# The effect of pre- and post-merger factors on the performance of mergers in Libyan government banks

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# ABSTRACT

The aim of the study is to investigate the impact of pre-merger and post-merger factors on the performance of mergers in Libyan government banks. Specifically, the study examines motivations behind Libyan banking mergers, and the influence of strategic fit, organisational cultural fit, speed of integration, and effectiveness of integration on the performance of mergers among Libyan government banks. The main conceptual framework was based on three different schools of thoughts: strategic management school, the process school and the organisational behavioural school. The theoretical model was examined through a cross-sectional research design i.e. structured questionnaire. Questionnaire data were collected from 169 managers in Libyan government banks.

The findings reveal that mergers by government banks are seen primarily as a means to increase market power, to be able to compete with foreign banks, to enable faster entry to market and acquire organisational know-how. The findings also indicate that the organisational cultural fit improves the chances of merger performance. In addition, strategic complementarity positively influences cultural fit and integration effectiveness as well as merger performance. Finally, the findings indicate that merger performance is positively influenced by strategic complementarity, effectiveness of integration, and the speed of integration.

Prior researchers primarily examined the impact of pre-merger factors and post-mergers factors separately. This study contributes to the existing literature by developing and empirically testing an integrative and holistic conceptual framework explaining the influence of pre-merger and post-merger factors on the performance of banking mergers. Hence, outcome of the study would bring clarity in understanding the relationship between different factors influencing merger performance.

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# LIST OF ABBREVIATIONS

| | |
|---|---|
| AVE | Average variance extracted |
| CAPM | The capital asset pricing model |
| CARS | Cumulative abnormal returns |
| CBL | Central bank of Libya |
| CEO | Chief Executive Officer |
| EPS | Earning per share |
| HR | Human Resource |
| LBS | Libyan banks sector |
| LD | Libyan Dinar |
| LIA | Libyan Investment of Authority |
| M&A | Merger and Acquisition |
| NBL | National Bank of Libya |
| PLS | Partial Least Square |
| ROA | Return on Assets |
| ROE | Return on Equity |
| ROI | Return on Investment |
| ROS | Return on Sales |
| SBU | Strategic Business Unit |
| SEM | Structural Equation Modelling |
| S.D | Standard Deviation |
| UN | United Nations |
| US | United States |
| V.P | Vice President |
| RBV | Resource Base View |
| NPV | Net Present Value |
| CFA | Confirmortory Factor Analysis |

# Chapter 1 INTRODUCTION

## 1.1. Background

Over the last few decades, mergers and acquisitions (M&A) have become a popular strategic choice for companies around the world wanting to grow and expand (Cartwright and Schoenberg, 2006; Lodorfos and Boateng, 2006; Bauer and Matzler, 2014). M&A activity is playing a progressively more important role both in terms of the number of deals being made and their value (Bertrand and Zuniga, 2006). Worldwide, the total value of deals completed between 1998 and 2000 was nearly $4 trillion, which is more than the total value of all deals completed during the preceding 30 years (Hitt et al., 2000). Since then, the rise has been dramatic, with global M&A deal value increasing by 53% to $3.11 trillion in 2011, up from $2.03 trillion in 2010 (see Figure 1.1). Similarly, the global volume of M&A deals rose from 27,460 transactions in 2010 to 30,366 in 2011, an 11% increase according to the 2012 Wilmer Hale report on M&A activity. Average global deal size also grew to $102.6 million in 2011, up from $73.8 million in 2010.

Looking at the regional trends, the figures show that in the US, the volume of M&A activity in this period was fairly steady, increasing 7%, from 9,238 transactions in 2010 to 9,923 in 2011. However, US deal value jumped by 79%, from $887.3 billion in 2010 to $1.59 trillion in 2011, following a spate of large transactions (Weber et al., 2014). In Europe, both deal volume and deal value increased from their 2010 levels. Deal volume increased 15%, from 11,736 transactions in 2010 to 13,501 in 2011. Boosted by a number of large transactions, total European deal value increased by 91%, from $780.5 billion to $1.49 trillion. The Asia-Pacific region also experienced growth in deal volume and value. The number of Asia-Pacific deals increased 12%, from 7,970 transactions in 2010 to 8,905 in 2011, whereas aggregate deal value increased 26%, from $652.5 billion to $822.2 billion. According to Bloomberg's M&A report of 2012, China's appetite for buying opportunities continued to increase, with $158 billion's worth of deals announced in 2011, a moderate 9% increase from $145 billion in 2010 (Weber et al., 2014). M&As have clearly become increasingly important in business life as they not only provide unique opportunities for the acquirer to grow rapidly but also give access to new markets which an organisation might otherwise find difficult to develop on its own (Harrison et al., 2001).

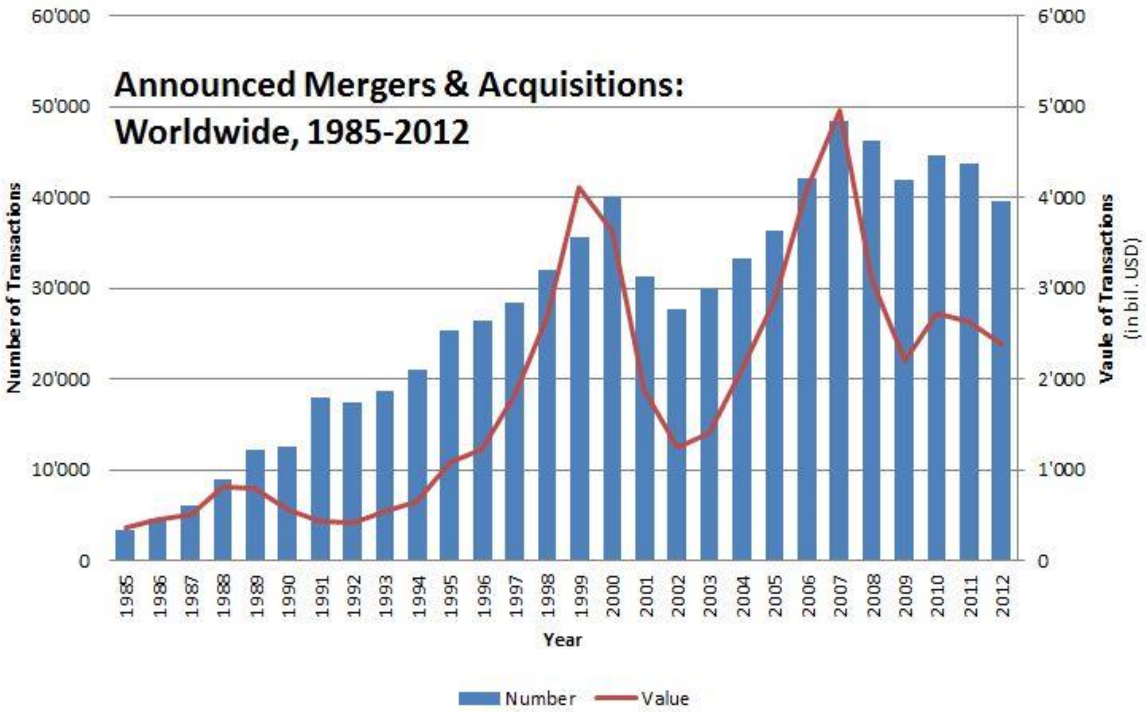



**Figure** 1.1**: Global M&A activity 1985-2012 Source: Institute of Mergers and Acquisitions and Alliances (2014**)

In parallel to this rise in activity, the rate of M&A failure remains high globally (Bauer and Matzler, 2013; Bouwman, 2013). Child et al. (2001) found that about 50% of all M&As fail (Child et al., 2001, p.20), while a study conducted by KMPG revealed that only 17% of acquisitions generated value for their shareholders, while 53% destroyed it (*The Economist*, 1999). Although several causes of M&A failure have been identified, including inadequate strategic rationale behind the deal, purchasers paying too much, and poor pre- and post-merger planning and management (Cartwright and Cooper, 1993; Bundy, 2007; Bargeron et al., 2012), many researchers blame cultural differences for the high failure rate (Buono and Bowditch, 1985; Cartwright and Cooper, 1993b; Bundy, 2007; Vaara et al., 2010; Teerikangas and Very, 2006; Weber et al., 2012). The factors that influence the decision to merge are primarily financial and strategic (Cartwright and McCarthy, 2005), so managing the culture is often a low priority for managers consumed with the deal's financial and strategic aspects (Marks and Mirvis, 2011). However, some authors consider the cultural fit even more important than the strategic or financial fit (Cartwright and Cooper, 1993a; Chatterjee et al., 1992; Weber, 1996; Weber et al., 2012). With this in mind, it seems there is now a need for exploratory research to develop a conceptual approach that will allow investigation of how organisational cultures interact and how these interactions influence the management of the post-acquisition process.

## 1.2. Statement of the problem

As suggested above, the difficulty of making M&As succeed has been traced back to a number of causes, including inadequate strategic rationale, lack of pre-acquisition evaluation and inappropriate management of post-acquisition integration (Haspeslagh and Jemison, 1991; Schweiger et al., 1994; Morosini, 1998; Schweiger and Goulet, 2000; Ranft and Lord, 2002; Bundy, 2007; Bargeron et al., 2012).

An important post-merger issue within the vast M&A research reflects on the post-merger integration process. From a practical perspective, speed of integration and effectiveness of integration should be seen as crucial tools to influence the M&A performance in a positive way. In a study conducted by Mergermarket (2007), 25% of the respondents said they would have integrated much quicker than actually realized (Mergermarket, 2007, p. 12). In a paradoxical manner, the vast body of M&A literature largely neglected this field of research (Homburg and Bucerius, 2006, p. 347). Therefore, further research is required to understand the impact of speed of integration and the effectiveness of integration on the performance of M&A. The present study intends to examine the impact of speed of integration and effectiveness of integration in M&A.

Prior research has largely focused on post-M&A issues (e.g. Jemison and Sitkin 1986b; Haspeslagh and Jemison, 1991). Only cultural issues were investigated in the pre and post-M&A context. However, existing research findings on cultural issues are inconclusive. While some authors argue that the fit between the two combining management teams is one of the most important determinants of M&A performance (Markes, 1982; Shrivastava, 1983; Weber, 1996; 2011), others claim there is no relationship between culture and M&A performance (Cartwight and McCarthy, 2005; Teerikangas and Very, 2006; Stahl and Voigt, 2008). In other words, there is no clear consensus on this issue.

In general, the role of pre-M&A issues in the success of the implementation phase has not been the subject of extensive research (see e.g. Schweiger and Goulet, 2000) and calls have been made for more research into its effect on the acquisition process (Greenwood et al., 1994; Schweiger and Goulet, 2000). The process perspective on acquisitions (Jemison and Sitkin, 1986b; Haspeslagh and Jemison, 1991) introduced the need to consider the importance of pre-acquisition issues in M&A such as strategic fit and cultural fit. The present study aims to examine the impact of strategic fit and cultural fit.

Furthermore, despite the fact that M&A has been a major topic of academic research for more than three decades, the vast majority of these studies have focused on the developed industrial countries of Western Europe and America (Radian, 2006). Even international studies have focused on these countries and neglected the developing countries. Consequently, many studies suggest that further research is needed in developing countries (Belal and Cooper, 2011; Gao et al., 2005; Jamali, 2007; Sobhani et al., 2009). Abood (2013) argues that: Very few studies are available on M&A practices in developing countries.

Given the different socio-economic context of developing countries, it is important to learn about the M&A practices in those countries. In general, studies that have looked at M&A, specifically the levels of integration within the business sector in developing countries, are limited (Abusneina, 2007). As globalisation continues to alter the traditional balance of power between developed and emerging nations, businesses from emerging markets are vigorously challenging the hegemony of their international counterparts (Bengdara, 2007). Given this scenario, scholars and researchers have consistently called for more research in the area of M&A and the growing influence of emerging markets and their leading companies. The issue is especially relevant to Libya's banking sector (LBS), which is one of the most important and at the same time most sensitive structural constituents of the country's economy (El-Shukri,2007; Abusneina, 2007). In recent years, Libya's changing economic and political circumstances and its increasing openness to the international market have attracted foreign companies into the country (Rennack, 2006).

### 1.3. Research aim and objectives

The research aims to investigate the impact of pre-merger and post-merger factors on merger performance in Libyan government banks.

The specific objectives of the thesis are:

Objective 1: To identify the motives for merger in Libyan banks.

Objective 2: To investigate the impact of pre-merger factors on merger Performance.

Objective 3: To examine the effect of post-merger factors on merger performance.

## 1.4. Research questions

A number of research questions are arising from the research aim. This study intends to answer the following research questions:

1) What are the motives for merger in the Libyan banking sector?
2) What are the impacts of pre-merger factors such as strategic fit and organizational cultural fit on merger performance?
3) What are the impacts of post-merger factors such as speed of integration and integration effectiveness on merger performance?

## 1.5. The importance of the study

Merger and acquisition play a crucial role in a firm‘s short-and long-term success and failure (Lodorfos and Boateng, 2006; Bauer and Matzler, 2014). For that reason, M&A is a very important managerial activity and a contemporary date understanding is necessary. The topic of M&A has been an area of interest to researchers for a long time, especially when contradictory results are reported by some researchers regarding the elements that affect the merger performance and the effects of these elements with each other. (e.g., Datta et al, 1991; Weber et al., 2014). Because of these contradictions, meaningful generalisations about the subject have not been possible (Sharfman and Dean, 1991: Elbanna and Child, 2007). Different cultural drivers apply in the markets of developing countries compared to markets of developed countries (Hofstede, 2001; Turner and Trompenaars, 1997). Since previous research into the culture issue has produced some inconsistent findings (Weber et al., 2014). Most management researchers and practitioners have argued that, particularly in the case of M&A, cultural fit is critical to performance (for example, Cording et al., 2008; Ellis et al., 2009; Puranam and Srikanth, 2007; Weber et al., 1996; 2012; Weber and Tarba, 2012). Some researchers found a negative association between cultural differences and various measures of performance (Chatterjee et al., 1992; Datta, 1991), while several have found that cultural differences can have both negative and positive effects on post-merger performance (Ahammad and Glaister, 2011; Reus and Lamont, 2009; Vaara et al., 2011; Weber et al., 2011). However, prior research has generally focused on national cultural fit as determinants of merger performance; organisational cultural fit have received considerably less attention, and what literature there is limited, fragmented and anecdotal (Buono and Bowditch, 1989; Datta, 1991; Davis, 1984; Marks, 1982). However, the effect of organisational cultural fit is particularly relevant in Libya’s case. Merger activity in the Libyan banks sector has taken place in a context significantly different from that described in most previous M&A research studies, in that merger decisions have been made not by top managers but by the Central Bank, which has put together banks with very different organisational practises and cultures. Therefore, an examination of the impact of organisational cultural fit on merger success is critical in understanding the performance of Libyan banking mergers. There is a growing perception of the importance of the post-merger or integration phase (Cartwright, 2006; Larsson and Finkelstein, 1999; Stahl and Voigt, 2008). However, an isolated perspective on a single phase disregards the interdependencies of the M&A process such as pre-M&A process and post-M&A process (Cartwright, 2006; Haspeslagh and Jemison, 1991; Larsson and Finkelstein, 1999). Since M&A performance depends on premerger issues as well as on post-merger issues (Bauer and Matzler, 2014; Stahl and Voigt, 2008), further research is required to understand the interdependencies of between pre-M&A issues such as strategic fit and cultural fit, and post-M&A issues such as speed of integration, effectiveness of integration, and their effects on M&A performance. This study aims to examine the impact of pre-M&A and post-M&A factors on the performance of banking mergers. Furthermore, the majority of existing research focuses on M&A from the perspective of the US (Seth et al., 2000), the UK (Glaister and Ahammad, 2010) and other European countries. However, very few articles have dealt with the M&A activity in the Middle Eastern countries (Metwalli and Tang, 2003). Since there are major economic and cultural differences between US and European firms and Middle Eastern firms, the findings of the existing research may not be applicable in the latter context (Abdo and Al-drugi 2012). Attempting to generalise the findings of these studies to developing countries can be unfair since the stage of economic and social development as well as the national and culture differences are likely to be a significant factor affecting the banking market in general and M&A in particular (Sahajwala and Bergh, 2000). In this context Koch and Macdonald (2003) argue that banking merger theories and practices developed in the industrialised countries may have only limited applications in the context of developing countries. Therefore, further research is required in the context of Middle Eastern organisations such as Libyan banks. The banking industry is chosen for this study because of its significance. Banks exist in hypercompetitive environments and must provide acceptable returns to shareholders or go out of business. To operate under the objectives of profit maximization, they need to consider factors influencing merger performance. Banks were amongst the biggest in Libya companies in terms of the number of employees and size of capital. The commercial banking sector is a core part of the Libyan economy, and modernization efforts have been made in recent years to uplift standards to international norms. To the best of the researcher's knowledge there has been no in-depth research study conducted that contributes a comprehensive understanding of banking merger in Libya. This study will, therefore, be a first to focus on M&A in Libya's banks. It is a response to the calls that have been made in a number of previous studies for further research to be undertaken in developing countries in general, and Libya in particular, to clarify the relationship between pre-merger, post-merger and M&A performance and attempt at covering this gap by analysing and evaluating the performance of the current Libyan banking merger. Finally, the results of this study, particularly the theoretical framework for banking merger will be of real value to the commercial banks to improve their soundness and stability. By providing an in-depth analysis of Libyan commercial banking, the study will help to reform and improve the present banking system and the economy as a whole. Also, the theoretical framework and other findings may be applied to other developing countries that have similar economies and systems of banking. Furthermore, recently there have been several attempts in Libya to move forward privatisation of the economy and to encourage foreign banks and firms to invest. This study will therefore provide basic information about the Libyan economy and banking system, which is necessary for anyone involved in the area of financial administration. This study is also very significant to the researcher personally, since he was a staff member in commercial banks that have been merged and is expected to continue carrying out this responsibility following the completion of this study.

### 1.6. Overview of the study methodology and method

This study mainly uses a positivistic approach, which is a mainstream of management research (Hopper and Powell, 1985; Chua, 1986; Ryan et al., 2002). It takes an objective view of society, regards individual behaviour as deterministic, and uses empirical observation. Luft and Shields (2003) emphasise the importance of clearly defining the unit of analysis. The unit of analysis in management studies is typically at the organisational or individual level; in this case, the unit of analysis is the individual manager. The study employs quantitative data, which were gathered from 169 managers in three different organisations by means of a questionnaire survey (sent to 486 managers). The organisations represent three different sectors within the LBS. The data were then analysed using the Partial Least Square approach. Prior to the main analysis, preliminary tests were performed for nonresponse bias, validity and reliability.

## 1.7. Structure of the study

This study is organised in the following way.

Chapter One introduces the research background, research objectives and questions before briefly outlining the research approach and data collection and analysis methods.

Chapter Two reviews the existing literature relating to the acquisition management process. It focuses on four key issues: the definition of M&A; types of M&A; stages of M&A; the motives for mergers and acquisitions and the factors influencing the performance of M&A, particularly organisational culture, strategic fit, speed of integration and effectiveness of integration. Chapter Three describes Libya's banking sector, while Chapter Four presents the conceptual framework and hypotheses that shaped the study.

Chapter Five discusses the research methods, including the choice of research design, data collection procedure, operationalisation of the constructs, and the response rate. The findings regarding the motives for acquisition are presented and discussed in Chapter Six provides the findings and discussion in relation to the motives of merger and factor that effect pre and post merger issues on merger performance. Chapter Seven presents the conclusions, including the limitations of the research and recommendations for future study.

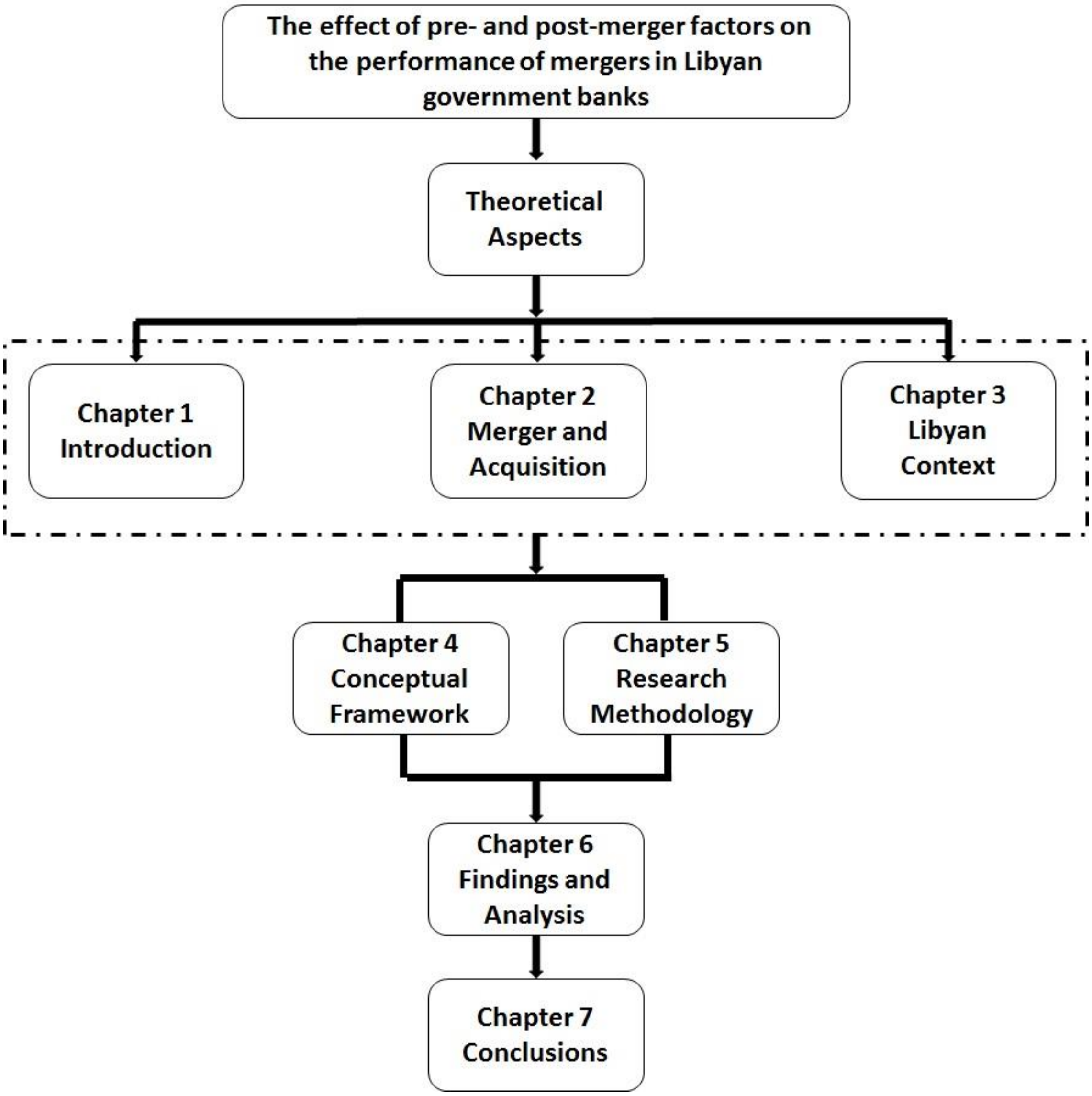



**Figure 1.2 Thesis Structure**

# CHAPTER 2 LITERATURE REVIEW

## 2.1 Introduction

The objective of this chapter is to review the literature on M&As. The chapter begins introduces the reader to the basic conceptions of M&As such as the definition, different type of merger. Section two provides a review of phases of M&As. Section three provides a review of research on motives of M&As. Section four provides an overview of the M&As literature dividing it into four schools of thought: the capital markets school, strategic management school, organisational behaviour school and the process school. The final section provides an overview of the pre and post M&A stages. The pre-M&A stage include choice of strategic partner, paying the right price, target evaluation, synergy potential. In the post-M&A stage, a number of factors influence the performance of M&A such as integration strategies, speed of integration, the implementation of management team

## 2.2 Mergers and Acquisitions (Definitions and types)

In this section is to review literature on merger and acquisition. Specifically, the chapter starts with the definition of M&As.

Before describing the different types of merger, it should be stated that despite the fact that in this research make no distinction between the terms "mergers" and "acquisitions" and they will be used interchangeably to indicate the same thing (Weber, 2003).

### 2.2.1 Merger

Gaughan (2011: 12) defines mergers as "*a combination of two corporations in which only the one corporation survives and the merged corporation goes out of existence*". Meaning that in a merger, the acquiring company takes over the assets and liabilities of the merged company. Sherman (2010: 3) defines a merger as *"a combination of two or* more *companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a different Organisation after the merger, it retains its original identity".* Two completely separated companies agree to form a new entity (Marks and Mirvis, 2010, p. 12).

A combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organisation after merger but it retains its original identity (Sherman and Hart, 2006). In simple words it is a process through which business of a firm is taken over by another firm and the target firm ceases to exist (Pautler, 2001).

According to Cowling et al (1980:1) merger "can be defined as the coming together of two or more enterprises to form a new enterprise". Mergers can still be distinguished from acquisitions by the fact that a merger takes place with the mutual agreement of the management and shareholders of both companies, usually through an exchange of shares.

### 2.2.2 Acquisition

An acquisition is *"to take over ownership of another Organisation, firm, company etc.*" (Sherman and Hart, 2006).

An acquisition occurs when the management of an acquiring firm makes a direct offer to the shareholders of the target firm, taking control of it. While some acquisitions processes may be friendly, others may be hostile (usually described as a takeover). Also, while in a merger the new venture often reflects a neutral name, in takeover the identity of the acquired company is often subsumed within that of the acquirer.

On the surface, these distinctions may not matter, since the result is often the same; two (or more) companies that originally had separate ownership are now operating together to obtain some strategic or financial objective.

## 2.3 Different types of mergers

There are three different types of mergers. These categories are horizontal, vertical and conglomerate mergers (Cartwright and Cooper, 1996; Camargos and Coutinho, 2008; Sherman, 2010; Gaughan, 2010). The first type, horizontal mergers between companies producing similar goods or services in the same industry and with approximately the same customers and suppliers (Gaughan, 2010).

These type of mergers are seen as a means for cost savings through the exploitation of economies of scale and scope at the level both of the plant (productive unit) and the firm (business unit) (finkelstein, 1997; capron, 1999). According to Cowling et al (1980), this type of merger accounts for the majority of merger cases, and it can be verified that the majority of mergers in the banks industry tend to be of this type. This type of merger leads to the elimination of a competitor, to an increase in the market share of the acquiring firm, and to increase in the degree of concentration of the industry. It is also an attempt by companies to gain control of business activity to increase the firm's dominance in its exchange relationships with other firms (Green, 1990).

The second type, vertical mergers are combinations of companies that have a buyer-seller relationship or are symbiotically related. These mergers happen when organisations that are engaged in related functions but at different stages in the production process merge with one another (Scott, 2003; Gaughan, 2010). Unlike horizontal mergers, these occur when firms combine at different stages of production of common goods or services, and it can happen backwards or forwards of its actual value chain to expand a firm's control into allied product lines. This enables companies to increase their control over more sources of supply and distribution, for reasons of security (Demsetz, 1990; Green, 1990).

Thirdly, conglomerate mergers between companies producing unrelated goods or services operating. This type of merger occurs when firms are moving into different areas adding new products or services to their operations. This is the process of diversification into new area of activity, growing out of its core business. According to Fairburn and Key (1989) these types of mergers take place when an industry is already concentrated and competition legislation is unwilling to allow further large horizontal mergers.

This study focuses on merger, specifically on horizontal merger as Libyan government just started with merger in banking sector. Moreover, there is many researches on acquisition but less in merger.

### 2.3.1 Phases of merger and acquisition

Depending on the studies and research approaches, there are various categorizations and viewpoints when it comes to the M&A process, ranging from two to seven phases (Calipha et al., 2010, p. 5).

The importance of these distinctions between the phases is that the process of integration and activities that influence the success of the integration begin long before the closing, at the point when companies first take contact. Surprisingly, there is little empirical research that has systematically examined the relationships among the stages and how activities conducted during the different stages affect the success of the M&As integration process (Schweiger and Goulet, 2000).

**Table 2.1 Summary of selected studies on M&As Phases**

| Study | Model | Stages |
|---|---|---|
| Marks and Mirvis (2001) | 3 stage | Pre combination – Combination – Post combination |
| Haspeslagh and Jemison (1991) | 4 stage | Idea – Justification – Integration – Result |
| Quah and Young (2005) | 4 stage | Pre-acquisition – Slow absorption – Very active absorption – Totally absorbed |
| Lohrum (1992) | 5 stage | Observation – Planning – Execution – Consolidation - Maturity |
| Buono and Bowditch (1989) | 7 stage | Pre combination – Combination planning – Announced combination – Initial combination – Formal combination Combination aftermath – psychological combination |

Boland (1970) roughly divides the M&A stages into post-merger and pre-merger phase (Boland, 1970, p. 8-11), whereas Schweiger and Weber (1989) summarize the M&A process with pre-merger phase and implementation phase. Picot (2002) narrows the M&A process and defines three phases: planning, transaction and integration (Picot, 2002, p. 8; Marks and Mirvis, 2001). The phase model of Jansen (2008) is also subdivided into three stages: strategically phase of analysis and conception, transaction phase and integration phase (Jansen, 2008, p. 249). Similarly, a three phase integration is suggested by Marks and Mirvis (2010): Pre-combination, combination and post-combination phase. a Four-Stage model (Haspeslagh and Jemison, 1991; Quah and Young, 2005), a Five Stage model (Lohrum, 1992), and a Seven Stage model (Buono and Bowditch, 1989).

