various phases that follow the conclusion of the operation, as well as the capacity of management in dealing with the complexity of the operation and with the problems of integration. An especially important problem is the presence of areas of conflict between the cultures of the different firms, which can constitute one of the main causes of failure.

In this work we have set out to create a model for assessment of the cultural compatibility of the banks involved in M&A operations, with subsequent application of the model to real case histories.

The paper proceeds as follows:

The first section analyses theoretical and empirical approaches to the problem of successfully carrying out M&A operations involving financial intermediaries, taking an in-depth look at the role of corporate culture and at the cultural compatibility between the bidder bank and the target bank.

The second section presents a model for analysing corporate culture through language, proposing a framework for evaluating the cultural compatibility of banks involved in M&A operations.

In the third section, the analytical framework is applied to recent cases of banking M&A in Italy: Banca Popolare Italiana – Banco Popolare di Verona e Novara, Unicredit – Capitalia, Banca Intesa – San Paolo.

Finally, the fourth section presents the results of the cultural analysis for the banks examined.

## **1. The role of corporate culture in the success of M&A operations**

Based on a review of the main analyses, both theoretical and empirical, three main approaches to viewing the problem of successfully carrying out M&A operations can be identified: industrial organization, financial economics and strategic management. As a rule, studies that examine the key factors in the success of M&A operations focus on the so-called evolutionist paradigm (Lorenzoni, 1992; Ferretti, 2000), adopting a primarily resource-based perspective (Barney, 1986; Wernerfeld, 1984; Grant, 1999) while attempting to identify the superior contribution of certain managerial and organisational factors to M&A operations whose economic results proved especially positive. Examples include Blake and Monton (1984), Jemison and Sitkin (1986a and 1986b), Salter and Weinhold (1979) and Haspeslag and Farquhar (1987), who have indicated that the success of M&A operations largely depends on the quality of the underlying plan and the consistency of its implementation. Haspeslag and Farquhar (1987), in particular, have stressed the importance of compliance between strategy and structure in the generation of value. Sales and Mirvis (1984), Shrivastava (1986) and Nahavandi and Malekradeh (1988), on the other hand, have taken an in-depth look at the role of socio-cultural factors in the processes of acculturation undergone by the organisations in merger processes.

When it comes to successful M&A operations, therefore, much of the literature (Jemison, Sitkin, 1986a and 1986b; Datta, 1991; Zollo, Singht, 1999) points to the need for a simultaneous presence of strategic and organisational coherence (strategic fit and organizational fit). As a result, an analysis of the factors that can contribute to improving the effects of M&A operations on the firms involved can be of use in formulating approaches to acquisitions and mergers that make it possible to avoid the serious economic crises observed in various economic sectors (KPMG, various years). In fact, two categories of conduct on the part of management can be identified as those most responsible for dysfunctions in M&A operations: the first involves the strategic analyses of operations of concentration, while the second regards evaluation of the compatibility of the organisational frameworks and the characteristics of the personnel of the companies taking part in the operations.

In actual fact, the literature proposes a third category of managerial conduct that could result in ineffective M&A operations (Jemison, Sitkin, 1986a and 1986b), holding that the failure of many acquisitions depends less on errors in the strategic and organisational analysis than on the procedures under which the different phases that follow the conclusion of the operation are carried out. In other words, M&A operations produce positive effects to the extent that the management prove capable of, and focus attention on, handling the process of combining the

two structures involved. Of particular importance in this sense is the work done by management in creating and handling the complex aspects of the operation, generally associated with the variety, the variability and the unpredictability (discontinuity) of the characteristics of the surrounding environment, though the chief source of problems is likely to be the integration of the two firms.

There thus exists, during the phase involving the implementation of a merger operation, a problem of organisational, human and procedural coherence between the firms. The extent to which the two companies are “related” has a profound effect on the possibility for a successful integration and, therefore, deserves to be considered as a key factor, during the planning phase, when it comes to selecting the firm to be purchased or with which to merge.

Seen in this light, the more the companies involved in the operation “resemble each other”, the greater the probability that the operation will be a success. The degree of “relatedness” can regard the market/product matrix within the individual companies or the extent to which their procedural, organisational, managerial and cultural characteristics prove complementary. The empirical evidence points to the need for caution in making generalisations: while positive effects are observed when certain aspects of the banks involved in processes of concentration are relatively similar, such as production functions and collecting policies, there are also cases, and especially those involving cross-border M&A, of higher performance of banks that differ in terms of their policies of investment and management of credit risk (Altumbas, Marques Ibanez, 2004).

This means that the potential success of integration process depends less on the degree of similarity of the outputs produced than on the compatibility of the structures. It can be measured by measuring the greater or lesser ease with which the corporate culture and skills are transferred from the bidder to the target, or the greater or lesser capacity of the new economic entity to pick up new skills or a new corporate culture. Seen in this light, the cultural profiles of how the organisations operate are a focus of growing interest, increasing prompting management to focus on the evaluation of forms of conduct (Carretta, 2001 and 2007).