No matter if the M&A process is subdivided into two or seven phases, the principle pattern is similar: Analysing how M&As set their objective, choose a partner, prepare to merge, integrate different processes, handle culture and develop a sustainable environment (Calipha et al., 2010, p.7). As the M&A process is a complex phenomenon, one has to consider the whole picture. With a development of M&A research, there is an increasing group of experts who recommend focusing on a more holistic approach (e.g., Bauer and Matzler, 2013, p.5; Calipha, 2010, p.7) and treating the overall deal as a lifecycle (Chanmugam et al., 2005). The outlined numbers of stages show a variety of possibilities to categorize the M&A process.

**Three-Stage Model**

Marks and Mirvis (2010) identified the M&As process to be composed of Pre-Combination, Combination, Post-Combination. In the pre-combination stage, the deal will be conceived and negotiated by executives and then legally approved by shareholders and regulators. The pre combination phase which starts with an analysis and study of the buyer firm itself that is analysing its own goals as well as strategic potential and limitations (Jansen, 2008, p. 249). Once the buyer company has strategically decided to realize an M&A activity, the buyer company develops a process plan including considerations of business administration and tax law (Picot, 2000, p. 21). In combination phase, two significant parts of the M&A process: Due diligence and negotiation. In order to clarify the scope and the value of the company in a relatively early stage of negotiations, due diligence provides the perfect tool (Depamphilis, 2010; Picot, 2000). A due diligence review is made throughout all fields within the company, ranging from financial, marketing, HR, legal, and tax as well as environmental and organisational due diligence (Jansen, 2008, p. 276). With the help of a due diligence review the buyer firm aims to eliminate the risk of the transaction. Therefore, the more detailed the information given in a due diligence review and the more precise the process that is undertaken, the less risky seems the M&A transaction (Pack, 2000).

In post-combination stage, the combined entity and its people will be regrouped from initial implementation and the new Organisation will be settled in. The model for acquisition process is presented in figure 2.1.

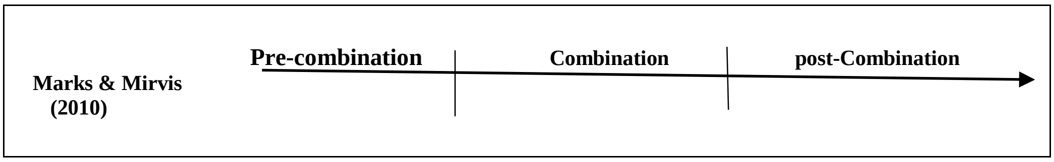



**Figure 2.1: A Three Stage Model of Mergers and Acquisitions process**

### Four-Stage Model

Haspeslagh and Jemison (1991) consider the acquisition process to contain four major phases: idea, acquisition justification, acquisition integration, and results. The first two are referred to as the pre-combination stage, while the last two are referred to as the post combination stage. During the idea phase, the potential acquisition is suggested and eventual combination partners are evaluated. Thereafter the acquisition must be justified to the rest of the company before the actual decision to go on with the deal is made. When the deal is a fact, the integration starts with a special phase called the "stage-setting phase". This phase involves a transition period before the integration actually starts.

In Haspeslagh and Jemison's model, the boundaries between the phases are not clear; many of the acquisition questions they raise overlap the different phases (Caiazza and

Valpe, 2015). Hence, even though there are different phases during an acquisition, they are at the same time interactive, and the issues arising during the different phases need to be considered together (Haspeslagh & Jemison, 1991).

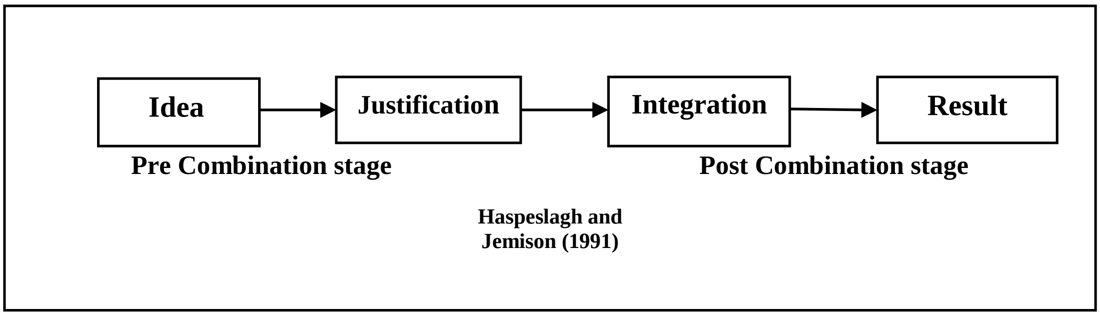



**Figure 2.2: A Four stage model of M&As Process**

Recently, Quah and Young (2005) suggested that to improve success, the post-acquisition management process should be divided into a number of phases with defined objectives and actions. The study provides preliminary evidence drawing upon the post-acquisition management of four European cross border M&As undertaken by an American automotive multinational firm. The authors have divided the post-acquisition management into four phases - Phase 1: Pre acquisition (6months prior to M&A), Phase 2: Slow absorption (Year 1), Phase 3: Very active absorption (Year 2-5), Phase 4: Totally absorbed (> 5 years). In addition, the authors have suggested actions to be taken in each phase. In phase 1, the acquirer should conduct interviews with key management and also carry out a cultural audit on target. The results of the cultural audit should be communicated in phase 2 along with providing training for changes in language and the financial system. In phase 3, the acquirer should gradually change the target's management and provide further training as needed. In the final phase, employee behaviour should be measured and a continuous check made of the sensitivity of national cultural difference in the acquired business.

### Five-Stage model

Different parts of the process have also been divided into phases. Lohrum (1992) divided the integration into different phases to facilitate the understanding of what happens during acquisition integration. In her study of a cross border M&A, she identified the following five integration phases. The integration process started with an observation phase, where the two parties observe each other and the situation (Haspeslagh and Jemison's stage-setting phase). The next phase is the planning phase, where the management of the acquiring firm starts the formal and structural changes. The changes stayed at the formal level while the integration of people and cultures were neglected. Then the execution phase follows, which brings about a lot of changes. The human and cultural integration start in this phase, which also triggers a reaction among the employees in the acquired firm. In the consolidation phase, the real socio-cultural integration starts, when it is important to establish contacts between all hierarchical levels in both companies. When the two corporate cultures have been blended, the last phase starts – the maturity phase.

**Seven-Stage Model**

Buono and Bowditch (1989) identified as many as seven different combination phases. The phases are called pre-combination, combination planning, announced combination, initial combination, formal combination, combination aftermath and psychological combination. The authors discuss how the decisions in the different phases are affected by ambiguities and uncertainties in the environment. They found that in each phase the ambiguities and uncertainties were more or less salient than in other phases.

The problem with discussing the M&As process in terms of different phases is that it is difficult to identify when each phase ends and the next starts (Risberg, 1999). It is also difficult to say when the post-combination stage ends, and the relationship between the acquiring and acquired company turns into a headquarters-subsidiary relationship. Another problem with phase thinking is that phases do not have to correspond with time. Two events occurring at the same time can consequently be referred to as different phases.

Different parts of the organisation and different individuals can experience different phases at the same time. Therefore it is difficult to talk in terms of the whole organisation being in “this phase” or “that phase” (Risberg, 1999).

## 2.4 The motives of mergers & Acquisitions

The primary aim of this study is to investigate the performance of mergers in banking sector in Libya. In order to examine the performance of mergers, the researchers should identify the motives of mergers so that appropriate questions can be asked about the merger performance. For example, if the motive of the merger is to improve the financial performance of the bank, we should examine the financial performance of the combined firm after the completion of the merger. In addition, if the central bank authority, banker managers and employees have similar understanding of the reasons (motives) of the mergers, the post-merger integration process can be less problematic. However, if the motives of mergers are not understood by the managers and employees, the post-merger integration can be very challenging. This can be even more challenging when a large Organisational cultural difference exists between the merging banks as well as there is limited strategic fit between the merging banks. The aim of this section is to provide a brief literature review on motives.

There are several theories attempt to explain the objectives driving M&As: the efficiency theory, monopoly theory, hubris theory, to explain the reason behind the merger (see Roll, 1986; Trautwein, 1990; Berkovitch and Narayanan, 1993). Seth et al. (2002) argue that understanding these motives is key for understanding M&A success or failure. The primary reason for M&A is to achieve synergy by integrating two or more business units in a combination with an increased competitive advantage (Porter, 1985). The other two M&A motives, according to Wang and Hoini (2012) and Seth et al., (2000), are managerial self-interest (or materialism) and hubris.

In light of the increasing significance of mergers and acquisitions phenomenon, scholars in the field of international business and strategy had begun to examine various aspects of mergers and acquisitions (Seth et al., 2000). The existing body of research is still searching answers to a fundamental question: Why do these mergers & acquisitions occur? Even though the question sounds simple, the theoretical answer is very complex. There is not one grounded theory for mergers & acquisitions, because this phenomenon covers all aspects of the firm such as cost, sales, risk, revenues, salaries, capabilities and relations to the environment (Glaister and Ahammad, 2010).

**Table 2.2 A summary of Empirical study on Theories of M&A Motives**

| Study | Sample Description | Sample period | Major Findings |
|---|---|---|---|
| | | **Synergy Theory** | |
| Bernile and Bauguess (2011) | 3935 M&A deals between companies listed on NYSE, NASDAQ, or AMEX. | 1990-2005 | Synergies' expectations and realizations are important determinants of merger activity and performance. |
| Devos et al. (2009) | 264 large mergers between public domestic firms in USA, and the acquisition is 100% of the target firm. | 1980-2004 | 1) They found positive synergies are arising from cutbacks in investments. Over 80% of which are due to operating efficiencies, while tax savings contribute only 1.64% in additional value; 2) operating synergies are higher in focused mergers, while tax savings constitute a large fraction of the gains in diversifying mergers; 3) focused mergers are likely to be primarily motivated by synergies while diversifying merger may be undertaken for a variety of reasons unrelated to synergy; 4) one segment of market participants recognizes that stock–market-driven mergers are not undertaken with a view to realize synergy gains. |
| Fields et al. (2007) | 129 M&As between banks and insurance companies in the U.S. and EU | 1997-2002 | Positive bidder wealth effects are significantly related to economies of scale, potential economies of scope, and the locations of the bidders and targets. |
| Bernile (2004) | 324 mergers | 1991-1999 | Management's forecast of average synergy is about 6%. |
| Sudarsanam et al.,(1996) | 429 UK publicly-listed companies | 1980-1990 | The shareholder wealth experience is conditioned by influences of synergy, hubris and ownership structure. Particularly, financial synergy seems to dominate operational synergy. |
| Harrison et al. (1990) | 1100 acquired firms | 1970-1989 | The results support for the concept of private and uniquely valuable synergy accruing from acquisitions. |
| Hayn (1989) | 640 acquisitions | 1970-1985 | Tax considerations could motivate acquisitions. |
| Bruner (1988) | 161 bidding firms from Fortune 1000 lists, making 428 merger attempts. | 1955-1979 | The results support both financial economies motive and the theory of Myers and Majluf (1984) that "slack-rich" bidders pair with "slack-poor" targets to create value. |
| Chatterjee (1986) | 157 mergers | 1969-1972 | Collusive synergy is associated with the highest value, followed by financial synergy, and then operational synergy. |

| | | | |
|---|---|---|---|
| **Monopoly Theory (Market power)** | | | |
| Bhattacharyya and Nain (2011) | 130 domestic mergers in the US | 1984-2003 | The findings are broadly consistent with pervasive beliefs about the buying power effects of horizontal mergers. |
| Eckbo (1983) | 259 horizontal and vertical mergers in mining and manufacturing industries | 1963-1978 | They found the antitrust law enforcement agencies systematically select relatively profitable mergers for prosecution, there is little evidence indicating that the mergers would have had collusive, anticompetitive effects. |
| **Resource-Based View (RBV)** | | | |
| Wang and Zajac (2007) | 584 largest firms listed in Forbes in 1990. | 1978-2000 | Irrational market misvaluation, at both the transaction and aggregate levels, affects the volume and character of takeover activity |
| Capron and Hulland (1999) | 253 questionnaires to CEO who has conducted horizontal acquisitions in domestic market ( France and USA) | 1988-1992 | The acquiring and target firms frequently redeploy marketing resources between businesses following horizontal acquisitions, and immobile resources are more likely than less immobile resources to be redeployed from the target to the acquiring firm following merger. Furthermore, resources are more likely to be redeployed from acquirer to target than in the reverse direction. |
| **Agency problems (Managerialism)** | | | |
| Wright et al. (2002) | 182 publicly held acquiring firms | 1993-1998 | In firms with passive monitors, increased corporate size due to an acquisition will explain compensation changes |
| North (2001) | 684 acquired firms | 1990-1997 | Research evidence support entrenchment hypothesis. |
| Hadlock et al. (1999) | 287 bank acquisitions made by USA acquirers. | 1982-1992 | Research evidence is consistent with an entrenchment hypothesis, where management teams block attempts to be acquired. |
| Lang et al. (1991) | 101 tender offers | 1968-1986 | The empirical results support free cash flow hypothesis and suggest that it is economically significant. |
| Amihud and Lev (1981) | 309 firms | 1961-1970 | The research result showed that conglomerate mergers were performed to reduce the managers' employment risk (i.e., risk of losing job, professional reputation, and etc.). |

**Table 2.2 Continued A summary of Empirical study on Theories of M&A Motives**

| **Multiple Theories of M&A Motives** | | | |
|---|---|---|---|
| Garfinkel and Hankins (2011) | All merger or tender-offer bids | 1981-2006 | Theoretic perspective: Synergy theory (financial synergy), Imitation hypothesis (managerial herding behaviour), and Macroeconomic shock hypothesis. Primary findings are as follows: 1) Merger waves appear to be partly driven by a desire to hedge cash flow uncertainty. 2) The research evidence supports managerial herding behaviour. 3) Economic shocks and behavioural factors influence merger activity. |
| Peng and Fang (2010) | 92 acquisition events of Taiwanese electronics firms | 1997-2007 | Theoretic perspective: Organisational learning theory; Stewardship theory, and Agency theory. Primary findings are: Business acquisition experience positively influences the inclination of the acquirer adopting a subsequent acquisition while board characteristics do not, which supports the argument of the stewardship theory and rejects agency theory. |
| Wang and Zajac (2007) | 584 largest firms listed in Forbes in 1990. | 1978-2000 | Irrational market misvaluation, at both the transaction and aggregate levels, affects the volume and character of takeover activity |
| Keller (2010) | 3 merger cases | 1999-2001 | Theoretic perspective: Synergy theory and monopoly theory (Market power), and primary findings are as follows: 1) There is no empirical evidence for increased market power in the German electricity market due to Vattenfall's mergers. 2) There is some indication for efficiency increases. |
| Bouwman et al. (2009) | 2944 acquisitions (The acquirers are US listed firms and the target is not a subsidiary) | 1979-2002 | Theoretic perspective: Market misvaluation theory and Imitation hypothesis (managerial herding behaviour), and primary findings are as follows: 1) Stock prices affect corporate M&A decisions, and acquisitions undertaken during periods of high-market valuations are of lower quality than those undertaken during periods of low-market valuations. 2) The underperformance cannot be supported by overpayment and market timing, but are consistent with herding behaviour by managers. |
| Devos (2009) | 264 mergers | 1980-2004 | Theoretic perspective: RBV, Synergy theory (Tax reduction), and Monopoly theory. Primary findings: The evidence suggests that mergers generate gains by improving resource allocation rather than by reducing tax payments or increasing the market power of the combined firms. |

**Source: Based on Wang and Moini, 2012**

Theoretical research and studies over the years provided several explanations for the M&A strategy by examining various motives for mergers and acquisitions. Therefore, there have been a lot of possible reasons which were suggested as an explanation for why a company chooses M&A as a way of growth. In general, the most common cited motive is to achieve synergy. However, there are several other motives such as diversification, market power, improved management or tax motives (Depamphilis, 2010).

Trautwein (1990) argued that the motives of mergers and acquisitions haven't received enough theoretical efforts from researchers as much as the merger consequences. However, most researchers agree that in reality, there are a number of different motives that drive mergers to take place and not only one motive (Ravenscraft and Scherer, 2011; Trautwein, 1990; Hopkins, 1999; Depamphilis, 2010). Therefore, it was useful to group these motives into various categories (Mukherjee et al., 2004). For example, Trautwein (1990) classifies the theories for merger motives into seven categories which are efficiency, monopoly, raider, valuation, empire-building, process and disturbance theory. However, most of these theories haven't got enough empirical results with which to support them. Berkovitch and Narayanan (1993) and Seth et al. (2000, 2002) indicate three major motives for mergers which are the achievement of the synergy, hubris and managerialism. Mueller and Yurtoglu (2007) divide them into synergy, market for corporate control, managerial discretion, overvaluation and the hubris hypotheses. Also, Mukherjee et al. (2004) mentioned some of the motives which include diversification, management incentives and tax considerations.

Consequently, there are numerous theories that explain the reasons why mergers and acquisitions take place. The most common ones are the synergy or efficiency theory, the hubris, managerialism or agency theory, each of which will be discussed below in detail with the empirical findings on them. In theory, three motives of merger and acquisition have been documented in existing literature. These motives include the synergy motive, hubris motive and agency motive (Ebimobowei and Sophia, 2011).

### 2.4.1 The Synergy motives

The key principle of a synergy is that the whole will be greater than the sum of its parts (Sherman, 2010). The term *synergy* refers to *"the reactions that occur when two substances or factors combine to produce a greater effect than that which the sum of the two operating independently could account for"* (Gaughan, 2010: 132). Simply stated, synergy refers to the phenomenon of 2+2= 5. In mergers this translates into the ability for a corporate combination to be more profitable than the individual parts of the combined companies.

It refers to the ability of a corporate combination to be more profitable than the individual profit of the firms that were combined i.e. NPV FirmAB > NPV FirmA + NPV FirmB.

The synergy motive suggests that the motive for the acquisitions exists when it is a value increasing event, which means that the firm's value after the combination is greater than the values of the individual firms operating separately (Bradley et al., 1988; Seth et al., 2000). This means that improving the efficiency of the combining firms is a popular explanation for acquisitions. Therefore, it follows that managers of acquirer and target firms intend to engage in the combination only if it results in shareholders' wealth maximization for the acquirer and target firms (Berkovitch and Narayanan, 1993; Goergen and Renneboog, 2004).

Therefore, operational synergies will be available and result in gains to the shareholders of both firms if the combining firms share the same industry. If the companies are not from the same industry but are horizontally or vertically related then there will be an increase in their monopoly power (Sudarsanam, 1995). On the other hand, if the merger is conglomerate and the firms are from unrelated industries, then the value creation will result from non-operational sources of synergy such as managerial or financial sources (Sudarsanam, 1995).

The synergy hypothesis has been widely documented in the existing literature in an attempt to explain the motive of mergers and acquisitions (Berkovitch and Narayanan, 1993; Calipha et al., 2010). The synergy motive suggests that mergers occur when the combination of the two firms results in economic gains. Managers of targets and acquirers engage in merger activity when the transaction results in gains to the firms. In this aspect, managers aim to maximise shareholder wealth (Berkovitch and Narayanan, 1993).

In general, the sources of value from synergy could be classified into three types, which are: operational synergy, managerial synergy and financial synergy. The operational synergy can arise from the economies of scale and scope or through the increased monopoly power.

### 2.4.2 Operating synergy

The synergy theory proposes that merger and acquisition take place when the value of the combined firm is greater than the sum of the values of the individual firms (Bradley et al., 1988; Seth, 1990a). The additional value, or synergistic gain, is derived from an increase in operational efficiency or an increase in market power (Singh and Montgomery, 1987; Seth, 1990b). One of the main sources of operating synergy is the cost reductions that occur as a result of a corporate combination. These cost reductions may come as *economies of scale* – decrease in per unit costs that result from an increase in the size or scale of a company's operations.

Manufacturing firms typically operate at high per unit costs for low levels of output. This is because the fixed costs of operating their manufacturing facilities are spread out over relatively low levels of output. As the output levels rise per unit costs decline. This is sometimes referred to as spreading overhead. Some of the other sources of these gains arise from increased specialization of labour and management as well as the more efficient use of capital equipment which might not be possible at low output levels. This phenomenon continues for a certain range of output, after which per unit costs rise as the firm experiences diseconomies of scale. Diseconomies of scale may arise as the firm experiences the higher costs and other problems associated with coordinating a large scale operation. The extent to which diseconomies of scale exist is a topic of dispute to many economists. Some cite as evidence the continued growth of large, multinational companies such as Exxon, General motors. These firms have exhibited extended periods of growth while still paying stockholders an acceptable return on equity. Others contend that such firms would be able to provide stockholders a higher rate of return if they were a smaller, more efficient company (Gaughan, 2010).

Scope economies, are often seen as the main benefits banks derive by merging (Loretta, 1987). When financial institutions merge, they can share inputs to offer a broader range of services such as a trust department or an investment department. Inputs such as a computer system can be shared to process a wide variety of loans and deposit accounts. Whether these benefits are either the true reason or a sufficient reason for the increased number of banking mergers that have taken place in the recent period of deregulation is very different issue (Gaughan, 2010).

One important source of synergy comes from the potential to transfer valuable intangible assets, such as know-how, between the combining firms in the presence of transaction costs that lead to failure of factor markets (Caves, 1996). If a firm has know-how under its control that can be used in markets where the sale or lease of such knowledge is inherently "inefficient", then the firm will tend to exploit its own Organisation. Although different versions are developed by various scholars (e.g., Williamson, 1975; Rugman, 1986; Casson, 1987), all assume that transacting in the international market entails substantial costs which will reduce the value of proprietary information. Faced with this cost, a firm will be likely to internalize the transaction and use the proprietary information within its expanded organisation. Gains may also be realized from "reverse internalization": firms acquire skills and resources from M&A that are expected to be valuable in their home markets. A related source of synergistic gains in M&A focuses on market development opportunities. In order to efficiently utilize their "excess" resources for long-run profitability, firms will invest abroad when growth at home is limited or restricted and in the presence of trade barriers which restrict exports.

### 2.4.3 Financial synergy

The second type of synergy is financial synergy. "Financial synergy" refers to the impact of a corporate merger or acquisition on the costs of capital to the acquiring firm or the merging partners. If financial synergy exists in a corporate combination, the costs of capital should be lowered. Whether financial synergy actually exists, however, is a matter of dispute (Gaughan, 2010; Depamphilis, 2010).

The combination of two firms can reduce risk if the firms' cash flow streams are not perfectly correlated. If the acquisitions or merger lowers the volatility of the cash flows, suppliers of capital may consider the firm less risky. The risk of bankruptcy would presumably be less given the fact that wide swings, up and down, in the combined firms' cash flows would be less likely. This implies that it is less likely that cash flows would fall so low that the firm could become technically insolvent. Higgins and Schall (1975) explain this effect in terms of debt-coinsurance. If the correlation of the income streams of two firms is less than perfectly positively correlated, the bankruptcy risk associated with the combination of the two firms may be reduced. Under certain circumstances one of the firms could experience conditions forcing it into bankruptcy. It is difficult to know in advance which one of two possible firms would succumb to this fate. In the event of one of the firms goes under, creditors may suffer a loss. If the two firms were combined in advance of these financial problems, however, the cash flows of the solvent firm, which are in excess of its debt service needs, would cushion the decline in the other firm's cash flows. The offsetting earnings of the firm in good condition might be sufficient to prevent the combined firm from falling into bankruptcy and causing creditors of suffer losses. There are number of sources of financial synergy. One source of financial synergy is the lower cost of internal financing in comparison with external financing. Firms with large internal cash flows and small investment opportunity have excess cash flows. Firms with low internal funds generation and large growth opportunities have a need for additional financing. Combining the two may result in advantages from the lower costs of internal funds availability. Previous empirical findings appear to support this internal funds effect. Nielsen and Melicher (1973) found that the rate of premium paid to the acquired firm as an approximation to the merger gain was greater when the cash flow rate of the acquired firm was greater than that of the acquiring firm. This implied that there was redeployment of capital from the acquired to the acquiring firm's industry. The investment literature also indicates that internal cash flows affect the rate of investment of firms (Nickell, 1978). Another source financial synergy is the low cost of capital. A larger company has certain advantages in financial market which may lower the cost of capital to the firm. It enjoys better access to financial markets, and it tends to experience lower costs of raising capital, most probably because it is considered to be less risky than a smaller firm. Therefore, the costs of borrowing by issuing bonds are lower since a larger firm would probably be able to issue bonds offering a lower interest rate than a smaller firm. In addition, there are certain fixed costs in the issuance of securities, such as legal fees, and printing costs, these costs would be spread out over a greater pound volume of securities since the larger company would probably borrow more capital with each issue of bonds. The capital market approach also contains gains from financial synergy. It arises from changes in the debt/equity ratio. Raising the debt rate creates financial synergy through the exploitation of the tax shield. This strategy is efficient as long as the value from reduced tax is higher than the cost of financial distress (Brealey and Myers, 2007). The new company with a lower bankruptcy risk could induce lenders to establish a higher limit of lending.

### 2.4.4 Managerial motives

Unlike the hubris hypothesis, which proposes that managers inadvertently overpay for target firms, the managerialism hypothesis suggests that managers will knowingly overpay in takeovers; managers embark on M&A to maximize their own utility at the expense of their firm's shareholders (Seth et al., 2000). Managers can have private or personal reasons for their behaviour and make investments which from an economic point of view may seem irrational, but for the individual can be of high value. The empire-building theory explains this situation of the management wanting growth for personal reasons and acquisitions match this situation. Most important is the wage explanation, saying that the salary paid out to managers is a function of the size of the company (Mueller, 1969). Motives like power and prestige are also essential (Ravenscraft and Scherer, 2011) and managers from large companies have an easier way to positions in committees and board of directors (Pfeffer and Salancik, 2003). Managers engage in conglomerate mergers to decrease their employment risk, which is largely un-diversifiable. The risk consists of losing their job, professional reputation, etc. The risk associated with managers' income closely relates to the firm's risk (Gort, 1969; Amidhud and Lev, 1981). Another factor creating incentives to acquisitions is free cash flows, meaning cash flows more than required to fund all projects that have a positive net present value discounted at the relevant cost of capital. This cash flow belongs to the shareholders, but used for investment instead, managers cause their firms to grow beyond the optimal size. A solution to this problem lies in issuing debt in exchange for stock, so the contract forces the managers to pay out future cash flows (Jensen, 1986). The managers' time horizons relate to their tenure and tend to be shorter than the shareholders' time horizons. Managers will not have an interest in cash flows that cover the period after the end of their term of office (Jensen and Meckling, 1976).While managerialism has been proposed as a motive for domestic M&A, it may also be relevant for cross border M&A if managers of foreign firms have the incentive and the discretion to engage in M&A aimed at empire building (Seth, Song and Pettit, 2000). In an integrated capital market, firm-level diversification activities to reduce risk are generally considered non-value maximizing as individual shareholders may duplicate the benefit from such activities at lower cost. However, managers may still seek to stabilize the firms' earnings stream by acquiring foreign (rather than domestic) firms, given low correlations between earnings in different countries. Foreign acquisitions may be more satisfactory vehicles for risk reduction than domestic acquisitions, and in the absence of strong governance mechanisms to control managerial discretion, managers may overpay for these acquisitions

### 2.4.5 Diversification

Another motive for acquisition within the same industry is to reduce some of the uncertainty that derives from competition (Pfeffer and Salancik, 2003). In the theory of diversification the risk-adverse firm has an opportunity to minimize risk by expanding activities to different lines of business and thereby equalize the fluctuations in revenues. In the 1960s and the1970s this motive of acquisition was very popular in practice and in theory, but now it has become less important. The reason for this is that most of the conglomerate acquisitions failed and ended up with losses for the acquiring firm. Furthermore, the Sharpe-Liner portfolio theory concludes that for the shareholders it is a much better way to reach the market-portfolio through their investments than through the companies they own (Lewellen, 1971). Weston and Mansinghka (1971) give several reasons for diversification; first, to avoid sales and profit instability; next to elude unfavourable growth development and to avoid adverse competitive shifts. Further arguments are technological obsolescence and to decrease uncertainties associated with their industries. Finally, the motivation of a vertical acquisition of a supplier can be risk-reducing. An example is in the natural resource industries where demand and supply are unstable and integration can mitigate the cost associated with fluctuation in prices.

Pitts (1976) gives three reasons for diversifications. The most important is the situation where the failure of one business area threatens the whole corporation. Second, the diversified company has the opportunity to reallocate scarce resources to the most dynamic areas. Finally, there is a better opportunity to commercialize more broadly technological innovations. To minimize the uncertainty in the environment is also important here (Pfeffer and Salancik, 2003) and the acquisition of a unit that knows the rules of the market is preferable. No industry is totally independent of the fluctuations in the economy, but some lines of business are not as cyclical as others. Further, different growth rates exist within the same industry (Salter and Weinhold, 1979). In the end what matters is what gives the highest NPV. When the firm reaches a satisfactory position within the area of specialization and the firm has the resources needed for expansion, they might find the opportunities for expanding into new areas more promising than further expansion in its existing areas (Nair et al., 2008). Diversifications relates to the cross border M&A of the firm because this gives a better chance to fulfil the goal of reducing fluctuations, in consideration of the wider spreads of industries and markets. Furthermore, it can neutralise a national depression. By acquiring a going concern that knows the rules of the market, it may minimise the risk too. In the beginning of an internationalisation process this is useful because the firm probably does not possess the wanted knowledge (Forsgren, 1989).

### 2.4.6 To Achieve (or Increase) Growth

Mergers and acquisitions are external alternatives, and sometimes cheaper, then internal organic growth Gaughan (2011). Firms seeking to expand their business have a choice between internal growth and growth through mergers and acquisitions. Focarelli et al. (2002) cited, internal growth may be a slow process, while growth through mergers may be a more rapid process. Mergers and acquisitions may be the best way to facilitate the growth in another geographical region especially in the international markets where it may be less risky to expand geographically through acquisitions than through internal development.

### 2.4.7 Increasing Market Share/ Market Power

A firm may use M&A to reach a market power. This occurs when the merged firms are able to influence price, quantity, and the nature of the product in the market place (Hitt et al., 2000). In turn, market power may lead to excess return or the same return but for a longer period of time (Mueller, 1980; Singh and Montgomery, 1987). Mergers could increase the market share of the consolidated banks, which may increase their market power. Market power is referred to as monopoly power, and it is the ability to set and maintain price above competitive levels.

### 2.4.8 M&As as a Tool of Solving (or Avoiding) Banking Crises

Acquisitions seem to be the more efficient technique that provides a way for banks to exist from business. Bankruptcy and liquidation involve several problems for individual banks and the entire banking system. In the U.S, the wave of bank failures that started in the early 1980s triggered a wave of bank M&A to avoid the liquidation of large number of failed banks. Hempel et al. (1994, p 659-663), Boyd and Graham (2000) have found that there was a significant decline in the number of U.S. banks during 1980s and early 1990s, which was the direct result of bank failures. Due to the competition from financial and non-financial firms, such as brokerage firms, finance companies, insurance companies, investment banks, credit institutions, and banks realised a continuous decline in the ROA and ROE. In order to survive and maintain adequate profit levels, banks needed to develop more cost-effective structure, and bank consolidations were the logical way of achieving gains in efficiency. The trend of bank M&As in the U.S. was driven by market forces that have found that consolidations represent a way to stop the collapse of more banks. Besides, it was driven at the same by regulators that aimed at avoiding bank failures.

## 2.5 M&A Schools Of Thought

M&A research has been conducted for about 50 years now (Cartwright, 2005, p.1). However, the research itself differs in terms of its methods and research areas (Capasso and Meglio, 2005, p. 201; Cartwright and Schoenberg, 2006, p. 2). With the increasing M&A literature, several theories dominated the M&A research such as free cash flow, efficient market hypothesis, industrial Organisation economics, resource based view of the firms, acculturation theory and behavioural theory of the firm (Birkinshaw et al., 2000, p. 397). In order to structure those conceptual assumptions four schools of thought have been developed (Haspeslagh and Jemison, 1991, pp. 292-309). The four schools of thought differ in terms of their objectives, theoretical underpinnings and central hypotheses.

According to Haspeslagh and Jemison (1991) M&As have been studied by four different schools of thoughts that have their own theoretical roots, objective function and central hypothesis. These schools are the capital markets school (financial economics ),the strategic management school, the organisational behaviour school (human resources, culture, and crisis) and the process perspective school (Haspeslagh and Jemison 1991,292-306).

**Table 2.3 Overview Four Schools of Thought**

| Four Schools of Thought | | | |
|---|---|---|---|
| **Research stream** | **Objective function** | **Theoretical underpinnings** | **Central proposition for each theoretical aspect** |
| **Financial Economics** | Value creation for shareholders and economy as a whole | Market corporate control; free cash flow; efficient market hypothesis; agency theory; capital asset pricing model | Acquisitions enhance the efficiency of the market for corporate control → net wealth gain for shareholders |
| **Strategic Management** | Performance of buyer and target company | Strategic Fit | Realization of synergies positively impact the acquirer performance. Only unique synergies or unexpected synergies will have a positive impact on acquirer performance |
| **Organisational Behaviour** | Impact of acquisition on individuals and Organisation culture | Acculturation Theory | Employee satisfaction and effective integration is facilitated through congruent cultures of merging firms |
| **Process Perspective** | Creation of value after the acquisition | Behavioural theory of the firm | The actions of management and the process of integration determines the extent to which the potential of the acquisition are realized |

Own elaboration according to Birkinshaw et al. (2000), p. 397 and Haspeslagh and Jemison (1991), pp. 292-309

### 2.5.1 The Capital markets school (Financial economic school)

The central question within the capital market school, also called financial economics theory, is whether M&A transactions create financial value (Haspeslagh and Jemison, 1991). The central proposition for this school is that acquisitions enhance the efficiency of the market for corporate control and, thus result in net wealth creation for shareholders, in other word financial scholars have primarily focused on whether mergers and acquisition created financial value for shareholders (Catwright and Schoenberg 2006).

The main objective of this field of research is to explore the interdependence of corporate control and shareholder value (Datta, 1991, p. 282). Within this stream, the shareholder value represents the central goal that needs to be maximized (Birkinshaw et al., 2000, p. 397). In order to explore the factors that lead to value creation, the movements of the capital markets after the transactions are analysed (Haspeslagh and Jemison, 1991, p. 293). Those reactions are observed within a given period of time, ranging from the date of announcement to the post-merger phase (Haspeslagh and Jemison, 1991, p. 295). If the net change of the market value is positive, the financial economics theory assumes that wealth has been created for the shareholders (Haspeslagh and Jemison, 1991, p. 295). Generally, the most dramatic changes of the share prices are expected within the time of announcement of the deal (Jensen and Ruback, 1983, p. 9-15), as the uncertainty and speculations are assumed to be the highest. Apparent from Table 2.3, several theories support the financial economics school of thought. Some financial economist based their view, for example, on the agency theory, wherein managers functions as agents of shareholders and might differ in their interests (Haspeslagh and Jemison, 1991, p. 294). Another underpinning arises from the free cash flow where the economists assume that managers would return the free cash flow to their shareholder in situation like a M&A transaction (Haspeslagh and Jemison, 1991, p. 294). Summarizing the financial school of thought, it is still questionable whether transactions have a positive financial effect for the buyer company (Meyer, 2008, p. 197). Furthermore, this school of thought ignores additional factors that might influence the share price development (Buono and Bowditch, 2003, p. 10).

### 2.5.2 Strategic management school

While the financial economists' perspective is primarily interested in the efficiency impact on the economy, the strategic school is interested in the acquisition impact on the individual firms. The central proposition in this school of thought is on industrial organisation economics

(Birkinshaw et al., 2000). The basis is that synergies are a result of economies of scale, scope and market power that can be realised through related acquisitions, which will in turn lead to superior performance in the acquiring firm (Lubatkin, 1983; Chatterjee, 1986).

The strategic management school concentrates on long-term value creation at the individual company level that is realized through competitive advantage (Birkinshaw et al., 2000, p. 397). As the different M&A phases interact with each other, the strategic management school investigates the whole M&A process, ranging from the pre-merger phase to the post-merger phase (Birkinshaw et al., 2000, p. 397). Scientists argue that despite the importance of the pre-merger phase, actual value is created in the post-merger phase (Jansen, 2008, p. 318; Haspelagh and Jemison, 1991, p. 103). Scholars of the strategic management school have studied the effect of premerger relatedness, perceived similarity, or complementarity on performance (Cartwright and Schoenberg, 2006; Chatterjee, 2009; Haspeslagh and Jemison, 1991; Larsson and Finkelstein, 1999). Research on post-acquisition performance has argued that relatedness of the acquisition should enhance post-acquisition performance (Morosini et al, 1998; Lubatkin, 1997). Allred et al (2005) stressed that lack of relatedness or fitness between the acquiring organisation and the target company will eventually lead to failure of synergy realisation and value creation. Shelton (1988), for example, suggests the need for a system for classifying M&As that measures the various types of fit between the two merging companies' assets. Shelton claims that such a system is necessary to measure the amount of value that the merger creates. Other researchers have looked for fit in management styles (Marks, 1997) and culture (Nahavandi and Malekzadeh, 1988). An underlying assumption for this focus seems to be that if the acquiring company can only find the perfect matching combining partner, the companies can be fully integrated and the acquisition will be a success (Jemison and Sitkin, 1986; Mirvis, 1985b; Angwin, 2001). The strategic management approach addresses a larger number of measures of success, including the size of sale, the increase of the market share, the improvement of competitive abilities, and change in profitability after the merger in relation to a period before the M&A (Weber et al., 2014).
A strategic fit can be defined through several perspectives, both from a target and an acquiring firm’s point of view. As Shelton (1988) indicates, a strategic fit is present when two firms have created value that would not otherwise have been reached if they were trying to achieve a goal separately. He argues that it is the combination of the firms’ brought-together assets that creates this extra value. Further so called synergistic

gains, as mentioned above, can be reached. To some difference is the strategic fit defined as a partnership's potential, i.e. the operational and relational matching questions that arise from a partnership, as presented by Ireland and Hitt (2002). The two firms have an operational potential as an example, in other words they can, if collaborating successfully, achieve greater potential aims when they match each other. A third approach to define strategic fit is the need of highly matching goals between the merging or target/acquiring firms (Haspeslagh and Jemison, 1991).This might be a more explicit clarification of the term; it indicates that the firms need to have things in common in order for the merger or acquisition to work in the first place but also a great matching of aims.

The first study assessing strategic fit was conducted by Lubatkin (1997). In his study Lubatkin (1997) signified the importance of strategic fit between the acquiring company and the target organisation.

Harrison et al (1991) found that similarities between the firms lead to synergy creation. They argued that similarities in the way that the acquiring and the target organisation are allocating and managing their resources leads to synergies and therefore, enhances the performance of the acquisition. The strategic fit, that is, the complementary resources of the two firms, is seen as the fundamental aspect of reaching synergy (Larsson and Finkelstein, 1999; Homburg and Bucerius, 2006; Hitt et al, 1998; Harrison et al, 1991; Markides and Oyon, 1998).

Value is created from similarity in M&As through the exploitation of scale economies and the possible exercise of market power (Capron, 1999; Larsson et al, 2003). Product complementarity refers to the target's ability to extend the acquirer's domain into additional product lines or technologies that are in some way related to its existing ones.

### 2.5.3 Organisational Behaviour School

While the finance literature looks at the impact of the acquisition on the economy and the strategic literature focuses on the impact on a given firm, the organisational literature covers the acquisition impact on individuals and organisational culture. The scholars in this school adopt a more human resource oriented perspective and concentrate on organisational responses to mergers (Birkinshaw et al., 2000). The central proposition in this school of thought is that the congruence between the cultures of the two merged organisations will facilitate employee satisfaction and effective integration (Haspeslagh and Jemison, 1991).

The Organisational behaviour school reflects on behavioural aspects in terms of M&A process, that is the individual person engaged in a M&A activity (Haspeslagh and Jemison, 1991, p. 303). In course of research, it became obvious that the increasing negative behaviour of individuals in connection with M&A activities is the result of ignoring the influence of human and cultural integration within the M&A process (Capasso and Meglio, 2005, p. 202).

Many articles in this school have focused on the human-side of M&A that is often neglected by managers' intention on doing the deal and realising operational synergies (Marks, 1982; Bastien, 1987; Buono and Bowditch, 1989; Mirvis and Marks, 2010; and Cartwright and Cooper, 2005; Weber et al., 2012). These organisational researchers have explained post-merger problems and the experienced failures with organisational cultural differences (Sales and Mirvis, 1984; Buono et al, 1985; Chatterjee et al., 1992; Cartwright and Cooper, 1993; Larsson, 1993; Weber, 1996; Gertsen et al; and Vaara, 2000). In these studies, widely held beliefs have been found to be particularly change resistant and cultural incompatibilities cause organisational problems (Cartwright and Cooper, 1992).

### 2.5.4 Process Perspective School

The central proposition in this school is that the management actions and the post-acquisition integration process determine the extent to which the potential benefits of the acquisition are realised. The process perspective school is built on the two previous strategic management schools of thought (i.e., management school of thought and Organisational behaviour school of thought) and combines the ideas developed within those areas (Haspeslagh and Jemison, 1991, p. 306). The main argument in this school is that strategic and organisational fit offer potential synergies but their realisation is entirely dependent on the ability of management to manage the post-acquisition process effectively (Kitching, 1967; Shrivastava, 1986; Hunt, 1990; Haspeslagh and Jemison, 1991; and Greenwood et al., 1994). The uniqueness of this school is that it perceives that the acquisition process itself is a potentially important determinant of acquisition outcomes (Jemison and Sitkin, 1986). This perspective recognises the important role of issues of strategic fit and organisational fit, which are pre-acquisition considerations as to the potential for value creation in acquisitions. It adds the consideration of how aspects of the acquisition decision-making and integration process can affect the final outcome.

## 2.6 Review of factors influning the M&A performance

### 2.6.1 Choice of Strategic Partner

Once the need for M&A is established, the first step that the acquiring firm must accomplish is to choose a strategic partner in terms of its strengths and weaknesses (Angwin, 2001; Schweiger et al., 1992). At this stage when the firm is analysing different potential targets, managers and analysts with specialised skills often dominate the decision making process (Jemison and Sitkin, 1986). Nahavandi and Malekzadeh (1988) state that a key ingredient for success for companies largely involved in merger activity is that they should keep their own flexible acquisition staff. Firms should choose the appropriate partner for one or of financial, managerial, tax and strategic reasons (Schweiger et al., 1993). Jemison and Sitkin (1986) after analysing more than twenty-five interviews with senior managers, investment banks and consultants involved in merger, drew the conclusion that, despite the benefits of getting external advisors involved(given the complexity of process),it is vital that top management of firms get fully involved and coordinate the entire process.

Future investment requirements, quality of the target company management team, and implementation barriers including cultural differences and human resources implications such as top management turnover (Angwin, 2001; Donnelly et al., 2002; Lubatkin et al., 1999; Mirvis and Marks, 2003; Pritchett et al., 1997; Schweiger and Weber, 1989; Weber et al., 1996). These will be assessed through a thorough due diligence process (Boyle and Winter, 2010).

### 2.6.2 Pay the right price

After a careful and complete evaluation of the target, firms are in a better position to negotiate a right price. When a company is involved in a merger process it is vital to make a good evaluation of the target and avoid paying too high a premium. Jemison and Sitkin (1986) state that “the pressure to close the deal quickly can prevent managers from considering strategic and organisational fit issues completely and dispassionately and can lead to premature conclusions”. They suggest that the more managers identify with the merger, the more difficult it becomes for them to consider it objectively and accept criticism that could slow or stop the process. Other authors support this view of paying too high a price as a cause of failure (Datta and Puia1995: Bower, 2001: Haywar, 2002).

A substantial amount of research from a finance perspective has indicated that “paying too much” is a major cause of failure (Bower, 2001; Datta and Puia, 1995; Hayward, 2002; Inkpen et al., 2000; Schweiger et al., 1992; Sirower, 1997). Campbell et al., (1995) assert that “one of the most common and most important sources of value destruction in corporate development is paying too much. Often the acquirer destroys value by paying too much, making it very difficult to achieve an adequate return.” Inkpen et al. (2000), analysing technology-based merger activity involving US companies similar to Silicon Valley-type firms during the period of 1990-1999, concluded that the failure rate of acquisitions involving European acquirers was much higher than those involving US acquirers because European companies tended to pay a much higher premium (43%) than US acquirers (14%).

### 2.6.3 Target evaluation

Overestimating the real strengths and weaknesses of the product, brand or market position of the targeted company has been indicated in the literature as a common mistake (Angwin, 2001). According to Angwin successful firms are distinguished by their ability to weigh the strengths and weaknesses of potential acquisitions in a short period of time. A realistic and accurate estimation of the future investment requirement will be a major influence for the profitability of the merger. Research evidence shows that there is a tendency to underestimate the investment, both capital and non-capital, involved in the merger process and that successful companies make a careful analysis of the future investment requirements (Mukherjee, 2004). An example of this was BMW’s acquisition of Rover, where

### 2.10.3 Challenges & problems in post merger integration

Integrating the firms is a process fraught with difficulty. Researchers suggest that Integration is very challenging and have identified numerous problems that the acquirer faces when integrating (Haspeslagh and Jemison, 1991; Cartwright and Cooper, 1996; Marks and Mirvis, 1998; Schweiger and Goulet, 2000; Schweiger, 2002). The literature on integration is eclectic (Schweiger and Very, 2003). While most of the studies focused on the human issues (e.g. Risberg, 1999; Larsson and Risberg, 1998; Haspeslagh and Jemison, 1991; Hambrick and Cannella 1993), few studies have concentrated on acquisition integration issues (e.g. Schweiger and Goulet, 2000; Morosini et al., 1998; Very et al., 1997; Weber et al., 1996). Based on previous research, five major issues affecting to the integration process can be identified. Each of the issues is briefly described in the subsequent sub-sections.

a. Individual uncertainty and ambiguity Haspeslagh and Jemison (1991:187) stated “the immediate post acquisition is pregnant with expectations, questions and reservations, among the personnel and the managers of both the acquired and acquiring organisations.” During this period some employees perceive threats while others perceive opportunities. Risberg (1999), and Larsson and Risberg (1998) make a distinction between two kinds of issues: uncertainly and ambiguity. Uncertainty occurs when employees feel a lack of information. Ambiguity is characterized by the inconsistency of information provided to the employees. More communication is itself not sufficient for resolving ambiguous situations; what prevails is the consistency and clarity of the future communication flows (Feldman, 1991).

Uncertainty and ambiguity explain why employees react to a merger announcement and to the inherent changes. They are concerned about their future in the combining organisation. Accordingly, these issues contribute to a loss of productivity; defection of competent executives, managers and employees; absenteeism; poor morale; safety problems; and resistance to change during the first months of the post-acquisition period (Schweiger and DeNisi, 1991; Cartwright and Cooper, 1996; Marks and Mirvis, 1998). Subsequently, it contributes to value leakage and an inability to realize projected cash flows and synergies.

b. Organisational politics M&As often lead to a change in ownership for acquired firms, which leads to changes in their organisation and management practices (Schweiger and Very, 2003). Power bases are also likely to shift as authority structures change and sources of power (e.g. expertise) needed in the organisation change. As these happen instability is created, as employees perceive threats or opportunities; i.e. some people will perceive that they have "gained" whereas others will perceive that they have "lost".

These conditions are ideal antecedents to organisation politics – that is to say "those activities taken within organisations to acquire, develop, and use power and other resources to obtain one's preferred outcomes" (Pfeffer, 1980:7). Consequently, M&As can create an excellent context for political tactics like scapegoating, controlling information, networking or manipulating people. As Pfeffer and Salancik (1977) argued, the greater the organisational politics the greater the sub-optimization within organizations; thus, if too many people jockey for their own interests, the overall firm's performance is likely to decline.

Power and politics have rarely been the direct focus of cross border M&A research. However, two studies have focused on power and politics in the context of domestic M&As. The first is Schweiger, Ivancevich, Power (1987) who studied executive actions for managing human resources before and after a merger. They found that one of the greatest challenges for executives was to minimize warfare among employees and to avoid "playing favourites" especially in staffing decisions. In other words, effective managers were perceived as those who avoided or minimized political behaviour.

The second is research on the "theory of relative standing" which has been used to explain top-management behaviours (e.g. Hambrick and Cannella, 1993). This theory asserts that the status an employee feels for himself in a social setting is based on how he compares his status to others in a proximate social setting. According to Hambrick and Cannella (1993:736) "acquired executives are placed in a new social setting in which comparisons to acquiring executives as well as comparisons to their prior situation are inevitable and salient". This line of research suggests that the loss of standing, and resulting loss of power and stature, can lead to the turnover of executives. When this happens there may be a loss of leadership talent need to drive the changes required to realize synergies and cash flows.

Finally, political behaviour during a merger can foster so much internal organizational competition that executives, managers and employees fail to attend to external competition and other important market and business issues (Haspeslagh and Jemison, 1991). Again, the net result can be unrealized synergies and cash flows as customers defect to aggressive competitors. In conclusion, political behaviour can lead to the loss of key people, the de-motivation of others needed to implement changes to realize synergies and cash flows.

c. Voluntary departure of key people

Key people are those who are necessary for value preservation (e.g. relationships with key customers) or synergy realization (e.g. important technology knowledge). Their retention becomes critical to the success of an acquisition (Schweiger and Very, 2003).

## 2.10 Performance Measurement in Acquisitions

The performance of corporate acquisitions is a popular research topic. Researchers have employed various criteria in their attempt to evaluate acquisition performance (Papadakis and Thanos, 2010). Despite, the massive amount of research done, there is little on how to measure performance.

There is a contrast between the performance metrics used by researchers to assess the outcome of strategic choices. Researchers from the finance disciplines employ objective performance criteria such as accounting returns and stock-market-based data to forecast and evaluate the chosen organisational moves whereas, organisational behaviour and strategic management scholars have relied on subjective performance indicators such as managers' personal assessments (Schoenberg, 2006).

The significant value of worldwide M&As during the past 20 years has attracted the interest of many academics and consultants. Zollo and Meier (2008) after reviewing 97 papers published in top management and finance journals concluded that the vast majority of the published research on the performance of M&As can be classified into three research streams. In the first one, researchers have relied on accounting-based measures for evaluating the performance of M&As (e.g. Kusewitt, 1985; Lu, 2004; Ramaswamy, 1997; Zollo and Singh, 2004 Chatterjee and Meeks, 1996; Datta and Grant, 1990; Hayward and Hambrick, 1997; Healy et al., 1992; Hitt et al., 1998; Zollo and Singh, 2004; Homburg and Bucerius, 2005).

The second stream of research has employed stock-market based measures (e.g. Agrawal and Jaffe, 2003; Haleblian and Finkelstein, 1999; Markides and Oyon, 1998; Sudarsanam and Mahate, 2006; Shimizu and Hitt, 2005; Kim and Finkelstein, 2009). Finally, the third stream of research has relied on managers' personal assessments (e.g. Angwin, 2004; Capron, 1999; Homburg and Bucerius, 2006; Papadakis, 2005; Birkinshaw et al, 2000; Brock, 2005; Datta, 1991; Hitt et al, 1998; Kavanagh and Ashkanasy, 2006).

Kiessling and Harvey (2006) pointed out that there is no agreement on the best way to measure acquisition success as different studies employ different indicators. In the following paragraphs researcher will review these streams of research.

### 2.11.1 M&As and accounting-based measures

Accounting profitability measured by the profit/sales ratio, return on equity (ROE) and return on assets (ROA), is used as indicators of post-acquisition performance. The rationale behind these studies is that the strategic aim of a business is to earn a satisfactory return on capital (Papadakis and Thanos, 2010). The use of accounting criteria is based on the principle that synergies obtained from an acquisition are best reflected in accounting measures such as ROA (Hitt et al., 1998). Thanos and Papadakis (2012) argued that management scholars have mainly relied on accounting based measures due to three reasons. First, accounting-based measures of M&A performance measure actual, realised performance as reported in the annual financial statements of the firms. This is an advantage over and above other ways of assessing M&A performance (i.e., cumulative abnormal returns), which measure investors' expectations for the future. A second advantage of accounting-based measures is that they can measure different aspects of M&A performance. For example, ROA is a measure of firm's profitability. ROS is a measure of a firm's efficiency and growth in sales is a measure of firm's effectiveness. Thus, by combining multiple accounting based measures within a single study, a researcher can obtain a more integrated view of M&A performance.

Third, one of the major motives for conducting M&As is to explore and exploit potential synergies between the acquirer and the target firm in the long term. Such synergies if existent will be reflected in long-term accounting performance improvements (Harrison et al., 1991). Thus by using accounting-based measures, researchers can evaluate the realization of synergies (Hitt et al., 1998). Despite, the intense advantages of accounting-based measures, they have been criticised for a number of shortcomings the use of accounting-based measures of performance has been justified on the grounds that the only strategic objective of every business is to improve its profitability. In the case of M&As, this means that they are driven specially by economic motives. However, relevant research suggests that M&As might be driven by other types of motives including managerial hubris (Hayward and Hambrick, 1997) and personal motives (Brouthers et al., 1998).

In addition to this, accounting data fail to evaluate the success of a specific acquisition as they provide gathered data measuring the performance of the whole organisation (Bruton et al., 1994; Chenhall et al., 2007; Lubatkin, 1983).

Despite the fact that there are certain limitations in the use of accounting-based indicators to measure post-acquisition performance, they have been widely used in the literature. Table 3.2 summarises the main accounting-based indicators and the studies that employed them.

**Table 2.7: M&As and accounting-based measures**

| Study | Accounting measure |
|---|---|
| Kusewitt(1985) | Return on Assets |
| Datta and Grant (1990) | Return on Investment, Earnings per share, cash flow |
| Bergh (1997) | Return on Asset |
| Sharma and Ho (2002) | Cash flow from operations, working capital from operation |
| Bild et al (2005) | Return on Equity |
| Shimizu and Hitt (2005) | Return on Asset |
| Zollo and Meier (2008) | Return on Asset |
| Mohammad et al(2014) | Return on sales, Sales growth |

### 2.11.2 M&As and stock-market-based measures

In the second stream of research, where the majority of studies come from (Cartwright and Schoenberg, 2006; Zollo and Meier, 2008), stock market- based measures have been used to assess the performance of M&As. The basic principle behind such studies is that the company's strategic goal is to maximise its shareholder wealth (Papadakis and Thanos, 2010). Finance scholars have relied on stock prices for evaluating M&A performance because they are the only direct measure of stockholder value and data are easily accessible for all publicly traded firms (Campa and Hernando, 2004; Lubatkin and Shrieves, 1986). However, using stock returns as a performance indicator has received criticism. Some researchers (Larsson and Finkelstein, 1999; Lubatkin, 1983) suggest that the use of stock-market-based measures may suffer from serious limitations. Limitations of this method are that it cannot be used for companies which are not listed and that share price movements may not only be a result of a particular acquisition (Schoenberg, 2006).In the Libyan context some of banks are not listed in stock market. So it was difficult to evaluate the performance based on stock market base.

**Table 2.8 M&As and stock-market-based measures**

| Study | Financial measures |
|---|---|
| Firth (1980) | Shareholder returns |
| Malatesta(1983) | CAPM, Stock price |
| Bradley et al (1988) | CAPM |
| Shelton (1988) | CAR, cumulative residuals |
| Blackburn et al (1990) | Capital Market Returns, Corporate Control |
| Healy et al (1992) | Cumulative Abnormal Returns |
| Loughran and Vijh (1997) | Abnormal Returns |
| Capron and Pistre (2002) | Cumulative Abnormal Returns |
| Sudarsanam and Mahate (2003) | CAPM, Market book value, method of payment |
| Sudarsanam and Mahate (2006) | Cumulative Abnormal Returns |
| Cording et al (2008) | cumulative abnormal returns (CARs) |
| Kim and Finkelsten(2009) | cumulative abnormal return CAR |
| Teucher(2012) | Abnormal Returns |

### 2.11.3 Subjective indicators of performance

The third stream of research includes scholars from the fields of strategic management and organisational behaviour. These scholars have often employed managers' assessments (Angwin, 2004; Child et al., 2001; Datta, 1991; Homburg and Bucerius, 2006; Rostand, 1994). Subjective indicators of performance are usually used when objective measures are hard to obtain. Researchers employing this method usually send questionnaires to Chief Executive Officers or to the Top Management Team asking them about their perceptions of the organisational and financial performance of the firm.

Dess and Robinson (1984,page 265) point out that, the use of subjective measures has been based on three major reasons: (a) 'Researchers often encounter problems obtaining objective measures of performance' and thus subjective measures are more suitable; (b) respondents can provide information on both financial and non-financial indicators (Brouthers et al.,1998; Schoenberg, 2006) and thus the issue of performance is captured in a more multidimensional way; (c) research suggests that managers' perception of success defines the way they act. Hence, probably, the most suitable criterion for measuring the success of an acquisition is to ask questions regarding their perceptions (Nikandrou and Papalexandris, 2007).

Concluding with the third stream of research, some researchers (e.g. Lubatkin and Shrieves, 1986; Venkatraman and Ramanujam, 1986) express the view that the use of subjective measures of M&A performance may have inherent limitations. The most important is that the views expressed may be subject to managerial bias (Lubatkin and Shrieves, 1986) as a single respondent may overestimate his/her firm's performance (Venkatraman and Ramanujam, 1987). Subjective measures of performance have been widely used in the M&As literature. It is common for researchers administering surveys to enquire about performance implications. Generally, the measures used include financial performance indicators rather than non-financial (e.g. Birkinshaw et al., 2000; Bresman et al., 1999; Brock, 2005; Capron et al., 2001; Datta, 1991; Hitt et al, 1998; Kavanagh and Ashkanasy, 2006; King et al, 2004; Larsson and Finkelstein, 1999; Larsson and Lubatkin, 2001; Pablo, 1994; Saxton and Dollinger, 2004; Schoenberg, 2006; Stahl and Voigt, 2005; Very et al., 1997; Walter and Barney, 1990; Ahammad et al.,2014).

As seen above, the use of perceptions is frequently adopted in the strategic management literature on acquisition process and is justified on the basis that perceptions may be the best predictors of behaviour (Calori et al., 1994). There is evidence supporting the general reliability of self-reported performance measures particularly when reported by the firm's top managers (Nayyar, 1992; Very et al., 1997).

Academics employing subjective measures of performance often use regression analysis or structural equation modelling to assess the impact of certain independent variables on post-acquisition performance.

## 2.12 Conclusion

In summary, this chapter introduced the basic conceptions of M&As. This included identifying the types of M&A and motives of M&As. The most natural explanation is the growth motive, where the strategic goal is the entry to a new market, so intensifying growth which results in monopoly position. Entering new lines of business through diversification neutralises the effect of fluctuations in earnings. Acquisitions motivated by financial motives reduce the capital cost and provide an opportunity for a better utilisation of different tax structures. Another financial approach relates to the price of the undervalued target, because of imperfections in the market of information. Finally the acquisition may cover an economic irrational point of view, because managers try to maximise own wealth by an empire-building strategy. Moreover, the chapter contrasted the research on M&As from the perspectives of financial economists, strategic scholars, organisational researchers and the process school researchers. In the next chapter, the reader will be introduced to the extensive factors that effects on M&A performance.

The current chapter reviews literature focusing on pre merger factor and post merger factor that influencing merger performance.

This chapter reviewed the literatura on the different integration typologies and highlighted studying the pre-merger and post-merger integration process.

Despite the widely accepted view that cultural differences have an impact on the performance of M&A, a review of extant research provides contradictory findings. In line with other reviews (e.g. Schoenberg, 2000; Stahl and Voigt, 2003 and Teerikangas and Very 2006). This research conclude that current findings differ in terms of the impact of cultural fit on M&As.