Culture can be defined as a set of meanings shared by a collective entity and translating into underlying assumptions and points of view shared by the member of an organisation (Wilkins, Ouchi, 1983; Schall, 1983; Schein, 1983; Rousseau, 1990). Within a given context, culture develops through shared experiences, generally over lengthy periods and through the endorsement of principles shared by all the members.

In processes of M&A, the topic of cultural compatibility between the different corporate realities is considered to be of noteworthy importance for the success of the operation<sup>1</sup>, seeing that the existence of cultural dissonance even creates problems when it comes to the integration of individuals (Irrman, 2005).

Cultural conflicts can have fallout on the timing and the effectiveness of measures of integration, in terms of the individual processes, as well as a negative impact on the motivation of the personnel (Sales, Mirvis, 1984; Buono, Bowditch, Lewis, 1985), on turnover (Hambrick, Cannella, 1993; Krug, Hegarty, 1997; Lubatkin, Schweiger, Weber, 1998) and, in more general terms, on financial performance (Datta, 1991; Chatterjee, Lubatkin, Schweiger, Weber, 1992; Schoenberg, 2000; Stahl, Voigt, 2003).

The difficulty of integration is effectively illustrated, in terms of discrimination between groups, by the social identity theory of Tajfel and Turner (1979). The problems that arise from the close identification of the individuals who operate inside the new organisation with the previous context – the “former bank A” vs. the “former bank B” – can be explained by examining a number of mechanisms that stimulate increased identification with a group

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<sup>1</sup> For a review of the literature on the topic, see Kusstatscher, Cooper 2005, pp. 19-25; on the subject of culture in mergers between banks, see Ruozi, 2001, in particular.

during moments of change. In similar situations, individuals tend to self-classify themselves as belonging to a given group. This is enough to give rise to attitudes of “favouritism” towards the members of one’s own group and of differentiation with respect to those belonging to outside groups. What is needed, therefore, is a preliminary evaluation of the impact of the three fundamental factors that determine social identity and intra-group favouritism (Tajfel, Turner, 1979):

- the need to belong to a social-collective context and the resulting internalisation of membership in a group as a central element in one’s individual identity (self-concept);
- the degree to which the new context provides opportunities for direct comparisons between the cultures of the different groups;
- the importance attributed to the group with which the contact occurs, itself the result of the status that the members of the group attribute to their own association. The greater the importance placed by each individual on his or her own group, depending on it for much of his or her sense of self, and the greater will be the tendency towards favouritism or critical attitudes.

Therefore management is required to carry out a preliminary evaluation of the level of cultural compatibility between the organisational entities to be integrated and to create, following the operation, a common corporate culture/identity. Such actions can be successfully taken only if there is a clear understanding, on the one hand, of the fundamental cultural values from which the process starts (those present at the time of the M&A operation) and, on the other hand, of the values towards which the process moves (because they play a role in the formulation of the strategies of the new corporate entity).

## **2. Analysing culture through language**

One approach to analysing corporate culture addresses the importance of language – in the form of codes, symbols, anecdotes etc. – as a means of registering a significant portion of the shared vision of the members of an organisation (Schall, 1983; Schein, 1983; Farina, 2007).

The idea that language, meaning the sum total of terms used to define concepts, can explain how the real world is perceived is drawn from Whorf (1956), who holds that language determines how observed phenomena are interpreted.

The underlying subjectivity of this concept of language translates into at least two points:

- different modes of perceiving phenomena can be traced to different linguistic vocabularies developed inside of different cultures;
- structure and composition of a linguistic vocabulary influence the way in which phenomena are perceived.

The vocabularies used inside of organisations are dynamic systems of linguistic expression employed to identify the set of organisational practices, as well as the set of key concepts used to articulate and implement those practices (Meyer, Rowan, 1977).

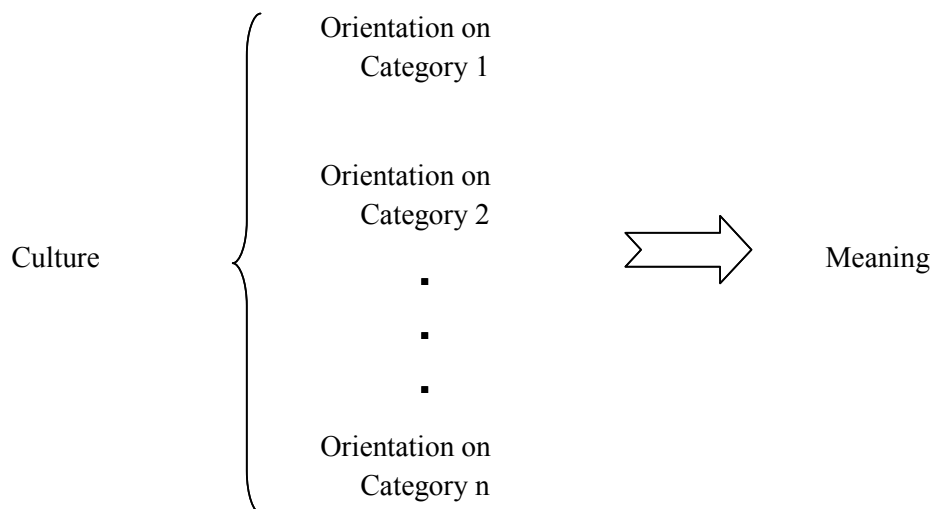
When the members of a given organisation use a linguistic expression from their vocabulary, they are actually making reference to an individual cognitive representation that is transformed into modes of organisational conduct shared within the context to which they belong (Rosa, Porac, 2002).