This chapter highlighted that there are three main approaches used to conceptualise and assess performance that are widely used among strategy researchers: accounting reports, market valuations and key informant descriptions (subjective indicators). The accounting reports usually employ profitability of growth measures, the market valuations risk adjusted returns, unadjusted market value and abnormal returns, whereas key informant descriptions use operational, survival, overall performance and relative performance.Moreover, this chapter has provided the literature review on acquisition motives, pre- and post- acquisition that effected on merger performance. The next chapter will give an overview of the background to Libya and its banking sector.

# CHAPTER 3 LIBYAN CONTEXT AND BANKING SECTOR

## 3.1 Introduction

In the previous chapter, both the theoretical and empirical literature on mergers and acquisitions was reviewed. It was noted in that chapter that whilst the literature was extensive, the banking mergers in Libya provided a unique setting in that unlike many other mergers were forced upon the banks by the Central Bank of Libya. The implication of this is that the factors that might influence success might be different from what is already known in the literature and therefore the existing frameworks for explaining merger performance might not be appropriate in Libya. In this context, it is important to provide and understand of the context in Libya and to integrate these into the conceptual framework for the current study. Therefore this chapter aims to discuss institutional context in Libya and the nature of the Libyan banking sector. It consists of three parts. The first part of the chapter offers a brief review of the Libyan political and economic issues that have affected the banking industry. The second part sets the background and context in which the banking industry operates and to enhance the understanding of the development of this industry. Discussion in this part includes the historical of Libyan banking industry and describes the role of central bank and the structure of the banking system in Libya. The final part of the chapter provides a discussion of Libya’s banking sector reforms, including the banking mergers.

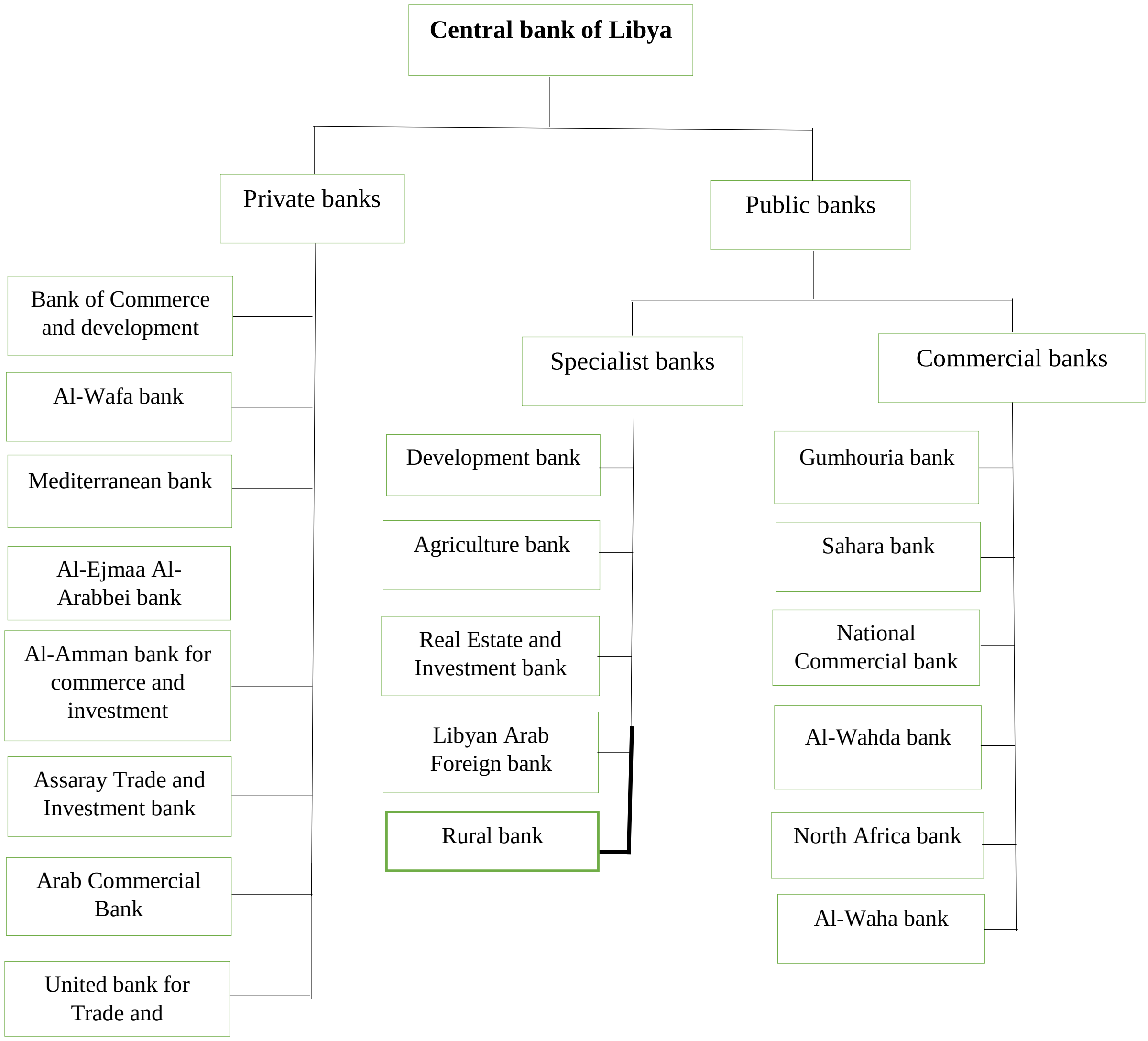



**Figure 3.1: Structure of the Libyan Banking System**

**Source: Central Bank of Libya (2010)**

### 3.5.1 A historical overview of the Libyan banking sector

The historic development of the banking system in Libya contained a number of phases of political development including the Ottoman Empire era, the Italian occupation period, the British administration period, the pre-Libyanization period, the Libyanization period, the nationalization stage and, finally, the emergence of private commercial institutions. These phases are discussed in more detail in the following sections.

#### 3.5.3.1 Functions of commercial banks

Commercial banks may engage in some or all of the following business activities (Article 65/2 of Banking Law No. 1/2005):

1. The cashing of cheques made out to and by customers.
2. Services relating to documentary credits, documents for collection and letters of credit.
3. Issuance and management of instruments of payment including monetary drawings, financial transfers, payment and credit cards, traveller's cheques etc.
4. Sale and purchase transactions involving monetary market instruments and capital market instruments to the credit of the bank or its customers.
5. The purchase and sale of debt, with or without the right of recourse.
6. Lease financing operations.
7. Foreign exchange transactions in spot and forward exchange markets.
8. The management, coverage, distribution and transition of banknote issues.
9. The provision of investment and other services for investment portfolios, and the provision of investment trustee services, including the management and investment of funds for a third party.
10. Management and safekeeping of securities and valuables.
11. Provision of trustee or financial investor services.
12. Any other banking activities approved by the Central Bank of Libya.

Before it can engage in banking activities, each commercial bank must obtain a licence from the Board of Directors of the CBL. (Article 66 of the Banking Law says this replaces the licence stipulated in the Commercial Law.) Commercial banks are prohibited from engaging in the following transactions (Article 77):

a. Wholesale and retail commerce, including importation and exportation and brokerage or commercial agency activities, except as required by financial leasing activities or Islamic banking services.

b. The acquisition of a joint stock company's shares in the capital of the bank.

c. The acquisition of the shares of another joint stock company in excess of 10% of the company's paid capital. The nominal value of the total shares owned by the bank in such companies must not exceed one-half of the paid capital and capital reserve.

d. Entry as a general partner into partnerships and the like.

e. Acceptance of shares that comprise the bank's capital in the form of a loan guarantee, or the transacting in or acquisition of such shares, unless ownership of the shares was transferred to the bank in payment of a debt to the bank by a third party; in this case, the bank must sell such shares within one year of the transfer of the shares to it.

f. The purchase of the shares of any bank operating in Libya, even if its head office is abroad, unless with the permission of the Board of Directors of CBL.

g. The issuance of bearer notes payable on demand.

#### 3.5.3.2 Ownership structure of Libyan commercial banks

The commercial banking sector in Libya consists of fifteen banks: six are public sector-owned (including two with foreign participation i.e. Al-Wahda Bank and Sahara Bank); eight are private banks jointly owned by Libyan and foreign investors; and one is owned jointly (50/50) by the Libyan State and the United Arab Emirates. As can be seen in Table 3.1, the ownership structure of the Libyan commercial banking sector can be categorised by the following features:

a. Four commercial banks are 100% owned by private local investors,

b. Eight commercial banks are wholly or partially owned by the public sector,

c. Two private commercial banks are jointly owned by private local and foreign strategic investors, and

d. One is owned jointly by the Libyan State and the United Arab Emirates (50% for each).

**Table 3.1: List of commercial banks operating in Libya as of 2010**

| No. | Name of the bank | Capital ownership | | |
|---|---|---|---|---|
| | | Public Sector % | Private Sector % | Strategic Partner % |
| 1 | Gumhuria Bank | 83 | 17 | 0.0 |
| 2 | National Commercial Bank | 85 | 15 | 0.0 |
| 3 | Al-Wahda Bank | 54 | 27 | 19 |
| 4 | Sahara Bank | 59 | 22 | 19 |
| 5 | North Africa Bank | 82 | 18 | 0.0 |
| 6 | Al-Waha Bank | 90 | 10 | 0.0 |
| 7 | Alamman Bank for Commerce and Investment | 60 | 40 | |
| 8 | Al-Wafa Bank | | 60 | 40 |
| 9 | Assaraya Trade and Investment Bank | 0.0 | 100 | |
| 10 | First Gulf Bank | 50 | | 50 |
| 11 | Al-Mutahed Bank for Trade and Investment | | 60 | 40 |
| 12 | Arab Commercial Bank | | 100 | |
| 13 | Bank of Commerce and Development | 17 | 34 | 49 |
| 14 | Mediterranean Bank | | 100 | |
| 15 | Alejmaa Alarabbei Bank | | 100 | |

**Source: Department of Bank Supervision and Monetary (2011)**

### 3.5.4 Private Commercial bank

Since the Libyan Banking Law No. 1 was applied in 1993, the number of private commercial banks in Libya has grown gradually; the first private commercial bank was established in 1997 (i.e. Bank of Commerce and Development) and by the end of 2010 the number of private commercial banks has reached eight, which includes, Arab Commercial Bank, Assaray Trade and Investment Bank, Alejmaa Alarabei Bank, Al-Wafa Bank, Al-Mutahed Bank for Trade and Investment, Alaman Bank for Commerce and Investment and Mediterranean Bank.

### 3.5.5 Specialised banks

Article 65/2 of Banking Law No. 1/2005 defines a specialised bank as an entity whose main purpose is to finance and grant credit for specific activities and whose basic activities do not include the acceptance of demand deposits. Specialised banks are structured on cooperative lines; they do not operate on the principle of profit, and thus their activities are different from those of commercial banks (although they may engage in certain commercial banking activities with the permission of the CBL). These banks were established specifically to support and accelerate socio-economic development in Libya by granting medium- and long-term loans for agricultural, industrial and real estate activities. There are four specialised banks in Libya: the National Agricultural Bank, the Savings and Real Estate Investment Bank, the Development Bank and the Rural Bank. All are wholly owned by the Government.

### 3.5.6 Factors affecting the Libyan Banks' performance (before merger)

This section describes internal and external factors affecting the Libyan banks' performance. These factors include: the conditions of the economy, bank competition, and the state regulations regarding the bank system. The Central Bank of Libya (2006) reported that there are many factors whether external and internal factors that put pressure on Libyan banks, which may affect Libyan decisions and policies. The following is a brief explanation of these effects:

### 3.5.6.1 Condition of the Economy

Major changes and circumstances in economic development and financial institutions in Libyan economy occurred over the period from 1969 until now. The banks have witnessed great development, and the banking sector has grown rapidly in terms of the number of banks and their branches, and increased numbers of Libyans working in the banking sector due to economic development (Central Bank of Libya, 2006). Similar development has taken place in the other sectors and in the economy in general. Also, the country has invested heavily in capital-investment projects. However, the over manning and the opening of unnecessary branches in some parts of the country have affected the performance of the banking system negatively (Central bank of Libya, 2007).

### 3.5.6.2 Banks Competition

Since 1969 the banking sector has grown rapidly in terms of numbers of the banks and their branches, due to economic development and deregulation, and in terms of introducing new services and improving existing services to meet new customer requirements. The CBL established many new banks as state banks; these banks provide short-term and long-term loans at low interest rates for all Libyan people in order to solve the housing problem and to meet the rate of growth in the construction sector by providing all new projects with loans. For that reason, bank competition increased in attracting customers and companies, although the level of competition was still low overall. In 1993, when the Central Bank of Libya issued new law No.1 to encourage both the private sector to establish new banks, and in 1996, the Libyan government issued law No.5 of 1997 to encourage foreign direct investment in Libya, Competition between Libyan banks increased. The new private banks, which have already started their business, are complementary to the existing ones, as they introduced new types of banking services; this put pressure on state-owned banks to match these developments, and led them to provide new banking services. Thus, banking competition has increased to a high level between state banks aiming to keep their customers and private banks seeking to attract the customers from state banks. By the end of 2007, there were 40 licensed banks totalling 49 banks and financial institutions operating in Libya, therefore, the future will not be so easy for Libyan commercial banks, with competition coming not only from national banks but also from foreign banks.

#### 3.5.6.3 State regulations

The first financial and banking legislation issued in Libya was the Law No. 4 of 1963, which gave the Central Bank of Libya all rights to control the banking system in Libya. In 1969, the CBL developed and amended this legislation to meet the changes in the business environment, and to ensure that banks serve the Libyan people. Therefore, all banks have to get a license before carrying out their activities or opening any branches, and have to follow the instructions, legal procedures and legal ratios imposed on licensed banks by the CBL during their operation in the country.

#### 3.5.6.4 Liberalization and privatisation of Libyan banks

Financial repression is characterised mainly by regulated fixed rates of interest on loans and deposits, restraint of capital flows in and out of the country, deliberate disfavour toward foreign financial competitors, controlling the exit of financial mediators from the market and non-competitively soliciting work for the banking sector through insurance programmes that are financed by the government sector. The objectives of liberalisation are to increase the level of competitiveness in the financial sector by opening the door to entrants, increasing and upgrading the available financial tools and options for investors and depositors by expanding the financial infrastructure of the sector, improving the process of determining and deriving interest rates so that these rates reflect actual costs of financial resources, improving foreign exchange distribution so that real costs are reflected and improving the packaging and customisation of financial resources, (Central Bank of Libya, 2006). Libyan banks may be affected by liberalisation in ways such as profitability, development and market share, pricing policy, levels of risk and the quantity and quality of financial services (Central Bank of Libya, 2006).

### 3.6 Conclusion

This chapter has outlined a basic background of the banking industry in Libya contextualizing it in relation to its historic, political, economic, and regulatory environments. The interaction of these environments helps to partly explain the nature and characteristics of the banking system and Libyan economic environment, where banks have to operate. Libya's banking industry has undergone several changes over the past two to three decades that have resulted in mergers. As a consequence the banking structure has constantly changed. The second part of this chapter focuses on studying the development of the banking system, including of the Libyan banking sector, its historical development and successive reforms. This chapter has also discussed the role of the Central Bank of Libya, which gave its approval for the opening of several national and international private banks and financial institutions as a means of developing the banking sector in the country. From the above discussion, it can be concludedt hat the Libyan economy is a very small and still in a developing stage depending on oil as its main source of finance. In the following chapter the researcher will present the conceptual framework that underlies it.

# CHAPTER 4 CONCEPTUAL FRAMEWORK

### 4.1 Introduction

The purpose of this chapter is to synthesise the issues discussed in Chapters 2 and 3, to clearly state the aims, objectives of the research, and posit the conceptual framework and constructs adopted for the needs of this study. The conceptual framework of this research is fundamentally important to the research design, and to the helpfulness and applicability of the research results.

The conceptual framework that underlies this study draws on three distinct schools of thought: strategic management, organisational behaviour and process. The strategic school is interested in the impact of acquisition on individual firms. It posits that the economies of scale and extended scope and market power that can be realised through acquisition lead to greater performance in the acquiring firm (Lubatkin, 1983; Chatterjee, 1986; Singh and Montgomery, 1987). Organisational literature adopts a more human resource-oriented perspective, concentrating on organisational responses to mergers. The central proposition in this school of thought is that similarity of culture in merging organisations will facilitate employee satisfaction and effective integration. It tends to focus on the "human" side of M&A, which is often overlooked by managers intent on doing the deal and realising operational synergies (Marks, 1982; Bastien, 1987; Weber et al., 2011; Buono and Bowditch, 1989; Mirvis and Marks, 1991; Schoenberg, 2006; Lodorfos and Boateng, 2006; Nguyen and Kleiner, 2003). Organisational researchers explain post-merger problems and failure as the result of organisational cultural differences (Sales and Mirvis, 1984; Buono et al., 1985; Chatterjee et al., 1992; Cartwright and Cooper, 1993; Larsson, 1993; Weber, 1996; Vaara, 2000). They argue that widely held beliefs are particularly change resistant and that cultural incompatibilities cause organisational problems (Cartwright and Cooper, 1992). The school of process has its theoretical underpinnings in behavioural theory (Cyert and Marchm, 1963; Jemison and Sitkin, 1986).

## 4.2 The strategic management school

While the financial economics perspective is primarily interested in the impact of M&A on the economy, the strategic management school concentrates on long-term value creation at company level (Birkinshaw et al., 2000; Schmidt, Vogt and Schriber, 2005). Strategy researchers are interested in strategic fit, the link between performance and the strategic attributes of combining firms, and the extent to which an acquired firm's business should be related to the acquirer and the outcome of the acquisition (Haspeslagh and Jemison, 1991; Birkinshaw et al., 2000; Cartwright and Schoenberg, 2006).

The strategic management school investigates the whole M&A process, ranging from the pre-merger phase to the post-merger phase (Birkinshaw et al., 2000). It has been argued that although the pre-merger phase is important, actual value is created in the post-merger phase (Jansen, 2008; Haspelagh and Jemison, 1991). There are two groups within the strategic management school: those focusing on acquisition performance and those focusing on acquisition planning (Haspeslagh and Jemison, 1991). These two groups have empirically analysed issues such as the impact of relative size, market share and pre-acquisition experience on M&A success (Birkinshaw et al., 2000). The findings of the acquisition performance group have been used by the acquisition planning group to develop strategic approaches to improve success rates (Haspeslagh and Jemison, 1991).

### 4.2.1 Strategic fit

Jemison and Sitkin (1986a) define strategic fit as: "the extent to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and non-financial goals of the parent" (p. 146). Strategists have long recognised that the strategic fit among merging partners is a critical element in determining the success or failure of a deal (Levine and Aaronovitch, 1981; Lubatkin, 1983; Angwin, 2000). Accordingly, they emphasise the importance of ensuring that the proposed subsidiary can contribute to the parent's strategy (Jemison and Sitkin, 1986b; Angwin, 2000), and of conducting strategic fit analysis (Larsson et al., 2003).

Strategic fit is seen as fundamental to achieving synergy and creating value (Larsson and Finkelstein, 1999; Homburg and Bucerius, 2006; Hitt et al., 1998; Harrison et al., 1991). It assumes a degree of homogeneity, business similarity, product complementarity and geographic complementarity (Ides and Oyon, 1998). The merged business is able to exploit these similarities, and the expanded market power and economies of scale they allow, to create value (Capron, 1999; Larsson et al., 2003). Chatterjee (1986) proved that this kind of collusive synergy (i.e. synergy between companies from similar backgrounds) is associated with higher value than financial synergy or operational synergy. Shelton (1988) argues that a strategic fit is indicated when two merged firms are able to create value to a degree that would not have been possible individually; in other words, it is the combination of their assets that creates this extra value. All the resource synergies are important in the early stage of developing proficiencies in newly-combined firms (Song et al., 1997; Larsson and Finkelstein, 1999).

### 4.3 The organisational behaviour school

While the finance literature looks at the impact of acquisition on the economy and the strategic literature focuses on the impact on a given firm, the organisational literature covers the impact on individuals and organisational culture (Haspeslagh and Jemison, 1991; Birkinshaw et al., 2000).

#### 4.3.1 Organisational fit

Organisational fit refers to the match between administrative and cultural practices, and how personnel and cultural characteristics may affect firm integration (Jemison and Sitkin, 1986b; Rottig et al., 2013; Hitt et al., 2001; Risberg, 1999). The terms organisational fit and organisational compatibility are often use synonymously (Cartwright and Cooper, 1993a; 1993b; 1993c; 1994; 1995; Guptara, 1992; Schraeder and Self, 2003; Veiga et al., 2000; Very et al., 1997; Zaheer et al., 2003). Thus, firms that have similar cultures and routines are defined as being compatible or having an organisational fit (Shelton, 1988). On the other hand, incompatibility of organisational culture is the biggest cause of organisational conflict and M&A failure (Grotenhuis, 2001). Prior studies therefore stress that when deciding whether to pursue an acquisition opportunity, the would-be acquiring firm should take into account the cultural differences between itself and its target (Sales and Mirvis, 1985). Cartwright and Cooper (1993) point out that cultural fit can effectively counteract the benefits of integration, so they must be considered at the beginning of the M&A process. These authors found a relationship between pre-M&As organisational culture and post-M&A organisational efficiency.

Table 4.1 presents the research basis of M&A that was applied to explain the relationship between the key variables in the study.

### 4.4 Process perspective school

The central proposition in this school is that the management actions and the post-acquisition integration process determine the extent to which the potential benefits of the acquisition are realised. Its theoretical underpinnings are in behavioural theory (Jemison and Sitkin, 1986). The main argument in this school is that strategic and organisational fit offer potential synergies but their realisation is totally dependent on the ability of management to manage the post-acquisition process effectively (Shrivastava, 1986; Hunt, 1990; Haspeslagh and Jemison, 1991; and Greenwood et al., 1994). The uniqueness of this school is that it recognises that the acquisition process (speed of integration) itself is a potentially important determinant of acquisition outcomes (Jemison and Sitkin, 1986). This perspective recognises the important role of issues of strategic fit and organisational fit, which are pre-acquisition considerations as to the potential for value creation in acquisitions. It adds the consideration of how aspects of the speed of integration can affect the final outcome.

**Table 4.1: Thritecal basis of M&A**

| M&A issue | Pre-merger phase | Post-merger phase | M&A success |
|---|---|---|---|
| **School of thought** | | | |
| ***Strategic management school***<br>Prominent literature:<br>Singh and Montgomery (1987)<br>Kim and Finkelstein (2009)<br>Larsson and Finkelstein (1999)<br>Shelton (1988)<br>Bauer and Matzler (2014) | Strategic fit:<br>• Similarity<br>• Complementarity | Integration<br>• Effectiveness of integration | M&A performance measure<br>• Survey based |
| ***Organisational behaviour school***<br>Prominent literature:<br>Chatterjee et al. (1992)<br>Datta (1991)<br>Appelbaum et al. (2000)<br>Shrivastava (1986)<br>Weber (1996)<br>Weber et al. (2011; 2012) | Organisational culture fit<br>• Similarity<br>• Compatibility | | |
| ***Process***<br>Prominent literature:<br>Angwin (2004)<br>Ellis, Reus and Lamont (2009)<br>Homburg and Bucerius (2006)<br>Jemison and Sitkin (1986) | | Process<br>• Speed of integration | |

## 4.5 Research model and hypotheses

It is the contention of this study that post-M&A performance in the LBS is affected by both the pre- and post-merger phases, and that the post-merger phase is affected by the pre-merger phase. An extensive body of literature has investigated the antecedent variables that predict M&A performance. The finance and strategy literature has focused primarily on pre-merger factors as determinants of M&A success (Weber et al., 2011). The implicit assumption in these studies is that the actions of the acquiring firm during the pre-merger stage are the sole determinants of value. For example, strategic theories, especially the concept of strategic fit, suggest that relatedness between the buying and the target firms determines the synergy potential, and as such is the key determinant of value creation (Chatterjee et al., 1992). To explain the variance in M&A performance, scholars have also cited the concept of cultural fit, focusing on the relationship between pre-merger cultural differences and post-merger integration ( Björkman et al., 2007; Stahl and Voight, 2008; Weber et al., 2009).

### 4.5.1 Strategic similarity, complementarity and organisational cultural fit

This leads us to the following hypothesis:

*H1a: The greater the strategic similarity, the greater the Organisational cultural fit.H1b: The greater the strategic complementarity, the greater the Organisational cultural fit.*

### 4.5.2 Synergy potential (similarity and complementarity synergies)

et al., 1994).

Researchers using the resource based perspective operationalize the construct of fit in terms of product market, resource and/or supply chain-related similarity (Pehrsson, 2006; Stimpert and Duhaime, 1997). Indeed, scholars regularly argue that similarity is an indicator for the synergy potential of a transaction (Meyer and Altenborg, 2008). But although higher similarity seems likely to yield better results (Capron et al., 2001; Prabhu et al.,2005; Ellis, 2005; Swaminathan et al., 2008; Tanriverdi and Venkatraman, 2005), in fact, findings so far have been inconsistent. The dominant logic may be that strategic similarity fosters value creation, but there are arguments for complementary differences being more crucial for M&A success. Complementarity may be a relatively new concept in the M&A literature (King et al., 2004; Larsson and Finkelstein, 1999).

During the integration process, each task that aims to capture synergy can generate its own performance and help facilitate integration (Weber et al., 2011; Angwin and Vaara, 2005). However, if there are no true synergies, the merger will yield only negligible benefits and integration will be limited (Weber et al., 2011). It is reasonable that it will be easier for the company, since as the synergy potential is greater, there is similarity in resources and in complementary resources (Kim and Finkelstein, 2009). Therefore, the higher the level of synergy potential, the higher the integration effectiveness will be.

*H2a: The greater the strategic similarity, the higher the integration effectiveness.*

*H2b: The greater the strategic complementarity, the higher the integration effectiveness.*

*H3a: The greater the strategic similarity, the greater the M&A performance.*

*H3b: The greater the strategic complementarity, the greater the M&A performance.*

### 4.5.3 Strategic similarity, complementarity and speed of integration

*H4a: The greater the strategic similarity, the greater the speed of integration.*
*H4b: The greater the strategic complementarity, the greater the speed of integration.*

### 4.5.4 Organisational cultural fit and M&A performance

Empirical studies of organisational cultural compatibility reveal that differences in the philosophies, values and behaviours of the top management teams can lead to uncertainty and insecurity amongst managers in the acquired firm (Buono and Bowditch, 1989), which may develop into feelings of anxiety, frustration and resentment (Cartwright and Cooper, 1996). These negative feelings in turn can result in miscommunication and conflict (Sales and Mirvis, 1984), reduced commitment towards cooperation (Weber et al., 1996) and lower job performance (Buono and Bowditch, 1989). This line of research is best summarised by Chatterjee et al's (1992) finding of a strong negative relationship between the extent of organisational cultural differences and acquirer shareholder gains.

In parallel to the academic research, there has been growing recognition amongst practitioners of the importance of organisational issues as a key determinant of acquisition performance (Hopkins, 1999). Management style has been posited as a central element in a firm's overall culture, simultaneously reflecting the influence of both organisational culture (Sales and Mirvis, 1984; Sathe, 1985) and national culture (Hofstede, 1983). Practitioners confirm that acquisition can bring clashes in management style and operating approach; their concerns about management style compatibility are evident in the survey data presented by Angwin and Savill (1997).