The vocabularies of linguistic expressions found within organisations thus represent the way in which the members think and act within their own social structures, meaning that they contribute to defining the culture. The very creation of a shared vocabulary is an outcome of

the culture that the members of a given organisation develop over time (Levinson, 2003). In fact, vocabularies are the result of a process of formation that takes place within the organisation, involving all of its members, with repercussions on its processes, in its documents and in every sector of activity. What is more, the frameworks for interpreting the meanings attributed to the concepts expressed by vocabularies are supplied by a process of “categorisation” of language.

In this sense, the language used can be defined (Berger, Luckmann, 1967) as a “structured system of correlated categories”, where the structure of the correlations moves in the direction of a well defined meaning (Figure 1).

*Figure 1 - The role of linguistic categories*



The different weight, in terms of importance, of the categories found within the text is expressed in terms of the orientations that characterise the individual concepts. This means that the comparison of cultures can draw on the differences (as well as the similarities) found within the corpuses of texts that the organisations produce.

In operating terms, the study of the cultural characteristics of language is based on the methodology of text analysis, which falls within the field of ethnography (being the study of human conduct through an analysis of the symbols expressed).

Stone, Dunphy, Smith and Ogilvie (1966) define text analysis as any technique used to examine, in a systematic and objective manner, the specific characteristics of a text. In a similar way, Roberts (1997) defines text analysis as any systematic reduction of a flow of texts into a set of standardised symbols that provide an idea of the presence, intensity and frequency of certain noteworthy characteristics.

In general terms, text analysis falls within the broader category of analysing contents, which includes all techniques that contribute to:

- drawing from the artifacts and symbols generated by a given culture a limited number of measurements and indexes that simplify their interpretation;
- interpreting the concise measurements and indexes in order to evaluate hypotheses regarding the cultural characteristics of a certain context.

The use of text analysis is based on the assumption that an organisation leaves traces of its distinguishing characteristics within the documentation it produces, and that these traces can be observed and measured.

If a language expresses both a sociological dimension, to the extent that it is considered an artifact of culture, and a cognitive dimension, seeing that it is “contextualised” by individuals through the creation of different organisational vocabularies<sup>2</sup>, then studying corporate culture means integrating these different perspectives within a single theoretical model that uses language as an instrument of analysis.

This further signifies that the distinctive characteristics of organisations are reflected in the documentation that they produce, and that the language used provides the key to their interpretation.

The classification of linguistic categories generally employed by vocabularies<sup>3</sup> takes into account the different meanings that can be attributed to any linguistic expression. This makes it possible to study a given phrase by searching for synonyms whose meaning is closed to that of the other terms found in the phrase.

### **3. Development and application of a text analysis model for the study of corporate culture**

The preliminary formulation of a model that uses text analysis to investigate corporate culture entails a series of different phases that focus on a number of key moments, such as the identification of the sample group of subjects on which to conduct the evaluation, together with the documentation, plus the full-fledged analysis and definition of a mode of measurement for representing and assessing cultural orientations.

In strictly methodological terms, therefore, the analysis of cultural gaps through language can be broken down into different phases (Krippendorff, 1980; Weber, 1990) meant to lead to a determination of cultural orientation.

Specifically, identification can be made of at least the 5 following phases, which are generally valid for use in text analysis (Figure 2).

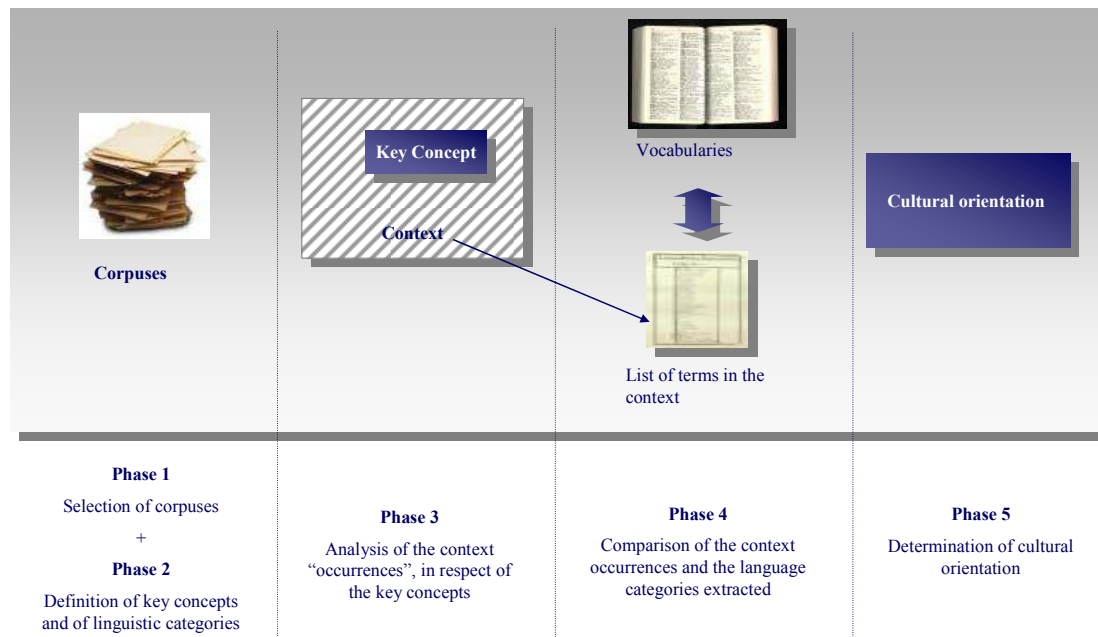
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<sup>2</sup> According to this concept of the culture-language relation, each organisation expresses itself through a vocabulary that has evolved over time and as a result of interaction between its members.

<sup>3</sup> The most important and most widely used vocabularies for text analysis are the Harvard IV Psycho – Social (Kelly, Stone 1975) and the Lasswell Value (Lasswell, Namenswirth, 1969). Both vocabularies are, on the whole, used jointly, classifying a total of approximately 12,000 terms in different categories of analysis.



Figure 2 – The methodology of the analysis



Individual phases are described in greater depth below, together with the criteria followed in applying them to the M&A operations involving Italian banks:

Phase 1 – Selection of the corpuses of texts to be analysed

The selection of the corpuses regards all the documents produced by the organisation (Bowman, 1984; D’Aveni, MacMillan, 1990; Kabanoff, Waldersee, Cohen, 1995), including, for example, reports on financial statements, presentations and speeches. A more detailed distinction is made between:

- documents available publicly: reports on financial statements, business plans and presentations;
- firm-specific documents: memorandums, service orders and regulations.

The analysis of cultural compatibility was carried out for the following banks involved in M&A operations effective from 2007: Banca Popolare Italiana, Banca Intesa, Banco Popolare di Verona e Novara, Capitalia, San Paolo and Unicredit<sup>4</sup>.

Based on total balance-sheet assets, these banks, taken as a whole, account for approximately 78.2% of the Italian market. The sample, therefore, is a more than meaningful representation of the reality of the Italian financial system.

The text analysis was carried out on the financial-statement reports for the three years preceding the one in which the M&A operations went into effect. Texts containing a total of 2,412,326 words were analysed, subdivided as follows:

- Banca Intesa: 402,794;
- Banca Popolare Italiana: 464,350;

<sup>4</sup> Banca Intesa and San Paolo: announcement date 24 August 2006; effective from 1 January 2007. Banca Popolare Italiana – Banco Popolare di Verona e Novara: announcement date 16 October 2006; effective from 1 July 2007. Capitalia – Unicredit: announcement date 20 May 2007; effective from 1 October 2007.

- Banco Popolare di Verona e Novara: 309,040;
- Capitalia: 237,630;
- San Paolo: 495,701;
- Unicredit: 502,811.

### Phase 2 – Definition of linguistic categories and key concepts

Another step to be taken into consideration is the definition of the language-analysis categories, as well as the key concepts for evaluating the research hypotheses (Carretta, Farina, Schwizer, 2005a; 2005b). In fact, an assessment of a firm's culture by means of text analysis is based on the definition of two key dimensions:

- categories of language analysis. These can be drawn from a variety of sources, or they can be created from scratch for the case at hand (the first approach guarantees standardised results, making possible a comparison with other studies):
  - o Harvard IV Psycho-Social Dictionary (Kelly, Stone 1975);
  - o Lasswell Value Dictionary (Lasswell, Namenwirth, 1969);
  - o Created from scratch.
- key concepts around which the corporate culture is constructed. These constitute the elements on which the research question is based, and they can refer to fundamental aspects of the sample under examination. This guarantees that the concepts in question are addressed with a high level of intensity and frequency in the documents being analysed.

For this work, the following language-analysis categories were used, having been taken from the dictionaries: i) Harvard IV Psycho – Social and ii) Lasswell Value:

- power orientation: represents the level of preference for management styles characterised by authority rather than cooperation, as demonstrated by the relative weight of terms that express power and authority within the texts being analysed;
- result orientation: represents the extent to which attention is focussed on results within the organisation, as demonstrated by the relative weight of terms corresponding to the definition and achievement of objectives within the texts being analysed;
- people orientation: represents the importance placed on people within the organisation, as demonstrated by the relative weight of terms regarding the human factor within the texts being analysed.

In addition to these three orientations, calculation was made of the semantic differential, an index that illustrates existing differences in the attribution of meanings to key concepts by the banks involved in M&A operations.