Empirical studies suggest that differences in organisational culture between the acquiring and acquired firm can lead to inferior acquisition performance; Schoenberg (2004), for example, found a negative correlation between differences in attitudes towards risk and acquisition performance. However, although it seems obvious that cultural similarity fosters integration and success, there is empirical evidence to suggest that cultural differences can have a strong positive impact on synergy and potential realisation and, therefore, on value creation (Cartwright and

Cooper, 2001; Schraeder and Self, 2003; Teerikangas and Very, 2006). This leads to the hypothesis:

*H5: The greater the organisational cultural fit between the acquired and acquiring firm, the greater the M&A performance.*

### 4.5.5 Organisational cultural fit and effectiveness of integration

The argument that organisational cultural differences are major causes of organisational problems such as increased acculturative stress and change resistance is a central tenet of M&A research (Buono et al., 1985; Cartwright and Cooper, 1996; Elsass and Veiga, 1994; Nahavandi and Malekzadeh, 1988; Sales and Mirvis, 1984; Weber, 1996; Weber et al., 1996). This research consistently shows that organisational culture clash is detrimental to post-merger integration (e.g. Chatterjee et al., 1992; Weber, 1996; Weber and Tarba, 2010) and to merger effectiveness (Datta, 1991; Weber, 1996). The key to managing the integration process is: "to obtain the participation of the people and creat[e] an atmosphere that can support capability transfer" (Haspeslagh and Jemison, 1991). Overcoming cultural differences appears to be a critical factor in creating this atmosphere and obtaining people's participation (Weber, 1996). Thus, the degree of cultural difference may determine the effectiveness of the integration process:

*H6: The greater the organisational cultural fit between the merging companies, the more effective the integration process.*

### 4.5.6 Organisational cultural fit and speed of integration

1994). Conversely, where there is high cultural compatibility, employees are more likely to abandon their former culture and accept the new culture quickly. Thus:

*H7: The greater the organisational cultural fit, the greater the speed of integration.*

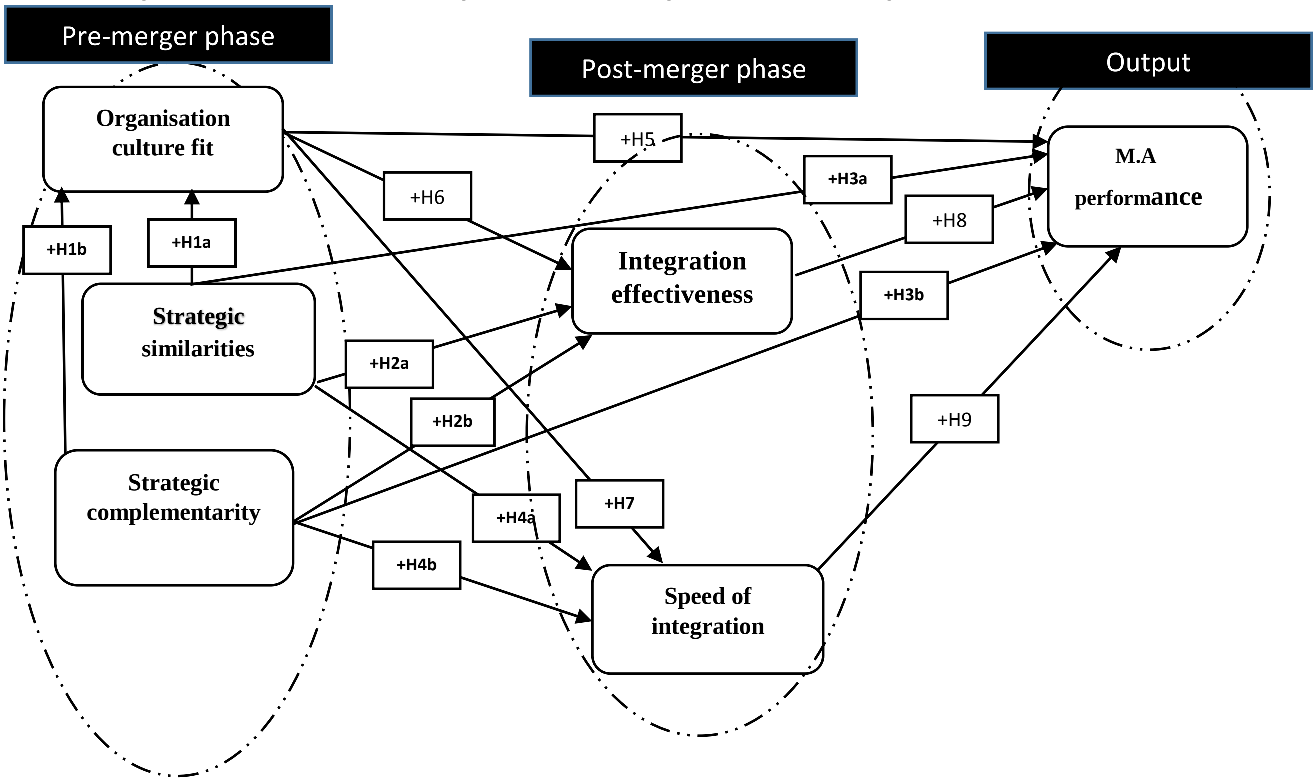
### 4.5.7 Effectiveness of integration and M&A performance

*H8: The higher the effectiveness of the integration process, the higher M&A performance.*

### 4.5.8 Speed of integration and M&A performance

*H9: The greater the speed of integration, the greater the M&A performance.*

**Figure 4.1: Effect of pre-merger and post-merger factors on merger performance**




## 4.6 Conclusions

To sum up, this chapter suggests an alternative way of managing the post-acquisition process and how the multi-dimensional culture construct influences this process. The chapter was divided into two sections. The first section concentrated on the overall conceptual framework adopted in this research and the second section elaborated on the multi-dimensional cultural construct. The conceptual framework is based on three different schools of thoughts, the strategic management school, the process school and the organisational behaviour school. However, the researcher hypothesize that these three schools are interrelationship and affect the post-acquisition success.

Ultimately, in this study the researcher implies that organisation culture is active constructs in post-acquisition management and success. The next chapter proposes the research method adopted to test the conceptual framework and its construct developed in this chapter.

# CHAPTER 5 RESEARCH METHODOLOGY

## 5.1 Introduction

The term research methodology refers to "how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted" (Saunders et al., 2007, p.481). Collis and Hussey (2003) assert that the term covers the overall research process, from the theoretical underpinning to the collection and analysis of data. The researcher should ensure that the chosen methodology is appropriate to their objectives and research questions. Accordingly, the aim of this chapter is to explain the choice of methodological approach in this study. The chapter starts with a brief discussion of research philosophy and the available paradigms before discussing the chosen research method. It describes the data collection techniques that were employed, how samples were selected, and how the gathered data were analysed.

## 5.2 Research philosophy

### 5.2.1 Definitions

The research philosophy is the procedural framework within which the chosen methodology (e.g. case study, survey, experiment or grounded theory) is located. It is the particular paradigm (i.e. the view or approach) that a researcher adheres to when conducting his or her study (Easterby-Smith et al., 2002; Cresswell, 2003; Leedy and Omrod, 2005). Saunders et al. (2007, p.112) describe the research philosophy as "a way of examining social phenomena from which particular understandings of these phenomena can be gained and explanations attempted." Easterby-Smith et al. (2002) give three reasons why the researcher should be aware of the philosophical assumptions that underlie scientific research. Firstly, an understanding of these assumptions can inform and clarify the design of the research; this involves consideration not just of what kind of evidence is needed to achieve the research objectives and how it is to be collected and interpreted, but also the extent to which this will provide useful answers to the fundamental questions being investigated by the research. Secondly, this understanding can help the researcher to identify which designs will achieve their objectives and which will not, thus maximising the chance of avoiding errors. Finally, it will enable them to adapt existing designs to suit the particular constraints they face, and to recognise, or even create, designs that may be outside their previous experience. The choice of research philosophy will be determined by the researcher's ontological and epistemological perspectives. It is essential to adopt the ontological and epistemological positions that are most suited to the chosen area of research. Every piece of research is based on specific philosophical assumptions, which are either implicitly or explicitly expressed (Hanafi, 2006). These assumptions have direct implications for the research strategy and the methods chosen for data collection. Thus, the researcher must consider the philosophical assumptions underlying their research before they design their study (Creswell, 2009). The researcher must decide their perspective on the nature of reality (ontology), and how they know what they know (epistemology).

**Ontological and epistemological perspectives**

According to Crotty (2003, p.10) "each theoretical perspective embodies a certain way of understanding what is (ontology) as well as a certain way of understanding what it means to know (epistemology)." Ontology is concerned with the nature of existence, the structure of reality. Epistemology deals with the nature, possibility, scope and general basis of knowledge (Hamlyn, 1995) and "is concerned with providing a philosophical grounding for deciding what kinds of knowledge are possible and how we can ensure that they are both adequate and legitimate" (Maynard, 1994, p.10).

Ontology refers to perspectives of reality. It is a discipline of philosophy, which deals with the study of what exists, or, in other words, whether there is truth to be discovered. (Crotty, 2003). Ontological assumptions are concerned with how individuals perceive social reality. The fundamental points of orientation here are the two distinguishable ontological positions: objectivism (positivism) and subjectivism (interpretivism). Objectivism holds that social entities exist in a reality external to, and independent of, social actors concerned with their existence (Saunders *et al*, 2009: 596, 601). Subjectivism, on the other hand holds that social entities are created from the perceptions and consequent actions of those social actors responsible for their creation. From the positivist's ontological point of view (realist), there is a single external reality. That is, researchers see reality as external, independent and objective, regardless of their beliefs. The positivist view is that reality exists 'out there,' and the subject under analysis should be tested objectively (Remenyi et al., 1998). In contrast, Subjectivism (interpretivism) is a position "that asserts that social phenomena and their meanings are continually being accomplished by social actors" (Bryman, 2004, p. 17). Subjectivism are concerned with the belief that "the observer makes a difference to the observed and that reality is a human construct" (Wellington, 2000, p. 16). They believe that there is no single reality, the world has different meanings and knowledge is personal, experiential, and subjective. Researchers adopting this approach ask questions of their subjects and make their judgements based on human perception, which is subjective and socially constructed according to its context (Opie, 2004; Cohen et al., 2008). Epistemology, which derives from the Greek words *episteme*, which means knowledge or science, and *logos*, meaning reason, is defined by Crotty as the branch of philosophy that deals with the theory of knowledge. He goes on to explain that it is: "…embedded in the theoretical perspective and thereby in the methodology" (2003, p.63). Epistemology is the study of the nature of knowledge and importantly what constitutes acceptable knowledge in a given field of study (Saunders et al, 2009: 591). It is "the philosophy of knowledge, a system of thoughts that articulates specific beliefs about the nature of knowledge" (Hartas, 2010, p. 16). In other words, as Blaikie (2000) points out, epistemology is concerned with the central issues and questions of 'truth' including, "what can be counted as knowledge, what can be known, and what criteria such knowledge must satisfy in order to be called knowledge rather than beliefs" (p. 8). In social science research, similarly to ontology, there are two common epistemological positions: objectivism and constructivism (Crotty, 1998). The distinction between quantitative and qualitative approaches to research is due to the different underlying epistemological positions held by researchers within these two paradigms. Objectivists hold the view that knowledge is objective, and independent of the observer. They view knowledge as real 'hard' and objective and require observation, measurement, quantification, and generalisation of data (Wellington, 2000). Constructivists, on the other hand, believe that reality is subjective and socially constructed. Their view of human knowledge contradicts the objectivist view. The constructivist theory is based on the assumption that reality and the investigator who observes it cannot be separated. They believe that the investigator does not discover truth, but that s/he constructs it, and, as a consequence reality can have more than one interpretation (Crotty, 2003; Wellington, 2000). Researchers' different ontological and epistemological stances can lead to widely divergent research approaches and to the same social phenomenon being perceived in very different ways (Crotty, 2003).

### 5.2.2 Research paradigms

Two main epistemological paradigms are identified in the literature, namely positivism (also known as objectivism) and interpretivism (subjectivism). Positivism is based on the assumption that social reality and social phenomena exist independent of us, whether or not we are aware of them, and that the act of investigating reality does not affect this reality (Collis and Hussey, 2009). The key idea of positivism is that: "…the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition" (Collis and Hussey, 2009, p.57). The philosophy that the physical world can be objectively measured, and that cause and effect can be described and identified with certainty (Schutt, 2003), is the foundation of much quantitative research in particular. This kind of research tends to focus on finding statistical connections between phenomena. Positivists seek to explain the world by developing general laws from what can be observed as facts (Henn et al., 2009). Researchers who adopt the positivism approach focus on facts in aiming to formulate hypotheses testing for generalisation from a small sample to the whole population, and normally use a survey to produce the findings (Collis and Hussey, 2009). Bryman and Bell (2011, p.15) argue that in the positivist approach: "the purpose of theory is to generate hypotheses that can be tested and that will thereby allow explanations of laws to be assessed". These hypotheses are tested on a sample, often by means of a survey (Collis and Hussey, 2009), to assess their suitability for generalisation to the whole population.

While positivists start with the fundamental theory, then decide what kind of observations will best demonstrate the truth, interpretivists move from specific observations to broader generalisations and theories. In other words, the researcher focuses on meanings, tries to understand what is happening and then develops ideas through induction from the data (Hackley, 2003; Harker, 2003). The central assumption of the interpretivist paradigm is that the world is socially constructed; that is, social reality and social phenomena are determined by social actors' actions and perceptions (Easterby-Smith et al., 2002). The act of investigating reality inescapably affects this reality.

The differences between the positivist and interpretivist research approaches can be characterised in a number of ways – the generally accepted differences are summarised in Table 5.1 (Deshpande, 1983; Harker, 2003; Weber, 2004).

**Table 5.1: Key features of positivist and interpretivist paradigms**

| Description | Positivism | Interpretivism |
|---|---|---|
| Basic beliefs: | The world is external and objective<br><br>Observer is independent | The world is socially constructed and subjective<br><br>Observer is part of what is observed |
| Researcher should: | Focus on facts<br><br>Look for causality<br><br>Reduce phenomena to simplest elements<br><br>Formulate hypotheses and then test them | Focus on meaning<br><br>Try to understand what is happening<br><br>Look at the totality of each situation<br><br>Develop ideas through induction from data |
| Preferred method | Quantitative (e.g. statistics, content analysis) | Qualitative (e.g. Hermeneutics, phenomenology) |
| Validity | Certainty: data truly measures reality | Defensible knowledge claims |
| Reliability | Reliability: research results can be reproduced | Interpretive awareness: researchers recognise and address implications of their subjectivity |
| Generalisability | Statistical probability | Theoretical abstraction |

Adapted from Deshpande (1983), Easterby-Smith et al. (2002), Harker (2003), Weber (2004), Hussey and Hussey (2003)

As can be seen from Table 5.1, each philosophy has its own assumptions regarding research design and methodology. The positivist paradigm uses quantitative and experimental methods to test hypothetical and deductive generalisations (Saunders et al., 2007). It searches for causal explanations and fundamental laws, taking large samples, and generally reduces the whole to its simplest possible elements in order to facilitate analysis. In contrast, interpretivism uses qualitative approaches to inductively and holistically understand human experience in a context-specific setting. It focuses on meanings and employs multiple methods to establish different views of phenomena (Amaratunga et al., 2002).

The positivistic approach was chosen as the most suitable for this study for a number of reasons. First, it facilitates comparison with previous studies on culture and performance (e.g. Weber, 1996; Datta, 1991; Weber et al., 2011; Schoenberg, 2006; Sarala, 2010). These studies, which have tended to adopt a positivistic approach, treat culture as an objective phenomenon that can be accurately measured, observed and investigated. Weber and Tarba (2012) point out that in the M&A context, the positivistic approach makes it possible to measure and evaluate corporate culture, including beliefs, values, fundamental assumptions, ceremonies, dress code and other aspects of the organisation, at a relatively low cost. Second, the focus of this study is to understand, rather than to construct the meaning of, attitude and behaviour patterns. Were the objective to understand and explain the meaning of certain attitudes and behaviour, the interpretive approach would be more appropriate. Third, this study is deductive in approach; it has been guided by hypotheses which were formulated based on previous studies and then tested using empirical data (Sekaran, 2003). Fourth, the data were mainly collected in quantitative form and analysed using quantitative methods (Bryman and Bell, 2003).

## 5.3 Research Method

### 5.3.1 Quantitative and qualitative methods

Saunders et al. (2007) state that the terms quantitative and qualitative are used widely in business and management research to differentiate between data collection techniques and data analysis procedures. According to Bryman and Bell (2003), the main distinctions between quantitative and qualitative research strategies are that the former emphasises quantification in the collection and analysis of data, mainly uses a deductive approach to test theory, employs a natural scientific approach, is most likely to be positivist in orientation, and views social reality as external and objective. In contrast, qualitative strategy usually emphasises words rather than quantification in the collection and analysis of data, predominantly uses an inductive approach to generate theory, rejects the natural science approach in favour of an interpretive approach, and views social reality as a constantly shifting, emergent property created by individuals (constructionism) (Bryman and Bell, 2003, p. 25).

The quantitative approach, which is "objective" in nature (Naoum, 2007), places considerable emphasis on the statistical generalisation of findings to explain and predict events in the social world. This involves measuring the relationships between variables and focusing on the causal relationships between phenomena. Evidence of these links is gathered by generating and analysing data in a logical and numerical form (Bryman, 2008).The most basic way of gathering quantitative data is the questionnaire survey. Large sample surveys allow the researcher to establish the relationships between a range of independent variables and an outcome (for example, firm performance) and to generalise the findings to the population from which the sample was drawn (Creswell, 1994).

Saunders et al. (2007) observe that qualitative methods are generally understood to be any data collection technique that generates or uses non-numerical data. Van Maanen (1980, p.9) defines them as interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning (not the frequency) of certain more or less naturally occurring phenomena in the social world. The most popular qualitative methods are interviews, observation and diaries. Qualitative research, which is essentially "subjective" in nature, may be classified as either exploratory or attitudinal. Bryman and Bell (2007) summarise the differences between the qualitative and quantitative approaches as shown in Table 5.2.

**Table 5.2 Fundamental differences between quantitative and qualitative research strategies**

| | Quantitative | Qualitative |
|---|---|---|
| Principal orientation to the role of theory in research | Deductive; testing of theory | Inductive; generation of theory |
| Epistemological orientation | Natural science model, in particular positivism | Interpretivism |
| Ontological orientation | Objectivism | Subjectivism (Constructionism) |

Source: Bryman and Bell (2007, p.426)

### 5.3.2 Research approach adopted in this study

Morgan and Smircich (1980) observe that the appropriateness of the research approach depends on the aims of the research and the nature of the social phenomena to be explored. As discussed above, this research takes a positivist approach, which requires a quantitative strategy. The use of a quantitative strategy was judged appropriate for a number of reasons. First, the nature of the research questions and objectives requires the testing of hypotheses; to do this, the variables must be capable of being measured quantitatively. Moreover, the quantitative approach is especially appropriate, given that these questions are causal in nature. Second, statistical analysis allows for accurate comparisons and generalisations. Previous quantitative studies (e.g. Cartwright and Cooper, 1993; Chatterjee et al., 1992; Weber et al., 1996; Lubatkin et al., 1999) have been shown to have high reliability and validity, and there is a strong .Third, the nature of the study questions used is causal such that the quantitative approach would be the most appropriate way to test them. The main method of data collection was therefore quantitative, though there was some use of the qualitative interview method during the development of the main research instrument.

### 5.3.3 Data

According to Sekaran (2003), data can be classified as primary or secondary. The former refers to information obtained first hand by the researcher on the variables of interest for the specific purpose of the study and the latter refers to information gathered from sources that already exist. In this study, primary data were collected using a questionnaire survey. This strategy was selected in order to maximise the reliability and validity of the gathered data (Robson, 2002; Creswell, 2003;

Modell, 2005) and because it is efficient in terms of energy, time and cost (Sekaran, 2003); it is possible to reach a large number of geographically diffused respondents, including managers with busy schedules. Furthermore, surveys can be targeted to produce the desired kind of data, and the results can be analysed using statistical models. Emory and Cooper (1991) argue that they are an appropriate instrument for gathering information on perceptions and past events, while Bryman (2008) suggests that they are the best way of collecting information from staff and managers in organisations.

The questionnaire method has also been found to be the most effective way of collecting data in Arab cultures (e.g. Abdalla and Al-Homoud, 1995; Agnaia, 1996; Albahussain, 2000; Al-Athem, 2000). This was a particularly relevant consideration, given that this research was conducted in Libya. It was also felt that the questionnaire would allow objective measurement of the relevant M&A variables so that the relationship between these variables could be examined. This is in line with previous research that has also used questionnaires to study the M&A process (e.g. Weber, 1996; Chatterjee et al., 1992; Datta, 1991; Weber et al., 2011).

### 5.3.4 The sample

An important issue when implementing a questionnaire survey is sampling (Robson, 2002; Neuman, 2003). Sampling is defined by Sekaran (2003) as the process of selecting a sufficient number of elements from the population such that by studying the properties or characteristics of the sample, the researcher will be able to generalise such properties or characteristics to the population as a whole. When undertaking quantitative data collection, it is important to consider the study population – that is, the total number of elements, organisations, subjects or members from which it is possible for the researcher to collect data (Teddlie and Tashakkori, 2009; Collis and Hussey, 2003).

The first step in the sample selection process in this study was the selection of banks that had been formed as a result of mergers in Libya. The second step was to select managers from the three banks to fill in the questionnaire. The principle in this type of sampling is to get all possible cases that fit the given criteria

(Neuman, 2003); in this study, this involved identifying those people in each firm who were the most qualified to provide the required information, had the relevant knowledge and were willing to participate (Theodosiou and Katsikeas, 2001). The process began with the identification of an acquirer bank from a central bank of Libya database. The bank's website was then checked to identify the person working for the banks before and after the merger. In some cases, banks were called by phone to identify a key person in the company because the information on their website was either inadequate or unclear. Based on the results of the website search and telephone conversation, a list of 500 potential survey participants was assembled. Banks that did not provide contact details for the relevant managers were eliminated from the list, leaving a sample of 486.

Hence, the informants were not randomly chosen. In most cases, it was the chief executive, executive vice president, general manager, business development director or the finance manager that really had the expertise to answer the questions. The focus on the management team as a unit of analysis was based on a number of considerations. First, managers play the most significant role in shaping the corporate culture and signalling it to the workforce (Schein, 2005); the beliefs and values of these managers are expected to permeate and influence other levels of the organisation. Second, some researchers have argued that cultural differences at management level are most likely to affect the merging organisations' ability to realise the potential synergy of the merger (Davis, 1986; Sales and Mirvis, 1984). Third, to study the effects of cultural differences, it is necessary to observe the contact between the members of the two cultures. During mergers, such contact is likely to be greatest at management level (Weber and Schweiger, 1992). Fourth, many organisations select their managers from the ranks of individuals who appear to best represent the value system of the majority. As such, the managers' subculture may be a reasonable manifestation of the organisational culture. Finally, managers are involved in and have extensive knowledge about the main integration efforts and the effectiveness of the integration process (Weber, 1996).

### 5.3.5 Questionnaire development

The questionnaire in this study was adapted from questionnaires which have been used in previous studies (Chatterjee et al., 1992; Lubatkin et al., 1999; Weber, 1996; Weber et al., 1996; 2011).This strategy was consciously chosen to enhance the validity and reliability of the measures (Kominis and Emmanuel, 2007). In addition, it also facilitated comparison with previous studies (Bryman and Bell, 2003).

Particular attention was paid to the wording of the survey questions as poor or ambiguous wording can distort the results (Emory and Cooper, 1991). The questionnaire made extensive use of terms found in strategy literature, such as integration, centralisation, performance measurement and strategic motive. These words may not be fully understood by everyone in the firm, but it was assumed that they would pose no problems for corporate managers. Care was taken to avoid terms which could have different interpretations. For example, there is often confusion between “mergers” and “acquisitions”. In the literature, these words are often used interchangeably (Weber, 2003), but mergers and acquisitions in fact bring different types of organisational change. Consequently, the questionnaire used “merger” but avoided “acquisition” and “takeover”. Care was also taken to avoid loaded questions and strong adjectives.

Likert scales were used for the majority of the questions. These consist of “a number of evaluative statements concerning an attitude object” (Dillon and Kumar, 1994) and are commonly used in strategy research to measure attitudes. All of the questionnaires that served as models for this research project used Likert scales. However, the success of Likert scales depends to a large extent on the quality of the scale items. According to Dillon et al. (1994), the scale items should: (1) capture all relevant aspects of the attitude object, (2) be unambiguous and (3) be sensitive enough to discriminate and thus create variability. In order to increase the variability, the scales were 5-point (strongly agree to strongly disagree) rather than 3-point. This also allowed the use of statistical tests such as SEM and CFA, which only accept responses from a 5-point scale or above (Blunch, 2008). The decision was made not to go any higher (i.e. 7-point) because

Libyan respondents are more familiar with the Likert 3-point and 5-point scales and, as Holmes (1974) points out, 5-point scales are generally the easiest for the respondent to comprehend. Taking into consideration such factors as the type of information needed and the characteristics of the respondents, Likert 5-point scales were considered the most appropriate for this study.

#### 5.3.5.1 Measurement of variables

The variables in this thesis are: merger and acquisition motives, organisational culture fit, synergy from similarities, synergy from complementarities, speed of integration, effectiveness of integration, and performance of M&A.

#### 5.3.5.2 Merger and acquisition motives

This section of the questionnaire was designed to examine the motivations behind mergers and acquisitions in the Libyan banking sector. From a thorough review of previous M&A studies (e.g. Seth et al., 2000; Walter and Barney, 1990; Kreitl and Oberndorfer, 2004), a number of possible motives for conducting merger and acquisition were identified as having been used in questionnaire surveys. Following a closer analysis of the questionnaires used in these prior studies, a decision was made to adapt the version used by Kreitl and Oberndorfer (2004). The most recent study on motivations, this captured all the motives already identified by Seth et al. (2000) and Walter and Barney (1990) and therefore represented the most comprehensive set of motives from which to draw. In adapting the questionnaire, care was taken to ensure that only questions relevant to the Libyan context were included; this left nineteen questions relating to the motivations for M&A. In line with previous studies (Seth et al., 2000; Kreitl and Oberndorfer, 2004), a 5-point Likert scale was employed asking respondents to indicate the importance of these motives in the LBS. The scale ranged from 1 (no importance) to 5 (very important).

#### 5.3.5.3 Organisational culture dimensions

The measurement of organisational culture differences was based on the measurement method originally developed by Chatterjee et al. (1992) and subsequently used in a number of other studies (Lubatkin et al., 1999; Weber, 1996). A cultural difference index was computed across seven dimensions, each consisting of three to five items: innovation and action orientation (five items); risk-taking (five items); lateral integration (four items); top management contact (three items); autonomy and decision-making (five items); performance orientation (three items); and reward orientation (four items). This produced a total of 29 questions addressing managers' attitudes towards the differences in values between the merging companies. For each question, respondents were asked to rank the level of similarity in the organisational culture of the two merging banks on a 5-point scale ranging from very similar to very different. The seven dimensions are discussed in more detail below.

#### 5.3.5.3.1 Innovation and action orientation (5 items)

Managers with a strong orientation towards innovation and dynamic activity encourage rapid response to change and to competition in the external environment. They encourage innovation as a way of coping with environmental challenges and gaining competitive advantage, and attempt to exploit opportunities for new products and markets. In contrast, organisations with a less action-oriented management culture generally have managers who prefer stability, intensive planning and a relatively high level of formality. Naturally averse to the risk that comes with uncertainty, these managers do not want to rush and grab every opportunity. This difference in management approach mainly derives from the fact that managers have different ideas about how much they have to do to respond to changes in the industry.

#### 5.3.5.3.2 Risk-taking attitude (5 items)

Managers' risk-taking philosophy and risk preferences rank as one of the most significant indicators of differences in management culture. The propensity to take risks affects many important decisions such as whether to invest in new ventures and acquisitions, equipment and technologies for manufacturing, or research and development, and how to manage cash and credit flow.

A relatively strong relationship has been identified between risk-taking and innovation/action orientation, highlighting the interconnectedness of the cultural dimensions. For instance, achieving a competitive advantage through innovation requires both investment in R&D projects and a certain willingness to take risks. Thus, some aspects of innovation orientation also tend to be associated with risk-taking. Conversely, a perceived threat or risk may induce a sense of urgency and an orientation towards action to reduce this risk (e.g. by taking steps to resolve a problem or capitalise upon an opportunity).

#### 5.3.5.3.3 Lateral integration (4 items)

Managers have different ways of promoting cooperation between organisational units and encouraging competition to increase motivation and effort. While "prospectors" opt for complex and expensive coordination mechanisms, "defenders" use simple forms of coordination (e.g. standardisation and scheduling). The importance that management attaches to cooperation and communication is reflected in its encouragement of staff to understand each other's problems and difficulties, and to help other organisational units rather than compete with them.

#### 5.3.5.3.4 Top management contact (3 items)

This dimension relates to managers' views on whether subordinates should receive managerial support, warmth, understanding and encouragement. Since these views will to some extent depend on the personality of the individual, they differ from manager to manager. Managers have different views on the extent to which subordinates should be allowed or encouraged to be creative and try new ideas (within reason), or to openly criticise management and discuss conflicts.

#### 5.3.5.3.5 Autonomy and decision-making (5 items)

A fundamental characteristic of management is the value and importance they ascribe to autonomy and responsibility. These beliefs have repercussions for the structure of the organisation. They influence how roles and procedures are defined, and the level of formality in these definitions.

#### 5.3.5.3.6 Performance orientation (3 items)

Managers have different attitudes towards performance and its evaluation (their own and their employees'). Some believe that almost anything can be achieved and push for high standards in the belief that this motivates people to continually improve their performance. Others feel that managers should be held accountable for their performance and that expectations for this performance should therefore be clear and measurable.

#### 5.3.5.3.7 Reward orientation (4 items)

Organisational culture is also expressed in the manner in which rewards are granted. This dimension is central to comprehending cultural differences because who gets rewarded and why is an unequivocal statement of the corporation's values and beliefs. It reflects managerial attitudes concerning the extent to which the company should pay competitively and fairly and compensation should relate directly to performance.

#### 5.3.5.4 Strategic from similarities (*11 items*)

On the principle that synergy that can be achieved by accumulating similar operations (the concept of economy of sameness), eleven items on the questionnaire dealt with the similarities between various operational functions, such as marketing operations (geographic markets, customer groups and industries) and production operations (types of input, process and product). To measure this variable, respondents were asked to indicate the level of similarity between the merging banks using a 5-point Likert scale ranging from very low to very high. This measure was adapted from the questionnaire developed by Larsson and Finkelstein (1999).

#### 5.3.5.5 Strategic from complementarities (11 items)

Synergies can also be achieved by combining different but complementary operations (the concept of economy of fitness). Larsson and Finkelstein (1999) proposed an integrative model of M&A that described synergy realisation as a function of the similarity and complementarity of two merging businesses (combination potential). They highlighted that value creation in M&As is derived from various sources of synergy (Chatterjee, 1986), such as operational synergies, collusive synergies and managerial synergies. This variable was measured using the eleven items developed by Larsson and Finkelstein (1999). Respondents were asked to indicate the level of complementarity between the merging banks in their marketing operations (possible transfer of marketing capabilities to new markets and products) and production operations (possible transfer of production capabilities). Again, the 5-point Likert scale ranged from very low to very high.

#### 5.3.5.6 Speed of integration

To measure this variable, the study used items developed by Homburg and Bucerius (2006). These were: marketing and sales channels, accounting/finance and customer service. A 5-point Likert scale was used in which 1= more than 24 months, 2 = 19-24 months, 3 = 13-18 months, 4 = 6-12 months and 5 = less than 6 months (Homburg and Bucerius, 2006).

#### 5.3.5.7 Integration effectiveness (12 items)

Twelve questions measured integration effectiveness across twelve different functional areas. The 5-point Likert scale went from 1 (integration was not effective) to 5 (integration was highly effective). This measure was adopted from the questionnaires developed by Larsson and Finkelstein (1999) and Weber (1996).