In this work, it is assumed that the different intensity of the language can be judged according to the following scales (Osgood, Suci, Tannenbaum 1957): i) Evaluation (Positive-Negative); ii) Power (Strong-Weak); iii) Activity (Active-Passive).

The scales constitute modes for approaching a given concept. Evaluation manifests a judgment of value, making it possible to express the concept's level of acceptance. Power is the force expressed by the concept. Finally, activity indicates the level of activation triggered by the perception of the concept.

The methodology for calculating the semantic differential can be compared to that for the calculation of the Euclidean distance between two points (both the bidder bank and the target bank can be depicted as a point in a space whose dimensions are equal the number of the scales of judgment).

The following key concepts were utilised in analysing the culture of the banks: i) Customer; ii) Competence; iii) Competition; iv) Innovation; v) Human resources; vi) Risk; vii) Transparency.

### Phase 3 – Analysis of occurrences for the context of key concepts

The analysis of occurrences generates a list of the words that make up the text, accompanied by the number of times they recur, and possibly by the percentage of their presence compared to the total number of words.

The definition of the context utilised for this operation considers all the terms in the 5 positions that precede and that follow the key concepts referred above and have a minimum frequency of 5 occurrences.

For the actual textual analysis, the Wordsmith 4 software (Scott, 1999) produced by Oxford University was used.

### Phase 4 – Comparison between the occurrences of context and the linguistic categories

A further step in the analysis involves establishing a comparison between the occurrences of the contexts of the key concepts and the terms found in the vocabularies of the linguistic categories. This is done in order to bring to the fore both the differences and the similarities, making possible different approaches to the analysis.

For the purposes of the analysis, it was necessary to establish an association between the list of context occurrences and the previously defined linguistic categories.

### Phase 5 – Determination of the prevalent cultural orientation and the related intensity

Finally, the intensity of the cultural orientation was measured by plotting the importance of the individual categories within the text corpuses being analysed.

The underlying idea is to compare the weight of the occurrences of each context within the linguistic vocabularies, in order to arrive at an index with which the intensity of the orientation can be gauged.

The intensity of the cultural orientation is determined by measuring the relative importance of the individual categories within the text corpuses to be analysed. In this work, all the orientations (with the lone exception of the semantic representation, whose representation is based on a scale of -1 to 1) for each of the subjects analysed are expressed as percentages of the total terms in the context.

Measurement of both the cultural gap and the semantic differential have been standardised for values falling between a minimum of 0 and a maximum of 1, in order to facilitate comparison during the discussion of the results.

In the first case, the standardisation is based on the following formula:

$$CULTURAL\ GAP_{a,b} = (Ca - Cb)/(Ca + Cb)$$

where “a” and “b” represent the two banks that carry out the operation of merger and acquisition, and Ca and Cb the different orientations within each of the years considered.

In the second case, on the other hand, the spatial distance between the banks is calculated with respect to the higher theoretical value, which is equal to 1,73 (meaning the distance between a point with coordinates of x=0, y=0, z=0 and a point with coordinates of x=1, y=1, z=1).

## 4. Results

The text-analysis methodology brings to light a number of points of differentiation between the cultures of the banks analysed, though it also points to noteworthy similarities. The precise values of the items registered are shown on the following table (Table 1).

*Table 1 – Summary of the cultural orientations and of the semantic analysis*

Bank	Year	Cultural orientations (% of context occurrences)			Semantic orientations (Evaluation- Power-Activity) (min 0, max 1)		
		<i>Power</i>	<i>Result</i>	<i>HR</i>	<i>Positive- Negative</i>	<i>Strong- Weak</i>	<i>Active- Passive</i>
BPI	2004	4,00%	4,00%	5,30%	0,30	0,60	0,40
BPI	2005	1,80%	3,40%	3,10%	0,40	0,50	0,80
BPI	2006	2,40%	3,40%	3,40%	0,60	0,60	0,80
BPI	2004-06	2,73%	3,60%	3,93%	0,43	0,57	0,67
BPVN	2004	5,00%	5,00%	11,20%	0,50	0,90	0,70
BPVN	2005	3,40%	5,40%	5,40%	0,30	0,80	0,90
BPVN	2006	3,40%	4,70%	6,00%	0,40	0,80	0,90
BPVN	2004-06	3,93%	5,03%	7,53%	0,40	0,83	0,83
CAPITALIA	2004	3,90%	2,90%	8,80%	0,30	1,00	1,00
CAPITALIA	2005	4,50%	4,50%	9,00%	0,50	0,80	0,80
CAPITALIA	2006	3,20%	2,40%	6,10%	0,50	0,80	0,80
CAPITALIA	2004-06	3,87%	3,27%	7,97%	0,43	0,87	0,87
INTESA	2004	4,90%	5,30%	8,20%	0,00	0,70	0,60
INTESA	2005	0,80%	1,70%	2,80%	0,60	0,80	0,60
INTESA	2006	1,10%	1,10%	3,70%	0,40	0,80	0,80
INTESA	2004-06	2,27%	2,70%	4,90%	0,33	0,77	0,67
SANPAOLO	2004	9,20%	6,20%	10,80%	0,50	0,80	1,00
SANPAOLO	2005	3,30%	3,30%	4,60%	0,40	0,90	0,80
SANPAOLO	2006	1,30%	3,00%	3,00%	0,40	0,60	0,70
SANPAOLO	2004-06	4,60%	4,17%	6,13%	0,43	0,77	0,83
UNICREDIT	2004	2,20%	2,90%	6,20%	0,10	0,70	0,80
UNICREDIT	2005	3,40%	4,50%	6,00%	0,20	0,80	0,90
UNICREDIT	2006	3,00%	2,70%	5,40%	0,50	0,80	0,70
UNICREDIT	2004-06	2,87%	3,37%	5,87%	0,27	0,77	0,80

Moving on to a more in-depth analysis, the orientations of the banks are expressed, for the purposes of this work, as the average value for the period being considered (2004, 2005 and 2006).

The results for the cultural orientations (power, result, people) are summarised below (Figure 3), as are the results for the semantic orientations (positive-negative, strong-weak and active-passive) (Figure 4).

Figure 3 – Cultural orientations

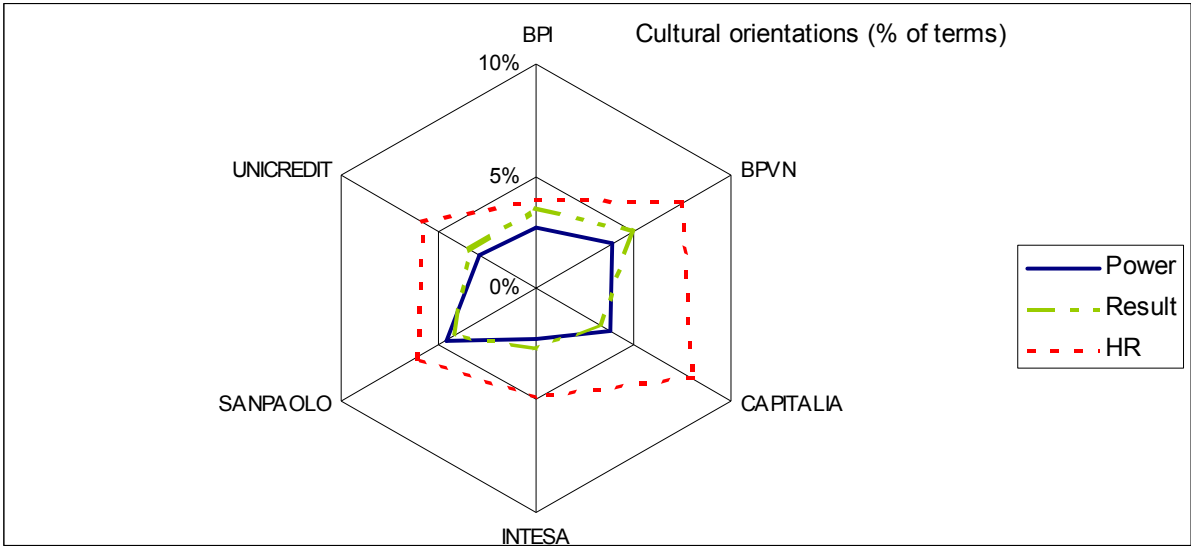
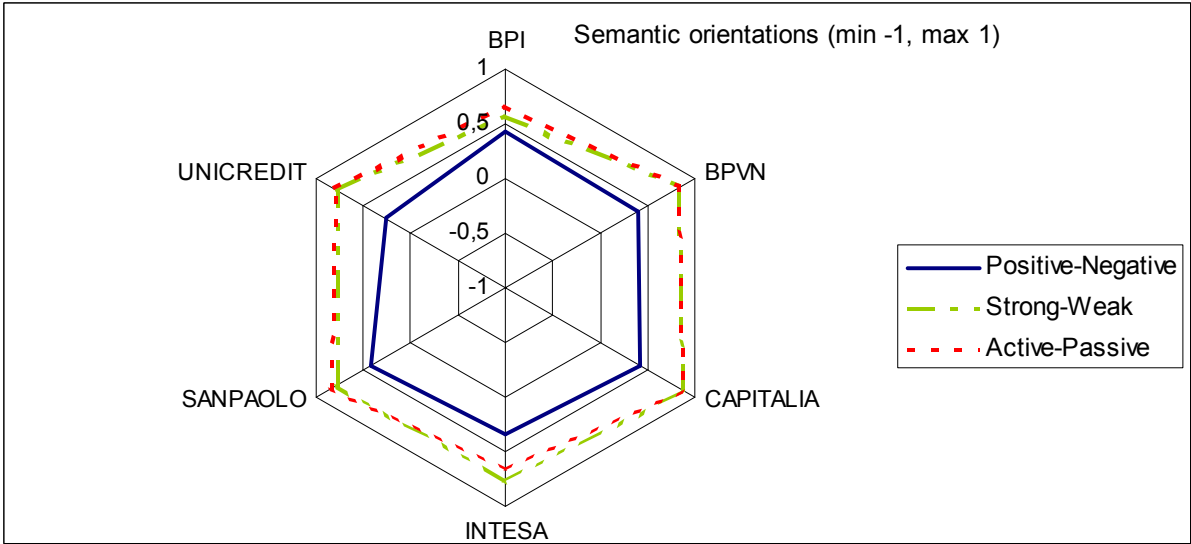