#### 5.3.5.8 Performance measurement in acquisitions

M&A performance was measured by means of a procedure that was adopted from Schoenberg (2004), Datta (1991) and Homburg and Bucerius (2006). Each of the managers who participated in the survey was asked about his opinion on the impact of the M&A on five performance areas: ROI, ESP, stock price, cash flow and sales growth. The perceived level of improvement in each area was ranked on a 5-point scale from 1= very low to 5 = very high. Managers were also asked to weight the relative importance of each of the five performance criteria in terms of percentages (the total sum of the weights reaches 100%).

The study adopted a subjective measure of performance in view of the established difficulties of obtaining objective measures (Very et al., 1997; Larsson and Finkelstein, 1999; Schoenberg, 2004). Research based on stock market prices and accounting-based measures (so called quantitative objective indicators) usually focuses on short-term periods around the announcement day and ignores the importance of the integration phase (Bauer and Matzler, 2014). Moreover, share market prices are only informative about expected ex-ante acquisition performance rather than that actually achieved ex-post (Larsson and Finkelstein, 1999). Similarly, comparable accounting measures of performance in individual acquisitions are typically not available, due to national differences in accounting standards and difficulties in disaggregating the performance of individual operating units from consolidated accounts (Larsson and Finkelstein, 1999). Hwang and Jan (1998) found that differences in accounting measurement rules affect the predictability of earnings, while Weetman and Gray (1991) found that differences in accounting principles from country to country lead to quantitative differences in profits reported.

More positively, empirical support for the validity of subjective performance measures is available from a number of separate methodological studies. Dess and Robinson’s (1984) widely cited investigation into the relationship between objective and subjective performance measures concluded that: "The Top Management Team's perception of how well their firm had performed – measured in a subjective and relative sense – was consistent with how the firm actually performed" (Dess and Robinson, 1984, p.271). Managers from acquiring firms tend to have enormous knowledge about the transaction and the integration phase (Datta, 1991; Homburg and Bucerius, 2005), and many studies give clear evidence that their rating correlates (highly and significantly) with objective success measures (Datta, 1991; Homburg and Bucerius, 2005). Researchers have found this to be the case in samples ranging from new ventures (Brush and Vanderwerf, 1992) to international joint ventures (Glaister and Buckley, 1998).

**Table 5.3 Variables studied, source of instrument and number of items**

| Variable | Source of instrument | Number of items |
|---|---|---|
| Motives for merger | Kreitl and Oberndorfer (2004) | 19 |
| Organisational culture fit | Chatterjee et al. (1992), Weber (1996), Weber et al. (2011) | 29 |
| Similarities of synergy | Larsson and Finkelstein (1999),Weber et al. (2011) | 11 |
| Complementarities of synergy | Larsson and Finkelstein (1999), Weber et al. (2011) | 11 |
| Speed of integration | Homburg and Bucerius (2006) | 7 |
| Effectiveness of integration | Weber (1996), Weber et al. (2011) | 12 |
| Performance | Schoenberg (2004), Datta (1991), Homburg and Bucerius (2006), Weber (1996) | 6 |

### 5.3.6 Ethical considerations

The research was conducted using clear ethical procedures in line with Nottingham Trent University Graduate School's code of guidance on ethical research. As the focus of the study is cultures and performance, no real ethical issues were anticipated, but the guidance and support of the supervisory team were sought whenever any unforeseen ethical problems were encountered.

At the outset, meetings were conducted with human resource managers in the sample banks to explain why their firm had been chosen to participate in the study and the kind of information that would be collected. Thereafter, the following steps were taken to protect the rights of the participants:

1. Respondents were informed that participation in the survey was voluntary.
2. The questionnaires were completed anonymously. For the purpose of analysis, participants were assigned pseudonyms to prevent them from being individually identifiable in any publication arising from this project.
3. The objectives and importance of the research were explained to respondents. It was emphasised that their answers were important to obtain reliable results and enable the design of an effective framework for culture and performance.
4. It was made clear to the participants that any information submitted would be used for the purpose of academic research in the context of a PhD project, and that it would not be used for any other purpose.

5. It was ensured that all submitted information was stored and collected securely, both in electronic and paper format, and that this information remained confidential.

### 5.3.7 Pilot study

Pilot testing is important to detect any weaknesses in the design of the research instrument (Blumberg et al., 2005). Accordingly, following completion of the questionnaire, a pilot study was undertaken with a small number of respondents to test the suitability of the questions. It was important to check that these were understood by respondents and that there was no ambiguity or confusion in the wording or measurement (Sekaran, 2003; Robson, 2002). The pilot study also enables the researcher to carry out a preliminary analysis to see whether the wording and the format of the questions will present any difficulties when the main data is analysed (Bell, 2005).

In this case, the exercise was also useful in highlighting the potential difficulties involved in gaining access to the right respondents, particularly as Libyan banks are very cautious about providing any information regarding their activities (Agnaia, 1996). The pilot study enabled the researcher to plan the best way of gaining access in advance. It also aided the translation process (into Arabic). The pilot study was comprised of four stages.

#### 5.3.7.1 The first stage of the pilot study

Following consultation with my supervisor, the first draft of the questionnaire was sent to sixteen Libyan PhD students, all of whom were studying business administration and had conducted fieldwork of their own. These colleagues and friends were asked to comment on the questionnaire's appropriateness in terms of layout, wording and length and to make any suggestions and recommendations. Some practical and useful comments were received from the ten students who returned the questionnaire. For example, three suggested improvements to the layout, such as placing the table at the right hand side and the questions (items) on the left. They also suggested that the answer categories should be coded by numbers to each question. This was helpful as it made the questionnaire easier to answer. Although they felt that the questions were appropriate, they expressed concern over the length of the questionnaire, which had ….pages. The length was not reduced, however, as all the questions were considered important to address the issues being raised.

#### 5.3.7.2 The second stage of the pilot study: translation to Arabic

Although the national language in Libya is Arabic, the questionnaire was constructed and written in English. Consequently, it had to be translated. This task had to be dealt with carefully to ensure that the questionnaire remained the same even though the language was different. Oppenheim (1992) states that: "Translation of a questionnaire from one language to another is akin to entering a series of minefields" (p.48). Saunders et al. (2007) agree that: "Translating questions and associated instructions into another language requires care" (p.357). In this case, the English version was given to an expert in Libya, whose native language is Arabic, in order to help with the translation to Arabic. Generally, efficient translation demands good knowledge of the two languages involved, plus a good knowledge of the technical aspects of the context and the subject under investigation (Milovanovic, 1999). Following translation, the English and Arabic versions of the questionnaire were sent to two lecturers in strategic management, one at Tripoli University (Dr. Al-tamimi) and the other at the Alacademya of Graduate Studies (Dr.Al-tawergi). They were asked to compare the two questionnaires and to give their opinions and suggestions. The changes they suggested were incorporated to produce a final version of the instrument. This method has been found useful by other researchers in the Middle East (e.g. Jafari, 2008) and the Arab world (e.g. Youssef, 2006).

#### 5.3.7.3 The third stage of the pilot study

Before the final questionnaire was distributed, it was important to pilot test on some of the respondents. Therefore, 30 questionnaires were distributed to the three banks. The objective of this stage was to explore any ambiguity or confusion in the questions, and to find out whether the participants had any suggestions to make. Eighteen of the questionnaires were returned to the researcher. After the pilot testing, revisions, specifically in terms of format, were made based on their feedback. For example, the soft-copy version, which initially asked respondents to use an (x) sign when filling the questionnaire, was changed to ask respondents to use a tick (√) mark as this is easier and more convenient. During the pilot test, the majority of respondents ticked answers at the two extremes of the scale, answering 1 or 5 for each item. This was because the instructions directed the respondents to select response number 1 if they strongly disagreed and 5 if they strongly agreed. Misunderstanding the instructions, respondents thought that they were only allowed to tick 1 or 5. This mistake could not have been detected without the pilot study. The instructions for each section in the questionnaire were consequently revised to make them clearer.

#### 5.3.7.4 The fourth stage of the pilot study: interviews

Interviews were conducted with respondents. The purpose of these interviews was to better understand the context of merger activity in the LBS, which is unusual in that most of it has been led by the CBL. They also served to help refine the questionnaire, which was largely adapted from existing research conducted in developed countries. As there are major economic differences between firms in the US, Europe and Middle East, it was important to check whether the survey items were applicable in the Libyan context. For example since the managers conducted interviews, they ignored some items about motivation that are not compatible with their banks. Therefore, it was important to check whether items are suitable for participants.

Collecting data in general is difficult; how difficult depends on cultural, social, economic and political factors. Most Libyan banks are very reluctant to provide any information about their processes and employees, and it was evident in the interviews that respondents were either unable to provide much information about M&A (the CBL staff who were interviewed had not been involved in the integration between banks) or were unwilling to talk about cultural differences because they saw the integration issue as sensitive and confidential. All refused requests to tape record the interview for future reference and data analysis, despite being guaranteed confidentiality and offered a copy of the recorded conversation. They did agree to the interviewer taking notes while they talked. This task of asking questions and follow-up questions was a challenging one for the researcher, and might have led to some important information being missed. Mindful of this problem, managers themselves expressed a desire to answer the questions through a questionnaire. This was another reason why this particular quantitative strategy was adopted.

### 5.3.8 Data collection

#### 5.3.8.1 Survey administration

Zikmund (2003) identified three methods for conducting surveys: the personal (face-to-face) interview, the telephone interview and the self-administered questionnaire. The main advantages of the face-to-face interview method are that it allows the researcher to get immediate feedback from the respondents. However, it is costly and time consuming. Telephone interviews allow the researcher to get data quickly and are less costly than face-to-face interviews, but only those with telephone access can be included in the sample (i.e. it may not yield representative results). Self-administered questionnaires are the cheapest option of the three, in addition to which they are quicker to administer than interviews, they avoid the dangers of the interviewer affecting the responses and interviewer variability, and they are more convenient for respondents (Bryman and Bell, 2003). However, this method also has disadvantages, such as the fact that the researcher cannot probe responses or clarify questions.

Sekaran (2003) distinguishes between personally administered and mailed questionnaires. The first is where the researcher directly hands the questionnaire to and collects from the respondents. The main advantage of this method is that any doubts about the questions can be clarified on the spot. Sekaran (2003) argues that this is the best tool for data collection when the survey is confined to a local area; it gives the researcher a chance to introduce the research topic, any ambiguity can be explained, and the researcher or a member of the research team can collect all the completed responses within a short period of time. In contrast, mailed questionnaires are sent to respondents via post, fax, email or internet (Zikmund, 2003). The survey in this study was delivered mainly via personally and by email because of the advantages it offers in terms of cost, speed, accessibility and efficiency.

Respondents were provided with reply-paid envelopes to send back their questionnaires – these were returned directly to the researcher at his mail office in Libya and opened only by him. Each questionnaire had a unique reference number, which participants were asked to record for any future correspondence. As the researcher did not have any record of this unique reference number, only the participants could identify the questionnaire. Any participant wanting to withdraw from the study was asked to provide the unique reference number so that their questionnaire could be removed from the data analysis. The reference numbers were also useful to identify who answered early and late.

Participants were informed of the voluntary nature of the survey, and that they were free to withdraw at any time without giving any reason and without any legal implications. They were able to withdraw via email or by calling the telephone number provided in the questionnaire.

#### 5.3.8.2 Stages of data collection by questionnaire

The final questionnaire was distributed personally to the banks between October and December 2012. To increase the response rate (Blumberg et al., 2005; Oppenheim, 2000), a covering letter was enclosed concisely explaining the purpose of the study and the reasons why that particular company had been chosen. The letter also emphasised that the success of the study depended on respondents answering all the questions accurately. The covering letter was sent using the official letterhead of Nottingham Trent University and was co-signed by the supervisor in order to increase credibility. An additional letter was obtained from the Libyan Embassy (the researcher's sponsor) encouraging respondents to cooperate. The majority of the firms involved in the study would not have allowed the researcher access without such a letter. The respondents were assured that the information they gave would be used only for the purpose of the study and would not be accessible to anyone else. They were also guaranteed anonymity and promised a summary of the research findings if requested.

Respondents were given three follow-ups or reminders. The first reminder was sent one week after the initial mail, while the second reminder was four weeks after the original mailing. In order to improve the response rate, this reminder was made by phone. The phone follow up revealed various reasons for the low response rate. The most common reason was that the respondent was out of the office or travelling; others said they had no time to participate during working hours or hadn't got around to sending it back. Some had not even opened or read the questionnaire due to lack of time. The third reminder was sent seven weeks after the original mailing. At this point, the researcher offered to send a soft copy of the questionnaire to available participants, as this technique is flexible and can be accessed at any time and place. The respondents were asked again whether they still had an interest in receiving the survey. Non-respondents were cordially requested to participate in the survey using the digital version instead of conventional mail.

#### 5.3.8.3 Response rate of the questionnaire

The questionnaire was distributed to three banks which have implemented M&A in Libya. A total of 486 questionnaires were distributed to the selected banks. 169 questionnaires were returned and completed. This represents a response rate of 35%, as outlined in Table 5.4.

**Table 5.4 Response rate for the questionnaire survey**

| Bank group | Distributed questionnaires | Useable questionnaires | Rate of response |
|---|---|---|---|
| **Top management** | **68** | **34** | **50%** |
| **Middle management** | 418 | 135 | 32% |
| **Total** | 486 | 169 | 35% |

The most common issue with surveys is their low response rate; this was the case here, despite all the steps described in the previous section. Those responses that were received were managed according to the date of arrival, enabling the researcher to conduct non-response bias tests by comparing the early and late responses. The potential effect of this and other forms of bias on the validity of the results is discussed in subsequent sections.

### 5.3.9 Reliability and validity

One of the general sets of methodological considerations is relevant to the application of PLS in management research to assess the reliability and validity of measures (Hulland, 1999). The PLS technique consists of both a measurement and structural model (for further discussion of the technique, see section 6.3.10). The adequacy of the measurement model can be assessed by looking at: (1) internal consistency reliability, (2) convergent validity and (3) discriminant validity.

#### 5.3.9.1 Reliability

Reliability refers to the extent to which a variable or a set of variables is consistent in what it is intended to measure (Hair et al., 2007). According to Hair (2007), reliability is an assessment of the consistency between measurements that have one latent construct in common. The particular concern in this instrument is internal consistency reliability – the ability to ensure that items within the test are reflecting the same constructs (Trochim, 2006). Traditionally, Cronbach's alpha is used to measure internal consistency reliability in social science research, but it tends to provide a conservative measurement in PLS-SEM. Prior literature has suggested the use of composite reliability as a replacement (Bagozzi and Yi, 1988; Hair et al., 2012). This study assesses the reliability of each variable using Fornell and Larcker's (1981) measure of composite reliability.

#### 5.3.9.2 Validity

According to Saunders et al. (2007), validity is the extent to which data collection methods accurately measure what they were intended to measure. Teddlie and Tashakkori (2009) observe that validity refers to the degree to which measurement outcomes differentiate groups of individuals who are expected to be different in terms of a particular attribute. Validity may be assessed in several ways; for example, Malhotra and Birks (1999, p.307) define validity of scale as: "the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured, rather than systematic or random error". Thus, validity is an assessment of the exactness of the

measurement relative to what actually exists. This is usually determined by analysing the convergent validity and discriminant validity of the constructs.
To evaluate the convergent validity and discriminant validity of the constructs in PLS, Average Variance Extracted (AVE) is used (Hulland, 1999; Chin, 1998).

#### 5.3.9.3 Non-response bias

Non-response is defined by Wallace and Mellor (1988, p.132) as: "observations or responses that are not available to researchers because of failure to return questionnaires or failure to answer one or more questions". Non-respondents are generally participants who initially refuse to answer a questionnaire but who later consent (Dillman, 1991; Filion, 1975). Non-response bias occurs if a certain part of the sample cannot provide the required data for several reasons (Brymann and Bell, 2011). If such reasons are associated with the object of investigation, there might be a chance of a late or non-response bias meaning that the answers of nonrespondents might deviate from the actual respondents (Klarmann, 2008).
Non-response bias is a potential issue in any M&A survey as it is a challenge to obtain a response from every person, especially in a large sample, no matter what data collection methods are employed (Filion, 1975).

Non-response bias arises when respondents provide different responses than would have been provided by members of the population that did not respond to the survey (Schwab, 1999). For example, potential key informants who have been involved in acquisitions that have underperformed may decide not to respond. In this scenario, the results may not correctly reflect what happens in underperforming acquisitions, and performance variance among respondents is likely to be restricted. Wallace and Mellor (1988) suggest that one way to check for the existence of non-response bias is to conduct a comparative analysis of responses by date of reply (or receipt). This is the most commonly used non-response bias test in management research (Van der Stede et al., 2005), and was therefore adopted in this study. Late respondents were compared to early respondents; the former are similar to non-respondents in that they may not have responded if a second fax or email had not been sent (Schwab, 1999).

The responses of the two groups were compared by running t-tests. Table 5.5 presents the results of the non-response bias tests for each variable. The results indicate that for the majority of variables, there was no significant difference (sig. value <0.05) between the scores of the early and late respondents. It may therefore be concluded that non-response bias was not a problem in this study.

**Table 5.5: Comparison of early and late respondents**

| | Early respondents n=139 | | Late respondents n=30 | | T-test | P. value |
|---|---|---|---|---|---|---|
| | Mean | S.D. | Mean | S.D. | | |
| Organisational culture | 4.1028 | .14718 | 4.1100 | .14241 | -.274 | .785 |
| Synergy similarities | 4.3596 | .19146 | 4.3826 | .16058 | -.750 | .456 |
| Synergy complementarities | 3.0786 | .30717 | 3.0535 | .33366 | .420 | .676 |
| Speed of integration | 2.8105 | .51698 | 2.8965 | .43325 | -1.038 | .303 |
| Effectiveness of integration | 3.0096 | .31542 | 3.0249 | .29740 | -.279 | .781 |
| Performance | 2.6177 | .43752 | 2.4829 | .45266 | 1.643 | .11 |

### 5.3.9.4 Retrospective bias

Survey responses generally depend on the respondent's recall of past events. This may lead to a retrospective bias (also referred to as memory bias, hindsight bias, or recall bias) of data because, over time, new information about what characteristics these events should have leads respondents to make judgments biased towards this new information. The past information needs to fit the cognitive schemata that respondents have about the event. A retrospective bias is likely to arise in cross-sectional studies on organisational performance where respondents are asked about factors that occurred in the past that contribute to present performance (Golden, 1992; March and Sutton, 1997).

In an effort to minimise such bias as far as possible, responses concerning acquisitions made in 2008 were compared to those for acquisitions made in 2007. The maximum five-year recall period adopted here is not considered excessive, firstly because the respondents were directors and may thus be assumed to have high intellectual abilities and good recall (Huber and Power, 1985); and secondly, because acquisitions are major organisational events which tend to be recalled more accurately and completely (Huber and Power, 1985). These two points, combined with the high levels of inter-rater reliabilities, suggest the retrospective data may be accepted with confidence.

The t-tests for mean differences were calculated as shown in Table 5.6. There were no statistically significant differences in means between responses concerning acquisitions made in 2007 and those in 2008. Collectively, these findings suggest that retrospective bias does not influence the current study.

**Table 5.6: Comparison of 2007 and 2008 acquisitions**

| | 2007 (n=155) | | 2008 (n=13) | | T-test |
|---|---|---|---|---|---|
| | Mean | S.D. | Mean | S.D. | |
| Organisational culture | 4.1079 | .14723 | 4.0637 | .13082 | 1.156 |
| Synergy potential | 4.3645 | .18300 | 4.3874 | .20581 | -.389 |
| Autonomy | 3.0619 | .31744 | 3.1719 | .22330 | -1.643 |
| Speed of integration | 2.8247 | .50523 | 2.8654 | .44035 | -.316 |
| Effectiveness of integration | 3.0209 | .31070 | 2.9410 | .31488 | .879 |
| Performance | 2.5837 | .44248 | 2.6538 | .46875 | -.521 |

### 5.3.9.5 Common method bias

Common method bais is observed variance which is the result of the method by which the data were collected (Podsakoff et al., 2003). When multiple constructs are measured by the same method, using the same instrument may influence a part of the covariance among these constructs. Common method bias refers to the extent to which divergence of observed and true relationships between constructs is the result of common method variance (Doty and Glick, 1998). This bias may lead researchers to unjustly imply significant relationships among constructs in the absence of true relationships (Williams and Brown, 1994).

In the survey method, it may arise because of when the data were collected; more importantly, it occurs when all of the measures (predictors and criteria) are administered at the same time in the same context (Friedrich et al., 2009). As almost all of the results in this study are based on self-reported data generated from a single questionnaire over a single time period, common method variance may exist (Jean et al., 2010). Another potential source of common method bias in the survey was the grouping of questions by variable (Podsakoff et al., 2003). This may have given a hint to respondents to relate the relationships between predictor and criteria constructs (Robson et al., 2008). Thus, following Podsakoff et al. (2003), Slangen (2006) and Liu et al. (2009), Harman's single factor test was applied. All the variables were subjected to exploratory factor analysis; unrotated principal components factor analysis, principal component analysis with varimax rotation and principal axis analysis with varimax rotation were employed to determine the number of factors that are necessary to account for the variance in the variables. The results of the unrotated principal components factor analysis on all measurement items, after extracting three factors with eigenvalues above 1.0, showed a total variance of 21.12%. Factor one showed the lowest variance (17.81%), indicating no dominance by this factor. The results of the unrotated principal component factor analysis can be found in the table 5.7.

Dramatic events, such as M&As and contact with other cultures, make differences salient (Louis, 1983; Weber, 2011), especially in conflict situations (Sales and Mirvis, 1984). M&As bring major changes (for example to systems and positions) that people remember. It has been observed that attitudinal and behavioural data do not become less accurate over time, even after periods of ten years (Gutek, 1978; Pettigrew, 1979; Finkelstein, 1992). Hence, common method bias does not appear to be a problem in this research.

**Table 5.7: Total variance explained**

| Component | Initial eigenvalues | | | Extraction sums of squared loadings | | |
|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 1.267 | 21.124 | 21.124 | 1.267 | 21.124 | 21.124 |
| 2 | 1.233 | 20.550 | 41.674 | 1.233 | 20.550 | 41.674 |
| 3 | 1.069 | 17.819 | 59.493 | 1.069 | 17.819 | 59.493 |
| 4 | .922 | 15.361 | 74.854 | | | |
| 5 | .785 | 13.082 | 87.936 | | | |
| 6 | .724 | 12.064 | 100.000 | | | |

Extraction method: principal component analysis.

### 5.3.10 Data analysis

The quantitative data in this study were analysed using Partial Least Square approach (PLS). Smart PLS is one of the most widely used software applications for Partial Least Square Structural Equation Modelling (PLS-SEM). The software has gained popularity since its launch in 2005 not only because it is freely available to academics and researchers, but also because it has a user-friendly interface and advanced reporting features (Wong and Kwong, 2013). PLS-SEM has been deployed in many fields, such as behavioural sciences (e.g. Bass et al., 2003), marketing (e.g. Henseler et al., 2009), organisation (e.g. Sosik et al., 2009), management information systems (e.g. Chin et al., 2003) and business strategy (e.g. Hulland, 1999). In this particular study, the researcher employed Smart PLS 2.0 as the main software package to assess the results of the data.

Smart PLS 2.0 was employed to analyse the path coefficient by looking at the multiple correlation coefficients ($R^2$ statistics) for all endogenous constructs (Henseler et al., 2009). PLS is associated with causal modelling techniques; it enables the researcher to estimate the complex causes and effects of a relationship model, particularly in business research (Gudergan et al., 2008), and is able to analyse a measurement model and a structural model simultaneously. This is known as structural equation modelling (SEM) (Hulland, 1999; Lohmoller, 1988).

PLS is particularly appealing when the research objective is to predict and account for variance in key target constructs (e.g. strategic success of firms) in terms of different explanatory constructs (e.g. sources of competitive advantage) and when the sample size is relatively small and/or the available data is non-normal (Hair et al., 2011; 2012; Henseler et al., 2009; Reinartz et al., 2009). PLS-SEM applications have already been extensively used in strategic management and business research to address topics such as the long-term survival of firms (Agarwal et al., 2002; Cool et al., 1989), performance of global firms (Birkinshaw et al., 1995; 1998; Devinney et al., 2000; Johansson and Yip, 1994; Robins et al., 2002), knowledge sourcing and collaborations (Gray and Meister, 2004; Rai, 2008; Jarvenpaa and Majchrzak, 2008; Purvis et al., 2001) and cooperation between firms (Doz et al., 2000; Fornell et al., 1990; Sarkar et al., 2001). Other important reasons why PLS was relevant in this study are its tendency to act as a strong predictive technique even when there are several dependent or independent variables, and the fact that it can be implemented as a path model in the same way as structural equation modelling (Henseler et al., 2009). Hence, PLS is the most appropriate method for this data analysis. In fact, the use of PLS in international marketing and management disciplines has become increasingly popular (Henseler et al., 2009). Moreover, PLS path modelling methods have not only been applied in marketing and management studies but also recently to M&As, as seen in Cording et al. (2008). PLS is similar to regression, but simultaneously models the structural paths (i.e. theoretical relationships among latent variables) and measurement paths (i.e. the relationships between a latent variable and its indicators) (Chin et al., 1996). Thus, this approach enables the researcher to combine the analysis of measurement and structural models (Gefen et al., 2000).

### 5.4 Limititions of Conducting the Research

Despite the attempts afforded to get this study to achieve its objectives, this thesis, like any other social research, was subject to some certain limitations. First of all, the research has coincided with 17th Feb Revolution in Libya and the ensuing UN resolutions Nos. 1970 and 1973 imposing flight restrictions over the country, the researcher had to access Libya through Egypt and Tunisia, which increased the costs in terms of time and money.

Second, most Libyan banks are very reluctant to provide any information talk about cultural differences because they saw the integration issue as sensitive and confidential. Mindful of this problem, managers themselves expressed a desire to answer the questions through a questionnaire.

Third, another limitation that might have occurred concerns the possibility of bias with those participants from the three banks investigated in the questionnaires towards their banks, since they might give a good assessment of their banks, although the influence of such an issue was taken into account in analysing the questionnaires.

Fourth, the topic itself may also represent a limitation to this study. As was apparent from the questionnaire results, merger is a new topic. Due to this unfamiliarity, some responses may be tempted to provide random answers to finish quickly. Despite efforts afforded to make a reasonable length questionnaire it looked long and apparently time consuming for some as a number of questionnaires were returned uncompleted and those were excluded.

## 5.5 Conclusion

This chapter discusses the key aspects of the methodology used in this study in terms of the research design, philosophy, approach and methods. It begins with an overview of research philosophy and a justification of why this study employs the positivistic approach. It then describes the research methodology used in this study, including how samples were selected, and how the data were collected and analysed. It describes the construction of the questionnaire survey, which was the main data-gathering tool. This was largely made up of items based on scales that have been developed and used by researchers in previous strategic M&A research. Although this instrument was quantitative in nature, the chapter describes how limited use was also made of qualitative methods (face-to-face interviews) in the course of its development. The chapter also discusses the steps that were taken to check for any bias that might affect the validity of the survey responses. It concludes by describing the approach adopted to analyse the data – that is, structural equation modelling using the Partial Least Square approach. The thesis now moves to the presentation of the results of this analysis, starting in the next chapter with the specific reasons why Libyan banks undertake mergers.

# CHAPTER 6 FINDINGS & ANALYSIS

## 6.1 Descriptive Statistics

A number of questions within the first section of the questionnaire were asked to identify some of the bank's and manager's characteristics. The discussion of such characteristics will provide the reader with a better understanding of the detailed analysis later. It is also important for readers to have (beforehand) a general view of the characteristics of the banks and managers investigated in this study

## 6.2 Respondent position

As can be seen in Table number 6.1 describes the distribution of the positions of the managers who participated in the research and filled out the questionnaires. The table shows that about 36% (61) of the managers are on the highest organisational level, holding the position of the VP/CEO in the merging bank, while 23% were middle manager and 15.4% were non-management.

**Table 6.1 Job title**

| | Frequency | Percent |
|---|---|---|
| CEO or Managing director | 24 | 14.2% |
| V.P | 37 | 21.9% |
| Head of SBU | 44 | 26% |
| Middle management | 38 | 22.5% |
| Non-management | 26 | 15.4% |
| Total | 169 | 100% |

## 6.3 Job experience of the respondents.

One question was asked about the time a manager has spent in his organisation. As can be seen from table 6.2, executives have a great deal of experience in their banks, nearly two-thirds (85%) of respondents had practical experience of more than 10 years, while the remaining respondents had less than 10 years of experience. One can therefore conclude that participants were generally experienced in their present occupation. As results, the views expressed by the participants can be considered reliable.

**Table 6.2 Job experience**

| | Frequency | Percent |
|---|---|---|
| 5-10 years | 25 | 14.8% |
| 11-15 years | 18 | 10.7% |
| 16-20 years | 46 | 27.2% |
| 21-25 years | 47 | 27.8% |
| More than 25 years | 33 | 19.5% |
| Total | 169 | 100 |

## 6.4 Previous M&A Experience

Another question was asked about the experience that an executive had in the same field of work in his current organisation. The findings, as reveals in Table 6.3, indicate that the employees have less experience in the field of M&A deals. 30 % of the respondents have no experience, 63% have average experience, and only 0.6% has experience. Based on the above it is clear that the respondents who participated in the study were lowly experienced due to mergers that took place in Libyan banks are limited to merge and this study is the first conducted in the relation to Libya. Therefore, as a result shown, this study expected that respondents have problems difficult in post-merger stage because experience in different research it was suggested that experience in M&A deals makes better than less experiences, even with experience people they were struggling to manage M&A issue, consequently, it will be more challenges for people who less experience.