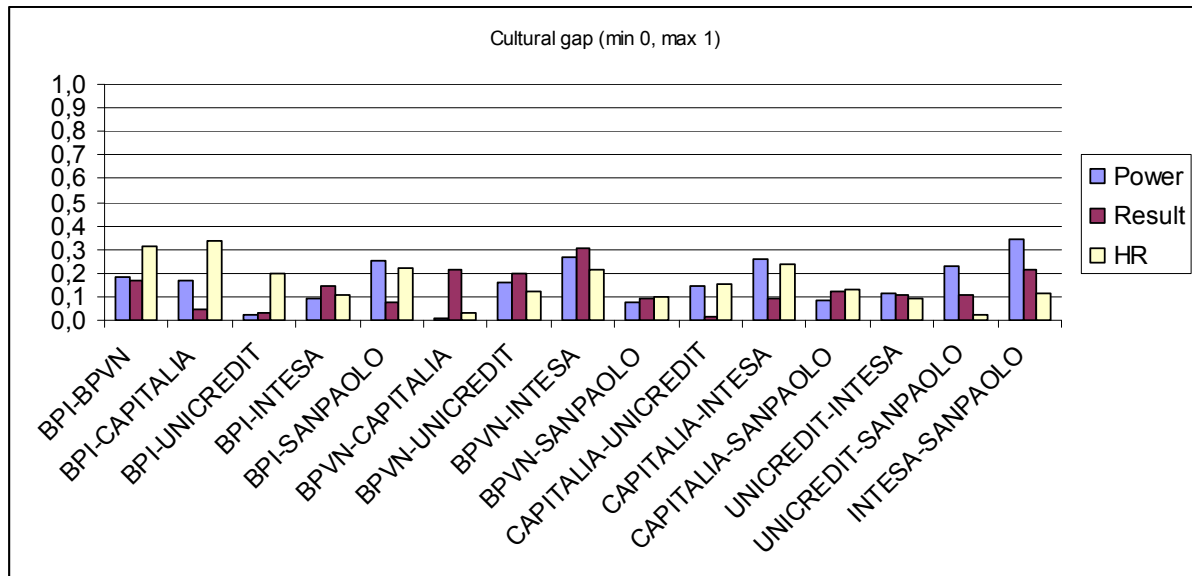
Figure 4 – Semantic orientations



As a rule, the relative weights of the cultural orientations (power, result and people) for all the banks considered appear constant within the period of analysis. Also worthy of note, in the case of all the banks, is the “people” component, which generally proves higher than the other orientations. There are no noteworthy discrepancies for the semantic orientation either, with the individual components (evaluation, power and activity) seeming to take on a well defined structure for all the banks.

Looking at the analyses of the cultural gaps between all the possible pairings of banks in greater detail (Figure 5), it can be seen that the closer cultural fit is not necessarily presented by the banks actually involved in M&A operations.

Figure 5 – Cultural gaps



This is especially true in the case of Banca Intesa – San Paolo, where the orientations towards power and result present noteworthy divergences (0.34 and 0.21 respectively), as well as with Banca Popolare Italiana – Banco Popolare di Verona e Novara, where there is a certain difference in the orientation towards people (0.31).

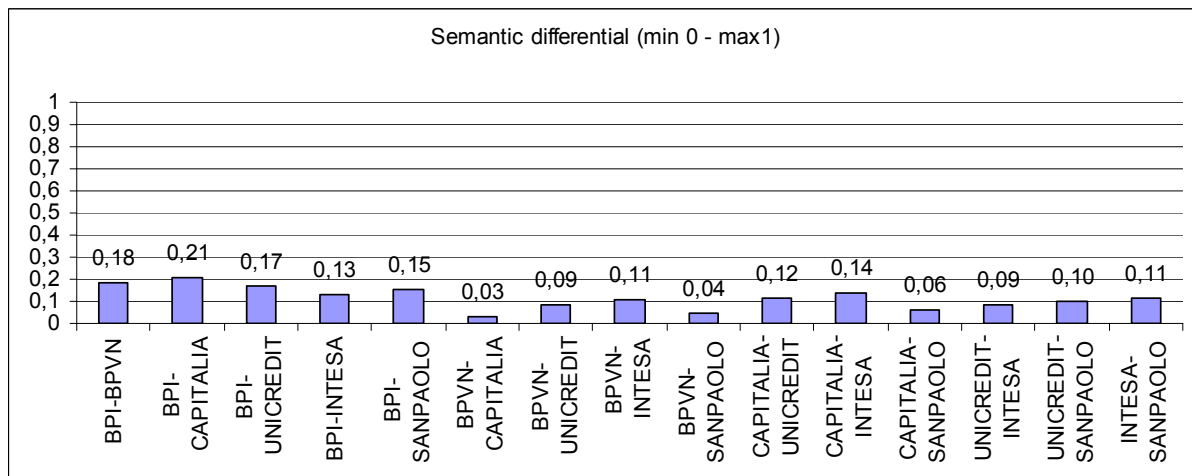
In contrast, the pairing of Capitalia – Unicredit presents a good fit for all the orientations, and especially with regard to result (0.02).

Of all the pairings considered, good cultural fits are present in the cases of Banca Popolare di Verona e Novara – San Paolo (power 0.08; result 0.09; people 0.10), Unicredit – Intesa (power 0.12; result 0.11; people 0.09) and Capitalia – San Paolo (power 0.09; result 0.12; people 0.13).

An analysis of the semantic differential does not point to noteworthy differences in the language used by the various pairings. It follows that the meaning attributed to the concepts for which cultural orientations were recorded is virtually identical.

Once again, however, it should be noted that the differences are not always lower for banks involved in M&A operations (Figure 6).

Figure 6 – Semantic differential



Indeed, the lowest values of all were recorded for the following pairings: Popolare di Verona e Novara – Capitalia (0.03), Popolare di Verona e Novara – San Paolo (0.04) and, as a result, Capitalia – San Paolo (0.06).

Looking at the differences in the language used, on the other hand, the results were: 0.18 in the case of Banca Popolare Italiana – Banco Popolare di Verona e Novara; 0.12 for Capitalia – Unicredit and 0.11 for Banca Intesa – San Paolo.

How should these results be interpreted?

First of all, if corporate culture represents a set of shared meanings developed over time within a certain organisation, then the identification of the cultural orientations that play the greatest role in the success of an M&A operation, and for which a proper “fit” should be sought, depends on outside and contingent factors and must necessarily be left to the discretion of management.

It might just be, for example, that a basic similarity in management styles proves to be less important, in certain contexts and for certain situations in the lives of the banks being merged, than a fit in terms of the results being pursued.

Secondly, the existence of a certain cultural fit is a favourable condition, but not one sufficient unto itself, for the success of the operation. It means that, although more positive conditions exist for handling the integration, the management remains responsible for formulating and taking the necessary actions. In certain cases, awareness of the existence of cultural gaps could actually heighten the attention paid to the need for the actions, rendering them more effective.

Lastly, the evidence brought to light in this work regarding the cultural and semantic profiles could be interpreted, from a variable perspective, as the result of a “characteristic” structuring/configuration of both the cultural orientations and the language of the financial intermediaries. Obviously, before any generalisations are made, more in-depth study is necessary, potentially through examination of the different business sectors.

## **Conclusions**

The extensive literature on the topic of mergers and acquisitions has favoured consideration of the key elements leading to the strategic decision and, in a wider-ranging perspective, the repercussions on both the macroeconomic and microeconomic levels. Frequently scarce attention has been paid to the fact that the success, as well as the failure, of M&A operations depends not only on preliminary errors made in the course of the strategic and organisational analysis, but also on the manner in which the various phases that follow the conclusion of the operation are carried out, as well as the capacity of management to handle the complexity and the problems that can arise during the integration phase.

The specific perspective proposed on such operations in this work holds that a certain degree of accord between the cultural models of the subjects involved is an important variable to be considered with regard to the chances for success of operations of merger and acquisition. In fact, there can be no mistaking the importance of studying corporate cultures (through examination of the variables that constitute the artifacts or symbols of the underpinnings of those cultures), both during the phases prior to and following the operations.

The creation of a model for assessment of the cultural compatibility of the banks involved in M&A operations, together with subsequent application of the model for the study of case histories, were the objectives of this work.

In terms of the results, the analysis carried out demonstrates that the banks actually involved in M&A operations do not always present a better cultural fit than would have been possible with the other potential combinations. As an interpretative note, however, it must be acknowledged that attempts to identify the cultural orientation of greatest importance to the success of M&A operations must be viewed as subject to numerous variables and provisional conditions and, therefore, left to the discretion of management. What is more, the existence of a certain cultural fit constitutes a favourable condition, but not one sufficient unto itself, for the success of a given operation. Therefore, even when the corporate cultures are aligned prior to the M&A, the outcome of the post-merger process cannot be predicted with any certainty (an awareness of cultural gaps could even result in a heightened sense of urgency, and thus a greater probability that the actions taken to manage the integration shall succeed).

In terms of methodology, encouraging prospects are provided regarding the proposal, and subsequent application, of a model for measuring cultural compatibility through the artifact represented by language and by means of the ethnographic technique of textual analysis. The methodology employed is certainly not conclusive, but rather proposes and serves as an incentive for the development of a fruitful field of investigation of corporate culture, eventually through the use of larger sample groups and other types of ethnographic tools.

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