**Table 6.3 Previous M&A Experience**

| | Frequency | Percent |
|---|---|---|
| No Experience | 50 | 29.6% |
| 1 year | 80 | 47.3% |
| 2-4 years | 27 | 16.0% |
| 5-10 years | 11 | 6.5% |
| More than ten years | 1 | 0.6% |
| Total | 169 | 100 |

## 6.5 Number of employees

According, the findings signify that around 7% of the merging managers are small ones, 22% are medium size banks, and 71% are large banks. We can also notice that 93% of the merging banks are medium and large size. This is because the interest the central bank's public banks that contain a large number of employees.

**Table 6.4 Number of employees**

| | Frequency | Percent |
|---|---|---|
| 100-500 | 12 | 7.1 |
| 501-1000 | 22 | 13.0 |
| 1001-1500 | 15 | 8.9 |
| 1501-3000 | 43 | 25.4 |
| 3001-10000 | 77 | 45.6 |
| Total | 169 | 100 |

## 6.6 Government ownership

Regarding the government ownership, participants confirmed their managers have partnership with government and the findings indicate that 59% of these banks controlled and regulated by government.

**Table 6.5 Ownership banks**

| | Frequency | Percent |
|---|---|---|
| Less than 10% | 11 | 6.5% |
| 10-20% | 15 | 8.9% |
| 21-35% | 14 | 8.3% |
| 36-50% | 28 | 16.6% |
| 51-75% | 43 | 25.4% |
| 100% government | 58 | 34.3% |
| Total | 169 | 100% |

## 6.7 Motivation behind mergers in Libyan banks

The aim of this section is to present the findings on the analysis the relative importance of motives for mergers by Libyan banks. These findings are based on data collected from the questionnaire survey.

**Table: 6.6 Relative Importance of Strategic Motives for merger and acquisition by Libyan banks**

| Rank | Motivation | Mean | S.D |
|---|---|---|---|
| 1 | To increase market power | 4.30 | 0.84857 |
| 2 | To be able to compete with foreign banks | 4.24 | 0.98945 |
| 3 | To enable faster entry to market | 4.20 | 0.77885 |
| 4 | To acquire organisational know-how | 4.08 | 0.84281 |
| 5 | To reduce fixed cost (administration cost, IT, etc.) | 3.98 | 1.00467 |
| 6 | To increase the services capacity | 3.90 | 0.82798 |
| 7 | To gain efficiency through synergies | 3.88 | 0.96846 |
| 8 | To acquire technological capabilities | 3.86 | 1.08108 |
| 9 | To reduce of competition | 3.84 | 1.19233 |
| 10= | To replace inefficient management | 3.81 | 1.08739 |
| 10= | To enable a fast way to increase the bank size | 3.81 | 1.19360 |
| 12 | To acquire complementary resources | 3.80 | 0.95094 |
| 13 | To overcome financial difficulties | 3.69 | 0.95567 |
| 14 | To reduce risk of the business | 3.65 | 0.81644 |
| 15 | To Turn around failing merged firm | 3.63 | 1.14241 |
| 16 | To acquire skilled personnel | 2.54 | 1.30042 |
| 17 | To respond to pressures from stakeholders | 2.48 | 1.21485 |
| 18 | To acquire new growth business | 2.04 | 1.39482 |

Notes: (N = 169). The mean is the average of on a scale of 1(=‘no importance’) to 5 (= ‘very important’); “=” shows the motives having same rank in terms of mean values.

Market power exists when the firm can sell its products above the existing competitive market prices or when it’s manufacturing distribution, and service costs are lower than those of competitors (Glaister and Ahammad, 2010). Merger and acquisition are used to increase market power when the firm acquires: (a) a company competing in the same industry and often in the same segments of the primary industry, (b) a supplier or distributor, or (c) a business in a highly related industry (Hitt et al., 2001). The results reported in Table 6.7 are consistent with the literature. As can be seen, ‘to increase market power’ is ranked as the most important motive with a mean of 4.30. This is followed by “to be able to compete with foreign banks” (4.24), “to enable faster entry to market” (4.20), “to acquire Organisational know-how” (4.08), and “to reduce fixed cost (administration cost, IT, etc.)” (3.98) as constituting the first five with the highest degree of importance.

It is clear from the Table 6.6 that the first seven ranked motives are concerned with improving the firm's competitive position through the use of acquisitions that may be characterized as most importantly allowing the Libyan banks to enter new markets at speed and/or consolidating existing market positions.

Mergers tend to reduce competition, which may open the way for improve profit from higher prices. Gaughan (2011) cites three sources of market power: product differentiation, barriers to entry and market share. A company is able to increase its market share through horizontal integration. Thus, Libyan banks are able to provide better services within the market place and therefore, it will compete more effectively with rival businesses.

To be able to compete with foreign banks was highly ranked in Libyan banks. M&As could be the significant strategies to face business challenges, as these strategies would enable combining companies to rationalize their operations and distribute costs in order to achieve economies of scale and, in turn, would enable them to improve their competitive position both nationally and globally (Gaughan, 2010). Thus, for Libyan banks seeking to compete with foreign banks, acquiring a firm is a much faster way to reach this objective as compared to the time required to establish a new facility and the ability of management to plan and guide the Organisation to overcome economical difficulties and a turbulent global environment and control the costs are the main sources of success.

### 6.7.1 To gain efficiency through synergies

M&As in Libyan banks the significant strategies to face business challenges, as these strategies would enable combining companies to rationalize their operations and distribute costs in order to achieve economies of scale and, in turn, would enable them to improve their competitive position both nationally and globally. Thus, for Libyan banks seeking to cost reduction synergies are motives for conducting mergers especially in the financial functions.

### 6.7.2 To acquire new growth business.

Previous research has found a number of reasons for why firms merge. Both Hunt (2009) and Guaghan (2011) mention that growth is one of the most common reasons. This happens by merging and acquiring with companies who offer the same products. However, in this study, growth has not been a motive for why the mergers have been conducted.

The motive of growth business is ranked lowest indicating M&As by Libyan banks are not driven by growth business. This finding is consistent with some researchers (Philip and John, 1992) suggest that M&As have a negative impact on economic growth and that increased acquisition activity is likely to be a wasteful thing for the economy as a whole. Their evidence is based on the declining profitability of acquiring and/ or acquired firms after acquisition. Thus, to acquire new growth business is now less important factors for making merger and acquisition in Libyan banks.

## 6.8 Factors influencing performance

### 6.8.1 Assessing the measurement models

Before assessing the structural model, measurement models should be assessed with regard to their reliability and validity. Usually, the first criterion which is checked is internal consistency reliability. The traditional criterion for assessing internal consistency is Cronbach's α (Cronbach, 1951), which provides an estimate of reliability based on the indicator inter-correlations and assumes that all indicators are equally reliable. On the other hand, PLS (Partial Least Square) prioritises indicators according to their reliability, resulting in a more reliable composite. As Cronbach's α tends to provide a severe underestimation of the internal consistency reliability of latent variables in PLS path models, it is more appropriate to apply composite reliability (Werts et al., 1974). Composite reliability takes into account that indicators have different loadings, but it can still be interpreted in the same way as Cronbach's α. An internal consistency reliability value above 0.7 (Nunnally and Bernstein, 1994) indicates consistency, whereas a value below 0.6 may indicate a lack of reliability. According to Table 6.7, strategic complementarity, strategic similarity, organisational cultural fit, speed of integration, integration effectiveness and performance all have a composite reliability of above 0.6.

For the assessment of validity, two validity subtypes are usually examined: the convergent validity and the discriminant validity. Convergent validity signifies that a set of indicators represents one and the same underlying construct, which can be demonstrated through their unidimensionality. Fornell and Larcker (1981) suggest using the Average Variance Extracted (AVE) as a criterion of convergent validity. An AVE value of at least 0.5 indicates sufficient convergent validity, meaning that a latent variable is able to explain more than half of the variance of its indicators on average (e.g. Gotz et al., 2009)

**Table 6.9: Latent variable correlations and discriminant validity**

| | Square root of AVE | Integration effectiveness | Organisational cultural fit | Performance | Speed of integration | Strategic complementarity | Strategic similarity |
|---|---|---|---|---|---|---|---|
| **Integration effectiveness** | 0.7148 | 1.000000 | | | | | |
| **Organisational cultural fit** | 0.7142 | 0.158528 | 1.000000 | | | | |
| **Performance** | 0.7258 | 0.244605 | -0.013100 | 1.0000 | | | |
| **Speed of integration** | 0.7139 | 0.035437 | 0.302410 | 0.1720 | 1.0000 | | |
| **Strategic complementarity** | 0.7597 | 0.281315 | 0.278120 | 0.2596 | -0.0767 | 1.0000 | |
| **Strategic similarity** | 0.7772 | -0.144999 | 0.242218 | 0.042859 | -0.2994 | -0.0392 | 1.0000 |

## 6.9 Results of hypotheses testing

To test the hypotheses, a structural model was built using the Smart PLS 2.0 programme. A bootstrapping procedure was used to estimate path coefficient effects, with each path corresponding to one hypothesis. This test indicated the strength of the relationships between the dependent and independent variables (Sheng-Hsun et al., 2006). $R^2$ values were also calculated to assess the amount of variance explained by the independent variables (Chin et al., 2003). Bootstrapping was also used to assess the path significance level (following Ringle et al., 2005). Table 6.10 shows the results of the hypothesis testing.

**Table 6.10: Hypothesis testing using Partial Least Square (PLS) path model**

| Hypothesis | Path and relationship | Coefficient | Standard error | T-statistics | p-value |
|---|---|---|---|---|---|
| H1a | Strategic similarities → Organisational cultural fit | 0.1833 | 0.1818 | 0.4584 | 0.6480 |
| H1b | Strategic complementarity → Organisational cultural fit | 0.2880 | 0.1611 | **1.7878**** | 0.0377 |
| H2a | Strategic similarities → Integration effectiveness | -0.1038 | 0.2125 | 0.4882 | 0.3129 |
| H2b | Strategic complementarity → Integration effectiveness | 0.3105 | 0.2258 | **1.3753*** | 0.0854 |
| H3a | Strategic similarities → M&A performance | 0.0142 | 0.1524 | 0.0936 | 0.4627 |
| H3b | Strategic complementarity → M&A performance | 0.2731 | 0.1613 | **1.6926**** | 0.0461 |
| H4a | Strategic similarities →Speed of integration | -0.2425 | 0.2948 | 0.8227 | 0.2059 |
| H4b | Strategic complementarity → Speed of integration | -0.0200 | 0.1460 | 0.1374 | 0.4454 |
| H5 | Organisational cultural fit → M&A performance | 0.1833 | 0.1818 | 0.4584 | 0.6472 |
| H6 | Organisational cultural fit → Integration effectiveness | 0.1897 | 0.1083 | **1.7574**** | 0.0403 |
| H7 | Organisational cultural fit → Speed of integration | 0.2380 | 0.1414 | **1.683601**** | 0.0498 |
| H8 | Integration effectiveness → M&A performance | 0.1982 | 0.1160 | **1.707650**** | 0.0450 |
| H9 | Speed of integration → M&A performance | 0.1858 | 0.1035 | **1.79547**** | 0.0372 |

Note: N=169; ***p < 0.01, **p < 0.05, *p < 0.10

Hypothesis 1a argues that strategic similarities between the merging banks will positively influence the organisational cultural fit. The path coefficient on organisational cultural fit is positive ($\beta = 0.183321$) but statistically insignificant ($p>0.10$). Hence, hypothesis 1a is not supported.
The PLS path model provides support for hypothesis 1b, indicating that strategic complementarity has a positive effect on organisational cultural fit. The path coefficient is positive ($\beta = 0.288067$) and the path is statistically significant ($p<0.05$). Therefore, hypothesis 1b is supported.

Hypothesis 2a is not supported. The path coefficient is negative ($\beta = -0.103809$) but statistically insignificant ($p>0.10$). Thus, the study could not find any significant relationship between strategic similarities and integration effectiveness.

Hypothesis 2b suggests that strategic complementarity can positively influence integration effectiveness. The path coefficient is positive ($\beta=0.310548$) and the path is statistically significant ($p<0.10$). Hence, hypothesis 2b is supported.

Hypothesis 3a argues that strategic similarity positively influences M&A performance. The path coefficient is positive ($\beta= 0.014276$). However, the path is statistically insignificant ($p>0.10$). Therefore, hypothesis 3a is not supported.

The PLS path model provides support for hypothesis 3b regarding the positive effect of strategic complementarity on M&A performance. The path coefficient is positive ($\beta = 0.273117$) and the path is statistically significant ($p<0.10$). Thus, the greater the strategic complementarity between the merging banks, the higher the M&A performance.

Hypothesis 4a posits that strategic similarity positively affects the speed of integration. The path coefficient is negative ($\beta= -0.242$) and statistically insignificant ($p>0.10$). Hence, hypothesis 4a is not supported.

The PLS path model shows no statistically significant relationship between strategic complementarity and speed of integration. The path coefficient is negative (-0.0200) and statistically insignificant ($p>0.10$). Thus, hypothesis 4b is not supported.

Hypothesis 5 predicts a positive association between organisational cultural fit and M&A performance. The path coefficient is positive ($\beta = 0.1833$) but statistically insignificant ($p>0.10$). Therefore, hypothesis 5 is not supported.

The PLS path model provides support for hypothesis 6 regarding the positive effect of organisational cultural fit on integration effectiveness. The path coefficient is positive ($\beta = 0.1897$) and the path is statistically significant ($p<0.05$). Thus, hypothesis 6 is supported.

The PLS path model also shows a statistically significant relationship between organisational cultural fit and speed of integration. The path coefficient is positive ($\beta = 0.2380$) and statistically significant ($p<0.05$). Therefore, hypothesis 7 is supported.

The PLS path model provides support for hypothesis 8 regarding the positive effect of integration effectiveness on M&A performance. The path coefficient is positive ($\beta = 0.1982$) and the path is statistically significant ($p<0.05$). Thus, hypothesis 8 is supported.

Hypothesis 9 is also supported. The path coefficient is positive ($\beta=0.185842$) and statistically significant ($p<0.05$). In other words, there is a significant positive relationship between the speed of integration and M&A performance.

### 6.10 Analysis of findings

#### 6.10.1 Strategic complementarity and organisational cultural fit

Srilata et al., (2003) suggest that cultural incompatibility between the target and acquiring firm has significant impact on why M&A operations sometimes fail to achieve the pre-defined goals. Managers involved in partnerships should pay special attention to the strength of organization identity, as well as cultural compatibility and strategic combination potential when deciding if a partnership should be integrated (Srilata et al., 2003). For a merger to be successful the companies must make efforts to understand each other in terms of organizational activities and culture. If the companies do not understand each other it is highly likely that any form of partnership will result in failure. The extent to which firms must integrate with each other depends on how closely they are working together.

One of the most studied topics in strategic management has been the importance of relatedness (of products/markets) to firm performance. In the context of M&A, the key to success appears to be the ability to identify complementarities and take specific actions to achieve positive synergy (Hitt et al., 1998). Resource complementarities seem to be more important than product/market relatedness.

This study goes further, to argue that strategic complementarities positively influence the organisational cultural fit between merging banks. According to Rowlinson (1995), as organisations merge, their cultures, and the tangible manifestations of these cultures (such as strategy), become increasingly interdependent. Where these strategies are complementary, they serve to support each other. In these circumstances, the organisational cultures of the two organisations are likely to be compatible. It may be said then that strategic complementarity is a predictor of higher cultural fit (Stahl and Voigt, 2008). The present study indeed found that a higher level of strategic complementary between the merging banks leads to a higher level of organisational cultural fit.

#### 6.10.2 Strategic complementarity and integration effectiveness

Although the dominant logic is that strategic similarity fosters value creation, complementary differences may actually be more crucial for M&A success. Similarities may create synergies (e.g. overlapping activities allow cost cutting), profitability of the company. Complementarity thus creates synergies and value for the shareholder (Krishnan et al., 1997). Jemison and Sitkin (1986) refer to this type of complementarity as “organisational fit”. The correlation between profitability and the degree of complementarity is independent of the degree of similarity of the companies concerned and not only in the case of horizontal integration (Krishnan et al., 1997).

It has also been shown that complementarity is inversely correlated with manager turnover. That is to say that the higher the degree of complementarity the lower the turnover of managers in the company acquired (Krishnan et al., 1997). It seems integration is easier where knowledge and skills are different since there are fewer redundancies and consequent power struggles. This is consistent with the findngs of the present study where the findings tend to indicate that complementarities positively influence the effectiveness of integration in banking mergers.

### 6.10.3 Strategic complementarity and merger performance

Corporate strategists have long recognised that the strategic fit between merging partners is a critical factor in determining the success or failure of a merger (Altunbas and Marques, 2008). The dominant logic in prior work is that similarity between merging firms is the primary source of strategic fit (Palich et al., 2000; Robins and Wiersema, 1995), but this is not the only way to assess an acquisition’s potential to create value. Complementary differences can also offer opportunities for value-enhancing resource redeployment; indeed, taking the resource-based view of the firm, some scholars have argued that the complementarity of acquirer and target is one of the most significant factors in acquisition success (Capron et al., 1998; Harrison et al., 1991; Wang and Zajac, 2007).

But despite the importance of complementarity in acquisitions, M&A research has tended to concentrate on studies of similarity – with the exception of Bauer and Matzler (2014) and Harrison et al. (1991), there has been little systematic empirical work on complementarity in mergers and acquisitions. Even then, most of this empirical evidence has come from large transactions involving publicly

**Organisational cultural fit and integration effectiveness**

Attributes defining the relationships between the merging firms that stand out in the literature are potential synergy of assets and similarity of cultures and management practices. Scholars have used strategic fit or complementarity to denote the possibility of synergy and organisational fit or compatibility to refer to similarity of organisational cultures and management practices (e.g., Greenwood et al., 1994). Two firms that have similar cultures and routines are defined as compatible. In any mergers, two sets of organisational cultures and routines become unbundled and repacked into the new firm. Thus, a merger creates more internal diversity and often results in a collision of cultures (Buono et al., 1985; Greenwood et al., 1994). Without some conflict resolution capability, extensive internal diversity would harm organisational functioning. Attending to merger induced conflict and strife detracts management's attention from the firm's productive activities. Incompatible M&As require more attention to conflict resolution and system integration. Consequently, they may harm the firms' ability to compete. In a competitive environment, a firm with incompatible cultures is likely to be selected out. In contrast, firms created by compatible M&As may not experience serious integration problems and can thus capitalize on the M&A experience by building a platform for additional M&A activity.

Organisational cultural differences are considered a major cause of post-merger integration problems (e.g. Chatterjee et al., 1992; Weber, 1996; Weber and Tarba, 2012) and therefore merger effectiveness (Datta, 1991; Weber, 1996) as these differences can threaten organisations' ability to engage staff and create the atmosphere they need to support what Haspeslagh and Jemison (1991) call "capability transfer".

Since organisational cultural differences have a critical influence on integration effectiveness, the present study examined the impact of this variable in mergers in the LBS. The findings indicate that an organisational cultural fit enhances integration effectiveness in merging Libyan banks. Organisational cultural fit increase the likelihood that management styles and organisational practices will be incompatible, causing implementation problems (Slangen 2006, Vermeulen and Barkema, 2001) and leading to ineffective integration. In these circumstances, merging banks are unlikely to acquire (or be able to leverage) potentially valuable strategic capabilities. In contrast, an organisational cultural fit between the merging banks facilitates integration during the post-merger phase. It may therefore be concluded that the degree of organisational cultural fit may determine the effectiveness of the integration process.

### 6.10.4 Organisational cultural fit and speed of integration

### 6.10.5 Integration effectiveness and M&A performance

Growing recognition that "all value creation takes place after the acquisition" (Haspeslagh and Jemison 1991, p.129) means that the topic of post-merger integration is receiving increasing attention from researchers (e.g. Datta, 1991; Capron et al., 1998; Larsson and Finkelstein, 1999; Capron and Hulland, 1999; Birkinshaw et al., 2000). A key issue in M&A research adopting the resource-based perspective (Barney, 1986) is the extent to which merging firms integrate certain resources to achieve a stronger competitive position and thus superior financial performance. The present study extends this argument by suggesting a positive association between integration effectiveness and M&A performance. The findings of the study support the hypothesis that the greater the integration effectiveness, the more successful the merger in the LBS. Thus, the finding offers further support for the resource-based view.

The findings of the present study indicate that ineffective integration may prevent a merger from achieving the desired synergy and its intended objectives. It has been a huge challenge for management teams in the LBS to merge ten banks into three, and for employees to deal with the subsequent change in identity. As group boundaries shift during the post-merger integration process, this may challenge or threaten both organisational identity and individuals' sense of belonging and identification with the pre-merger organisation. Furthermore, if the central and distinctive characteristics of the organisation are no longer clear to everyone, but understood in different ways by different people, this may lead to identity ambiguity (Corley and Gioia, 2004). Merging banks may not only have different practices, rules and routines for action, they may also have different ideas about who they are. Thes.e all influence the outcomes of post-merger integration and subsequent performance of the merged banks.

The subject of integration effectiveness was of hardly any importance in first merger waves, as integration competence was not the decisive factor for the success of a transaction. This resulted in today's somewhat limited literature basis on post-merger integration activities. According to Quah and Young (2005) there is an agreement in the literature that integration is an interactive and gradualist process in which both sides learn to work together and cooperate in the transfer of strategic capabilities (Haspeslagh and Jemison, 1991). It is a difficult process and must be assisted by a sense of parity and common management programs, tasks, and goals (Olie, 1990) that can greatly magnify a deal's chances of success (Carr et al., 2004). Integration is required not only on the hard level, encompassing the integration of operations, systems and procedures but also it requires a consideration of those hard factors in relation to the soft side of two organisations. This will not only aid an effective integration but will also help to create a strong new organizational culture for day-to-day business.

Both merger and its post-merger integration are perceived by researchers as complex phenomena representing a very difficult organisational change process where leadership and proper management of this change belong to crucial factors which help to reduce the risk of ineffective post-merger integration (Lauser and Peters, 2008; Kavanagh and Ashkanasy, 2006). Industry observers have identified post-merger integration as critical to long-term merger success (Olie, 1990). The findings of the present study support the view of Hopkins (2008) who points out that care should be given to two elements: right strategy and careful post-merger integration that increase chances for merger success. Morever, the finindgs of the present study is consistne with Epstein (2005) identifies post-merger integration as one of his six determinants of merger success. A survey of more than 200 European chief executives shows that the ability to integrate the new company was ranked as the most important factor for acquisition success (Cartwright and Cooper, 1993a). Various authors claim that mergers fail mainly because of incompetent or incorrect execution of integration processes, proving that post-merger integration effectiveness is the most critical stage of any merger deal and it may be the most important cause of failure among mergers (Hopkins, 2008).

### 6.10.6 Speed of integration and M&A performance

Most literature on integration is concerned with the level of integration that is necessary to transfer capabilities, eliminate redundant resources and make use of synergies (Birkinshaw et al., 2000; Larsson and Finkelstein, 1999; Marks and Mirvis, 1998; Pablo, 1994; Weber et al., 2011). Less attention, however, is given to the speed with which integration should take place. While some research emphasizes that integration should take place as fast as possible (Inkpen et al., 2000; Kosmowski, 2010), others caution that too fast integration might destroy value – as organization members might develop reluctances to cope with the changes that accompany M&A (Galpin and Herndon, 2007; Sarala, 2009). Again others maintain that the relationship between integration speed and M&A performance depends on situational conditions (Homburg and Bucerius, 2006). It is therefore unsurprising that some studies found no significant relationship between integration speed and M&A performance (e.g. Bauer and Matzler, 2014). Most managers connect speed with process (Angwin, 2004, p.418), development and success (Nahass et al., 2008, p.2). It is widely assumed that fast M&A integration brings the benefits of coordination sooner and reduces disruption costs (Puranam et al., 2009, p.183), so it is surprising that speed of integration has been largely overlooked in M&A literature (Gomes et al., 2013). Only a few researchers have attempted to examine the relationship between M&A performance and speed of integration (see Ranft and Lord, 2002; Angwin, 2004; Nahass et al., 2008). One of the major contributions of the present study is that it examines the impact of speed of integration on M&A success in Libyan banks.

The study found a significant positive relationship between M&A performance and speed of integration. This is consistent with the findings of Homburg and Bucerius (2005), Ranft and Lord (2002) and Nahass et al. (2008), but contradicts others who argue that slow integration reduces conflicts among employees (Olie, 1994, pp.381-383) and encourages effective know-how transfer, high participation, careful planning, high motivation and a fluent transition to the new organisation and its culture (Beth-von der Warth, 2004, p.13). Homburg and Bucerius argue that fast integration fosters turbulence and conflicts (2006, p.351). Employee commitment is critical to post-merger success, and rapid implementation is positively related to employee commitment, partly because it reduces uncertainty (Ashkenas et al., 1998; Inkpen et al., 2000). Behavioural theorists argue that speed reduces uncertainty among employees (Angwin, 2004, p.419); in the context of mergers, quick integration reduces employee uncertainty about their future role by giving them a defined organisational environment with stable hierarchical structures, incentive systems, social norms and career prospects. Thus, it may be considered a way of minimising human resource-related post-acquisition integration problems (Haspeslagh and Jemison, 1991; Inkpen et al., 2000). The notion that fast integration fosters employee commitment is consistent with empirical studies that demonstrate a positive relationship between post-acquisition integration speed and general M&A performance (Homburg and Bucerius, 2005).

The findings of the present study also support Ranft and Lord (2002), who report a positive relationship between speed and M&A performance. They argue that quick integration leads to a more effective use of resources (Ranft and Lord, 2002, p.438), which in turn creates competitive advantage. Supporters of the organisational change perspective propose that quick integration fosters stability in the organisations concerned (Angwin, 2004, p.420), while Nahass et al. (2008) found that profitability was significantly higher in the US companies in their sample when post-merger integration was conducted faster than normal (Nahass et al., 2008, p.15). Thus, the speed of integration has a positive influence on the outcome of merger in banking sector.

### 6.11 Academic Contribution

Firstly, the conceptual frameworks and findings of this study emphasise the relevance of an integrative perspective on M&A. In this research, factors related with pre-acquisition phase such as strategic fit, and factors related with post-acquisition phase such as speed of integration are examined in an integrated conceptual framework. There is clear empirical evidence that shows that it is not one single success factor that makes M&A work, but rather the interdependencies of several constructs that determine M&A performance. Prior work clearly shows, M&A performance depends on premerger issues as well as on post-merger issues (Barkema and Schijven, 2008; Bower, 2001; Stahl and Voigt, 2008). Therefore, this study is in line with other integrative research (Bauer and Matzler, 2014).

**Secondly,** the researchers often argued that business relatedness or similarity would benefit acquisition implementation because acquirers are more knowledgeable about the business conduct in related industries, than in unrelated industries (Lubatkin, 1983; Chatterjee. 1986; Hunt, 1990; Fowler and Schmidt, 1989). Contrary to the argument of the positive relationship between relatedness and success (Seth, 1990; Chatterjee and Lubatkin, 1990); the result of this study showed that there is no support of relatedness and suggested that unrelated M&As can achieve success. This study supports the view that complementarity is a promising area in M&A research (King et al., 2004; Larsson and Finkelstein, 1999: Bauer and Matzler, 2014). This study show empirical evidence that proves that strategic complementarity is conclusive for post-merger integration and M&A success. A broader perspective on strategic issues of the premerger phase could only be found in the literature on similarity (Pehrsson, 2006; Stimpert and Duhaime, 1997). The results indicate that there is clear demand for conceptual work on the concept of complementarity. Furthermore, the results of strategic complementarity, in combination with cultural fit, give clear evidence that it is not only economies of sameness that foster value creation in M&As but, moreover, it is economies of fitness that make M&As work.

**Thirdly,** consistent with the organisational behavioural school, organisational culture seem to have affected the behaviour of the employees at the acquired firms. In the past, a lot of research had been conducted on M&A deals with respect to culture and performance outcomes. As the literature review showed, there is agreement that culture plays an important role in such operations. However, whether cultural differences positively or negatively affect the post-M&A phase is still subject to investigations.

**Fourthly,** consistent with the process school, effective management of the post-acquisition process is crucial to success. Drawing on Child et al (2001), this research agrees that there are issue that need to be addressed during the post-acquisition process (For example speed of integration. There is growing body of literature and studies tried to identify the correlation of speed on integration and the M&A success (Angwin 2004; Homburg and Bucerius, 2005; Bauer and Matzler, 2014). Consistent with Angwin (2004), selecting the right timing for the post-acquisition changes is critical to the post-acquisition success. This study provides evidence that high speed of integration as an indicator is positively with performance.

**Fifthly,** prior research has largely focused on post-acquisition issues (e.g. Jemison and Sitkin 1986; Haspeslagh and Jemison, 1991). The role of pre-acquisition issues in the success of the implementation phase has not been the subject of extensive research (see e.g. Schweiger and Goulet, 2000) and calls have been made for more research into its effect on the acquisition process (Greenwood et al., 1994; Schweiger and Goulet, 2000). In this context, the study's findings contribute to research on acquisition management by extending the work of Jemison and Sitkin (1986b), Haspeslagh and Jemison (1991), and Quah and Young (2005), especially as regards to the pre-acquisition issues such as the culture fit. In doing so, the study's findings refocus the debate from post-acquisition integration issues towards pre-acquisition issues.

**Sixthly,** another major contribution of this thesis is that it provides an empirical examination of the effect of strategic similarity and complementarity on the success of acquisitions. Only recently have strategy researchers viewed firms as integrative mechanisms to foster strategic fit and integration (Larsson and Finkelstein, 1999; Zaheer et al., 2013). However, the current understanding of whether strategic fit or organisation fit leads to success is limited (Bauer and Matzler, 2014).Thus, a primary contribution of this study is the examination of the impact of strategic, organisational fit and speed of integration on acquisition performance.

**Seventhly,** another key contribution of this study is the use of multiple theoretical approaches in understanding the relationship between post-acquisition process and acquisition performance. The performance of acquisitions has been examined using the lenses of the strategic fit, cultural fit, and process theory simultaneously.

This study attempts to bridge and integrate different theoretical approaches to the highly visible phenomenon of corporate acquisitions. From the view point of academic researchers, the findings highlight the importance of taking a broad perspective in studying acquisition performance.

### 6.12 Managerial contribution

**A first,** managerial implication arises from the holistic perspective of our research. Managers should focus on premerger issues as well as on post-merger issues. Even though the integration phase is cited to be most decisive for M&A performance, managers should consider the relations in this phase and characteristics of the whole M&A process.

**Second**, despite managerial awareness of speed in post-merger integration, M&A literature has almost ignored its potential positive influence on M&A performance. Relying on this assumption, the research model sheds light into the importance of speed of integration for management activities which determines M&A success or failure. With this study, managers receive scientific evidence on which they can ground their future activities and decisions. It is argued that speed leads to a faster exploitation of synergies and returns on investment, reduces uncertainty among employees, minimizes time spent in a suboptimal condition, and takes advantage of the momentum in the direct aftermath of a deal (Angwin, 2004; Homburg and Bucerius, 2006). However, there are also negative effects of speed. A slower integration might minimize conflicts between partners, enhance trust building, and reduce disruption of existing resources and process in both firms (Homburg and Bucerius, 2006). Setting the right speed of integration requires a holistic understanding of all processes surrounding the focal deal. Therefore, speed should not be chosen intuitively.

**Third**, this study suggests that managers and members of the board of directors in banks can better evaluate potential acquisition targets and alliance partners by focusing on the knowledge similarity and complementarity between the two banks to assess the probability of achieving unique and valuable synergy.

**Fourth**, another contribution of the study is that it provides additional support for the importance of strategic complementarity among merger banks. The concept has received very limited research attention (Bauer and Matzler, 2014). The findings of the current study highlight the importance of shifting research attention away from the business relatedness hypothesis, and toward a strategic complementarity hypothesis. Therefore, Top management in Libyan banks should recognise that strategic complementarity can achieve tangible business advantages.

## 6.13 Conclusions

This chapter has presented the results of the hypotheses testing using the partial least squares. This chapter has investigated the factors influencing M&A performance. One of the key contributions of this study is the use of multiple theoretical approaches (e.g., strategic fit, organisation fit, and process of M&A theory) in understanding the relationship between these variables and acquisition performance. The variables that constitute the strategic similarity between the acquirer and the target organisation, strategic complementarity, organisation culture fit, speed of integration, effectiveness of integration. It was hypothesised that there is a positive relationship between these variables and post-acquisition performance. The results presented in section 6.10 revealed that there is a positive relationship between some of these variables and post-acquisition performance. More specifically, strategic complementarity for merger were found to be significant predictors of acquisition performance whereas, strategic complementarity to have a non-significant association with speed of integration. In terms of strategic similarity, no similar strategies were found to have a significant association with performance. The research shows that the speed of integration has a positive impact on M&A performance. In terms of the organisation culture fit between the acquirer and the target organisation was found to have a non-significant association with performance. The next chapter discusses the contributions of this research and the thesis concludes with recommendations for future research.

# CHAPTER 7 CONCLUSIONS

## 7.1 Introduction

This chapter presents the conclusions of the research. The chapter starts with a summary of the research findings. The following section presents the theoretical and managerial contributions arising from the research in light of the acquisition research, knowledge based research and international business strategy literatures. The limitations of this research as well as recommendations for future research are presented in the final section.

## 7.2 Summary of research Findings

The aim of this study was to investigate the merger motives and the factors influenceing the performance of mergers in Libyan banks. Table 7.1 shows the hypotheses tested in this study along with the corresponding level of support for each hypothesis. The data analysis revealed a number of findings which are summarized below.

### 7.2.1 Motives for mergers

Mergers and acquisitions are seen primarily as a means to increase market power, to be able to compete with foreign banks, to enable faster entry to market and acquire organisational know-how. The first three ranked motives are concerned with improving the firm's competitive position through the use of acquisition that may be characterized as most importantly allowing the Libyan banks to enter new foreign markets at speed and/or consolidating existing market positions.

### 7.2.2 Pre-M&A factors in banking merger

In terms of the variable of strategic similarity and complementarity, it is possible to explain the impact of the variable on the M&A performance in that when the companies have similar and complementary resources and abilities it is easier to link effectively between the companies and it is easier for the employees to "connect" to the M&A goal and to the business rationale it embodies. The present study found that complementarity is essential for integration effectiveness. Moreover, strategic complementaritie also influence organisational cutlral fit.

Finally, there is a significant positive relationship between strategic complementarity and merger performance. Therefor, strategic complementary has a significant influcnec in the merger process and success in the Libyan banking merger.

### 7.2.3 Post-M&A factors and Libyan banking merger

**Table 7.1 Hypothesis testing using Partial Least Square (PLS) Path model**

| Hypothesis | Path and Relationship | Coefficient | T-statistics | Hypothesis support |
|---|---|---|---|---|
| H1a | Strategic similarities → Organisational Cultural fit | 0.1833 | 0.4584 | Not support |
| H1b | Strategic Complementarity → Organisational Cultural fit | 0.2880 | 1.7878** | **support** |
| H2a | Strategic similarities → Integration effectiveness | -0.1038 | 0.4882 | Not support |
| H2b | Strategic Complementarity → Integration effectiveness | 0.3105 | 1.3753* | **support** |
| H3a | Strategic similarities → M&A performance | 0.0142 | 0.0936 | Not support |
| H3b | Strategic Complementarity → M&A performance | 0.2731 | 1.6926** | **support** |
| H4a | Strategic similarities → Speed of integration | -0.2425 | 0.8227 | Not support |
| H4b | Strategic Complementarity → Speed of integration | -0.0200 | 0.1374 | Not support |
| H5 | Organisational Cultural fit → M&A performance | 0.1833 | 0.4584 | Not support |
| H6 | Organisational Cultural fit → Integration effectiveness | 0.1897 | 1.7574** | **support** |
| H7 | Organisational Cultural fit → Speed of integration | 0.2380 | 1.683601** | **support** |
| H8 | Integration effectiveness → M&A performance | 0.1982 | 1.707650** | **support** |
| H9 | Speed of integration → M&A performance | 0.1858 | 1.79547** | **support** |

***$p < 0.01$, **$p < 0.05$, *$p < 0.10$

### 7.3 Limitations of the Study

This study has provided a number of insights into the merger in the Libyan commercial banking sector. While a number of contributions have emerged through this study, it must be acknowledged that this study has a number of limitations. Firstly, the data analysed and used to answer the research questions and to test hypotheses are collected using a questionnaire survey. Since respondents‘answers to the questionnaire survey are based on their perceptions, this may give rise to bias due to the lack of objective measures. To overcome this limitations, future study could usefully explore the same issue using more objective measures, particularly to measure performance.

Secondly, a second limitation concerns the fact that the study employed questionnaire completed by respondents from merging banks. The standard caveats associated with research findings based on this method of collecting data, for instance the problem of common method bias, should be recognised.

Thirdly, there was a lack of literature concerning the organisation culture and M&A performance in other MENA nations in general, and Libya in particular. Most of the available literature was related to developing countries including Eastern Europe, Latin America and developed countries for example, UK and US.

A fourth limitation is the cross-sectional research design that was used to examine the longitudinal process of acquisition implementation. A longitudinal design would increase the ability of future research to better examine post-acquisition management and the implementation process. Also a longitudinal design would better address the causal relationships that were proposed in the research model. However, longitudinal studies in the M&A context are problematic due to managerial turnover in the post-merger phase, and the problem of practicability (due to the lack of willingness of managers to participate in such a study). Furthermore, the effects of M&A on success depend on integration. Literature points out that it takes three to five years to measure M&A performance in a sufficient way (Ellis et al., 2009; Homburg and Bucerius, 2005; Zollo and Meier, 2008). Therefore, a longitudinal design is very difficult and problematic to implement as it requires repeated measurement over a number of years, which was beyond the scope of this study.

Fifth limitation of this study is the potential for retrospective bias, since the questionnaire asked managers to recall events that occurred in the past. To address and minimize this concern only fairly recent acquisition were selected for examination, and efforts were made to identify the individual in the acquiring firm that was involved with the acquisition decision and implementation process. A comparison of acquisitions made in 2007 to 2008 served as an indication that the influence of this bias was a very minor threat to the validity of the data.

### 7.4 Recommendations for Future Research

Based on the findings and analysis of this study, the following areas are recommended as directions for future research.

1. It is recommended to examine whether the organisation and strategic fit, speed of integration and its impact on M&A performance are different between firms in the banking industry and companies in other industries.
2. The differences in national cultures and M&A performance among countries may have different implications. Therefore, further studies are encouraged to investigate the impact of national culture on performance.
3. The variable of M&A performance is based on the current research on the attitudes of the managers who were involved in the M&A included in the research sample. This is only one way to measure the M&A performance. It is recommended to examine in a future research the impact of the variable of organisation culture fit by using additional and more objective measures to determine the M&A performance, such as accounting base or price of the stock of the acquirer as a result of the M&A.
4. The variable strategic similarities was not found to have impact on the integration effectiveness and M&A performance. However, it is recommended in future research to examine additional variables related to the strategic similarities, such as autonomy and to examine how they influence, along with speed of integration, the integration effectiveness and M&A success.
5. This research focused on horizontal merging because it raises issues in Libya. In particular, the focal acquirer may have more familiarity with the

interfaces necessary to create value from vertical merger. Future research might consider both vertical and horizontal merger simultaneously.

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# APPENDIX 1

## COVER LETTER

Date: 06.03.2012

Dear Sir/Madam,

On behalf of my supervisory team. Dr. Mohammad Faisal. Dr Jing Wang and myself. I am writing to ask for your assistance in completing the questionnaire as a requisite for obtaining a PhD degree in Accountancy at Nottingham Trent University NTU. UK .The attached questionnaire is part of my research project, entitled: The effect of pre- and post-merger factors on the performance of mergers in Libyan banks.

Since your bank has been involved in merger strategies, it has been selected to be one of many research samples to gain some information related to the mergers and their impact on the company and the way they are managed.

We would greatly appreciate your participation in this research. Please find enclosed a questionnaire that we would like you to complete. In appreciation of your participation, we will send you a summary of the research findings when the study is completed. We hope that our findings will be valuable to you and your firm.

I would like to insure you that all of your answers will be treated with complete confidentiality, and will be used only for the academic purposes.

Completing the questionnaire will take only a small amount of your time and you will make a valuable contribution to our research study. We would be pleased to answer any questions you might have regarding this study. Please call Hasen Ahmed Salama on 07728216636 or email at: N0310986@ntu.ac.uk

We look forward to receiving your completed questionnaire. Thank you in advance for your assistance.

Yours sincerely

Dr.Mohammad Faisal Ahammad
Senior lecturer
Nottingham Business School
Nottingham Trent University

Hasen Ahmed Salama
Doctoral Candidate
Business School
Nottingham Trent University

# APPENDIX 2

## QUESTIONNAIRE

### A. Background information

1- Name of the bank before the merger---------------------------------------

2- Name of the bank after the merger-------------------

3- The date of the merger --------------------------------------

4-Position of the Respondent at the time of merger:

1. Managing director or CEO. ( ) 4.Middle management. ( )

2. V.P ( ) 5. Non-management ( )

3. Head of SBU. ( ) 6.other

5- How long you have been in this bank?

Less than 5 years ( ) 16-20 years ( )

5-10 years ( ) 21-25 years ( )

1l -15 years ( ) More than 25 years ( )

6- Previous M&A Experience: ___________ M&A deals

7- What is the approximate total number of employees in your bank before and after the merger?

A. Before merger …………employees

B. after merger ……………. employees

8- Does the bank have a partnership with the government or foreign bank?

( ) Yes ( ) No

If the answer is (Yes), Please specify:

A. Government share:

( ) Less than 10% ( ) 10-20% ( ) 21-35% ( ) 36-50%
( ) 51-75% ( ) 100% government

## B. Motives for merger

How important were the following strategic motives for the merger?

Please circle your answer.

| | Not importance | | | | Very important |
|---|---|---|---|---|---|
| a. To enable faster entry to market | 1 | 2 | 3 | 4 | 5 |
| b. To increase market power | 1 | 2 | 3 | 4 | 5 |
| c. To gain efficiency through synergies | 1 | 2 | 3 | 4 | 5 |
| d. To enable a fast way to increase the bank size | 1 | 2 | 3 | 4 | 5 |
| e. To acquire new growth business | 1 | 2 | 3 | 4 | 5 |
| f. To acquire Organisational know-how | 1 | 2 | 3 | 4 | 5 |
| g. To acquire technological capabilities | 1 | 2 | 3 | 4 | 5 |
| h. To reduce fixed cost (administration cost, IT, etc.) | 1 | 2 | 3 | 4 | 5 |
| i. To acquire skilled personnel | 1 | 2 | 3 | 4 | 5 |
| j. To reduce of competition | 1 | 2 | 3 | 4 | 5 |
| k. To replace inefficient management | 1 | 2 | 3 | 4 | 5 |
| l. To Turn around failing merged firm | 1 | 2 | 3 | 4 | 5 |
| m. Responding to competitors move | 1 | 2 | 3 | 4 | 5 |
| n. To reduce risk of the business | 1 | 2 | 3 | 4 | 5 |
| o. To be able to compete with foreign banks | 1 | 2 | 3 | 4 | 5 |
| p. To increase the services capacity | 1 | 2 | 3 | 4 | 5 |
| q. To respond to pressures from stakeholders | 1 | 2 | 3 | 4 | 5 |
| r. To acquire complementary resources | 1 | 2 | 3 | 4 | 5 |
| s. To overcome financial difficulties | 1 | 2 | 3 | 4 | 5 |
| t. Other (Please specify)……………………........ | 1 | 2 | 3 | 4 | 5 |

## C- Perceptions of cultural differences

The following items relate to the BELIEFS AND ASSUMPTIONS that top management had prior to the merger about the IMPORTANCE of some business practices and procedures, and how things should be done for the success of a business. Please, indicate your perceptions about the extent to which the following items were DIFFERENT for the top management group of your company VERSUS the top management group of the merging/merged firm. Please, circle for each item the most appropriate answer: a score of "1" means that the two top management groups are very similar, while a score of “5" means that they are very different.

| Items | Very Similar | Similar | Neutral | Different | Very Different |
|---|---|---|---|---|---|
| 1. Managers should share information and communicate with other subunits of the company | | | | | |
| 2.Managers should quickly respond to changes in the business environment | | | | | |
| 3. In the long run managers can get ahead fastest by playing it safe, sure, and slow | | | | | |
| 4. Compensation for managers should be competitive with similar companies | | | | | |
| 5. Measures used to judge managerial performance should be clear | | | | | |
| 6. Top management should provide support and warmth to those managers below them | | | | | |
| 7. High autonomy in decision making should be given to managers | | | | | |
| 8. Managers should recognize and seize good opportunities as they arise | | | | | |
| 9. Managers should take chances on good ideas | | | | | |
| 10. Rewards and recognition should be based on a manager's performance | | | | | |
| 11. There should be continuous pressure to improve personal and group performance | | | | | |
| 12. Formal authority for decision making should be made clear to all employees | | | | | |
| 13. Managers should maintain and/or develop interrelationships with managers | | | | | |
| 14. Managers should be encouraged to be innovative, take independent actions and reasonable risks | | | | | |
| 15. Managers should be encouraged to air conflicts and constructive criticism openly | | | | | |
| 16. Formal rules and procedures should be followed in making decisions and carrying | | | | | |
| 17. Managers should be innovative rather than conservative in decision making | | | | | |
| 18. Managerial promotions should be highly associated with excellence in performing the job | | | | | |
| 19. Managers should be free to make independent decisions | | | | | |
| 20. Calculated risks should be taken at the right time | | | | | |
| 21. Decision-making should be timely | | | | | |
| 22. Goals should be venturesome | | | | | |
| 23. Various subunit managers should make efforts to understand each other's problems and difficulties | | | | | |
| 24. Managers should be held personally accountable for the end results they produce | | | | | |
| 25. To be effective, decision makers should be very cautious | | | | | |
| 26. Responsibility for decisions should be clearly communicated to all managers | | | | | |
| 27. Managers should create and maintain effective communication and cooperation with peers | | | | | |
| 28. Managers should be encouraged to expose conflicts and to seek ways to resolve them | | | | | |
| 29. Promotion of managers should be based on competence as reflected by their performance | | | | | |

**D - Degree of similarities and complementarities (degree of synergy potential)**

Please, estimate the similarity/complementarity between the merging companies in each function by giving the most appropriate answer: a score of "1" means very low, while a score of “5" means very high similarity/complementarity.

| Items | Very low | low | Neutral | High | Very high |
|---|---|---|---|---|---|
| 1. Marketing similarity between the joining companies based primarily on their geographic markets, customer groups, and main industries | | | | | |
| 2. Services similarity between the joining companies based primarily on their input, process, and service types | | | | | |
| **3**. R&D similarity between the joining companies based primarily on their type of innovation (service versus process innovation) | | | | | |
| 4. Logistics similarity between the joining companies | | | | | |
| 5. Information technologies similarity between the joining banks | | | | | |
| 6. Finance and accounting similarity between the joining banks | | | | | |
| **7**. Control and evaluation systems similarity between the joining banks | | | | | |
| 8. Distribution channels similarity between the joining banks | | | | | |
| 9. Human resources similarity between the joining banks | | | | | |
| 10. Purchasing similarity between the joining banks | | | | | |
| 11. General managerial capabilities (strategy formulation and implementation, leadership) similarity between the joining banks | | | | | |
| 12. Marketing complementarity between the joining companies in terms of the extent to which their different marketing capabilities fit each other and can thereby be transferred between different markets and services of the two firms | | | | | |
| 13. Services complementarity between the joining companies in terms of the extent to which their different services capabilities fit each other and can thereby be transferred between them, such as vertical economies between firms with long – linked technologies | | | | | |
| 14. R&D complementarity between the joining companies based primarily on their type of innovation (service versus process innovation) | | | | | |
| 15. Logistics complementarity between the joining companies | | | | | |
| 16. Information technologies complementarity between the joining banks | | | | | |
| 17. Finance and accounting complementarity between the joining banks | | | | | |
| 18. Control and evaluation systems complementarity between the joining banks | | | | | |
| 19 Distribution channels complementarity between the joining banks | | | | | |
| 20. Human resources complementarity between the joining banks | | | | | |
| 21. Purchasing complementarity between the joining banks | | | | | |
| 22. General managerial capabilities (strategy formulation and implementation, leadership) complementarity between the joining banks | | | | | |

## E –Post merger integration approach:

Please identify the post-merger integration approach implemented in your M&A from three integration approaches provided below:

| Approach – A |
|---|
| • Cost savings and enhanced market position as key motives. |
| • Merging firms' practices/procedures being used in target firm. |
| • Plans for restructuring and downsizing mentioned. |
| • References made only to the merging firm's name. |
| • Use of the words "assimilate" or "absorb". |
| • Limited retention of executive leaders of the target firm. |
| **Approach – B** |
| • Expand product offerings or geographic markets as key motives. |
| • Use of the phrases "best of both" or "best practices". |
| • No plans to integrate or a delay in integrating of many functional areas. |
| • References to both original firms' names. |
| • Some retention of top managers of the target firm. |
| **Approach – C** |
| • Revenue growth and market position as key motives. |
| • No plans to integrate key functional (business) areas. |
| • Neither firm changed significantly. |
| • Retention of majority of merged company's top managers and/or brand name of the target bank. |

## F - Perceptions of top managers of the merging /merged firm on actually implemented post-merger approach degree

The following items relate to the perceptions that top management of the merging /merged firm had after the merger was consummated.

Please indicate your perceptions about the extent to which the goals and decisions (both strategic and operational) were imposed by the merging company on the merged firm. Please, circle for each item the most appropriate answer: when the scale ranges from full autonomy (1), to consensus with acquired management (3), and (5) to full imposition, if not applicable please circle N/A.

**Full Autonomy for Full Imposition for merged bank merged bank**

| Items | N/A | Full autonomy | autonomy | Neutral | imposition | full imposition |
|---|---|---|---|---|---|---|
| 1. Determination of goals of profitability | | | | | | |
| 2. Determination of goals of service | | | | | | |
| 3. Expanding into new marketing territories with existing products | | | | | | |
| 4. Introducing new products | | | | | | |
| 5. Determination of goals of physical resources | | | | | | |
| 6. Determination of goals of managerial resources | | | | | | |
| 7. Determination and changing budget plans | | | | | | |
| 8. Financing major investments | | | | | | |
| 9. Changing selling and market techniques | | | | | | |
| 10. Purchasing important raw materials | | | | | | |
| 11. Production schedules and plans | | | | | | |
| 12. Determining rewards and compensation levels for high – level managers | | | | | | |
| 13. Determining research and development budget | | | | | | |
| 14. Changing product design | | | | | | |
| 15. Changing product prices | | | | | | |
| 16. Hiring, promoting, and firing high – level managers | | | | | | |
| 17. Changing information technology systems | | | | | | |

## G- Speed of applied post-acquisition integration:

Please, identify the speed of integration (in months) and circle for each item the most appropriate answer.

1. What was the planned merger speed of integration? _______ Months.

2. What was the actual merger speed of integration (from the announcement day to the time that most of the integration process finished? ________ Months.

3. In retrospect, do you think that the speed of integration should be

   a. We should proceed faster.

   b. We should proceed slower.

   c. The integration speed was optimal.

4. How long did it take to complete the intended integration of the following aspects?

5-point rating scale: 1 = more than 24 months, 2 = 19–24 months, 3 = 13–18 months,

4 = 6–12 months, 5 = less than 6 months.

| Items | More than 24 months | 19-24 months | 13-18 months | 6-12 months | Less than 6 months |
|---|---|---|---|---|---|
| 1.Marketing | | | | | |
| 2.R&D | | | | | |
| 3. H.R (Hiring, promoting, firing etc.) | | | | | |
| 4. service and operational systems | | | | | |
| 5. Accounting/finance | | | | | |
| 6. Purchasing | | | | | |
| 7. Information technology systems | | | | | |
| 8. Customer service | | | | | |

**H -- Effectiveness of applied post-acquisition integration:**

Listed below are areas in which linkages between two firms may be established. Please, indicate on the following scale, how effective the linkages are to the success of the merger.

Please, circle for each item the most appropriate answer: a score of "1" means that the linking is not effective, a score "3" means that a linking is moderately effective, while a score of “5" means that a linking is highly effective, if not applicable please circle N/A.

| Items | N/A | Not effective | Slightly effective | Moderately effective | effective | Highly effective |
|---|---|---|---|---|---|---|
| 1. Operating facilities | | | | | | |
| 2. Purchasing | | | | | | |
| 3. Research and development | | | | | | |
| 4. Accounting & finance | | | | | | |
| 5. Legal department | | | | | | |
| 6. Government relations | | | | | | |
| 7. Human resources | | | | | | |
| 8. Distribution channels | | | | | | |
| 9. Customer service | | | | | | |
| 10 . Promotion and advertising | | | | | | |
| 11. Strategic planning | | | | | | |
| 12. Information systems | | | | | | |

**I - M&A Deal Success Estimation:**

The following items relate to the merger Success estimation.  Please, indicate your perceptions about the merger performance.

Please, circle for each item the most appropriate answer: a score of "5" means that the success is very high, while a score of “1" means that the success is very low. Please give to the first 5 item weight factor from 0 to 100% according to your opinion about the importance of the factor on the overall M&A success.

PLEASE NOTE THAT THE SUM OF ALL WEIGHTS SHOULD BE 100%.

| Items | Weight factor (%) | Very Low | Low | Medium | High | Very High |
|---|---|---|---|---|---|---|
| 1. What was the influence of the merger on the improving of the ROI? | | | | | | |
| 2. What was the influence of the merger on the improving of the service quality? | | | | | | |
| 3. What was the influence of the merger on the improving of the customer satisfaction? | | | | | | |
| 4. What was the influence of the merger on the improving of the cash flow? | | | | | | |
| 5. What was the influence of the merger on the improving of the sales growth? | | | | | | |
| 6. What was the influence of the merger on the total acquirer performance? | | | | | | |

OTHER COMMENTS

If you have any other comments you wish to make about The effect of pre- and post merger factors on the performance of mergers in Libyan banks, or wish to explore any question in more detail, please do so below.

**SURVEY FEEDBACK**

We will be pleased to send you a summary of the results from this survey. If you would like to receive a summary please provide your details below.

Here, I would like to express my appreciation and gratefulness for your cooperation and the valuable time and effort you spent in filling out the questionnaire.

Hasen Salama
PhD student, Business school
Nottingham Trent University

# APPENDIX 3

Please read and confirm your consent to being interviewed for this project by initialling the appropriate box (es) and write your job title and dating this form. Please note that the expected duration of this interview is about 30 minutes.

1. I confirm that the purpose of the project has been explained to me that I have been given information about it in writing, and that I have had the opportunity to ask questions about the research ( )
2. I understand that my participation is voluntary, and that I am free to withdraw at any time during interview without giving any reason and without any implications for my legal rights ( )
3. I confirm that during 10 weeks, I have the right to review comment on and/ or withdraw information prior to the project submission through send an email or call the researcher ( )
4. I agree to take part in this project ( )

______________________________ ________________________________

The Job title of interviewee The bank's name Date

______________________________ ________________ _____________

Name of researcher taking consent Date Signature

*PROJECT:*
*The PhD research under the title of:* The effect of pre- and post-merger factors on the performance of mergers in Libyan banks. *By: Hasen Ahmed Salama, PhD student at Nottingham Business School, NTU* Mob. Libya: +218912146912. UK. +447728216636 *Email address:* *N0310986@ntu.ac.uk*

NOTTINGHAM TRENT UNIVERSITY

# APPENDIX 4

A questionnaire of the PhD research under the title of the effect of pre-and post – merger factors on the performance of merger in Libyan government banks. This research project is related to the cultural issues in the success or failure of merger and acquisition strategies. Since your bank has been involved in merger strategies, it has been selected to be one of many research samples to gain some information related to the mergers and their impact on the bank and the way they are managed.

I ask for your help by answering the enclosed questionnaire. I depend on your answers!

Please write down the serial number of the question completion and mention this serial number. This will enable you to withdraw the data provided if, for any reason, you wish to do so at a later point in time.

The survey is easy and it will only take you about 15 minutes to complete. The questionnaire is confidential and data will be treated on the mass level only.

I inform you that your participation is voluntary, and you are free to reject or withdraw at any time during completion questionnaire, without giving any reasons. Furthermore, you have the right to review comment on and/ or withdraw information until 10 weeks prior to the project submission through send an email or call the researcher. In the case of withdrawing, your collected date will not be used.

Many thanks in advance for your contribution!

By: Hasen Ahmed Salama, PhD student at Nottingham Business School, NTU

Mob. Libya: +218912146912. UK. +447728216636

Email address:N0310986@ntu.ac.uk

# APPENDIX 5

بحث دكتوراه بعنوان:

تأثير العوامل السابقة واللاحقة لعملية الدمج فى القطاع المصرفى الليبى

يرجى قراءة العبارات أدناه ( √) امام العبارات التى تراها مناسبة وذلك لتأكيد مشاركتك بالبحث والموافقة على ووضع اشارة

اجراء المقابلة ،كما يرجى التكرم بكتابة المسمى الوظيفى الخاص بك وتاريخ اجراء المقابلة ، هذه المقابلة لن تأخذ أكثر من 30 دقيقة من وقتك .

1- لقد أحطت علما بغرض هذا البحث ، كما قدمت لى معلومات كافية عن البحث وكذلك كانت لى الفرصة فى طرح أى أسئلة

( )

2- أدرك تماما بأن مشاركتى تطوعية ولى الحق فى الانسحاب بدون أن أكون مجبرا على ابداء أى سبب ( )

3- أوافق على المشاركة بالبحث واجراء المقابلة .

( )

____________ ____________ ____________________________

المسمى الوظيفى اسم المصرف تاريخ المقابلة

____________ ____________ ____________________________

اسم الباحث التوقيع تاريخ المقابلة

**مقدم من الطالب: حسن احمد سلامه ، طالب دكتوراه بجامعة نوتنجهام ترنت المملكة المتحدة، قسم الادارة المالية- كلية الاعمال.**

**البريد الالكترونى** N0310986@ntu.ac.uk

NOTTINGHAM
TRENT UNIVERSITY

# APPENDIX 6

## استبيان لبحث دكتوراه بعنوان:

تأثير العوامل السابقة واللاحقة لعملية الدمج فى القطاع المصرفى الليبى

يقوم هذا البحث لدراسة دوافع الاندماج واثر الاختلاف الثقافى فى المصرف باعتباره اهم العوامل لنجاح التكامل فى الاندماج بين المصارف فى ليبيا . وحيث انه تم اختيار مصرفكم الموقر ليكون مثالا للتطبيق فى هذا البحث.

احتاج لمساعدتك بالاجابه عن اسئله الاستبيان المرفق واعلم اننى فى حاجه ماسه لهذه الاجابات واعتمد عليها فى نجاح هذا البحث :الاستبيان سهل ولن يأخذ من وقتك الا قرابه خمس عشره دقيقه لاكماله، البيانات التى ستزودنا بها ستكون طى السريه ولن يتم استخدامها الا لاغراض البحث حيت انه لاتوجد اجابات صحيحه واخرى خاطئه فى هذا الاستبيان .

اود ان اؤكد لك بأن ملؤك لهذا الاستبيان هو تطوع منك للمساعدة ، و لذلك لك مطلق الحريه فى رفض المشاركه او الانسحاب والعدول عن تكملة الاجابه عن الاستبيان بدون ان تكون مجبرا لابداء أى سبب..... فهو حقك.
وفى حالة عدم استكمالك لاجابة اسئلة الاستبيان فان اجابتك التى تحصلنا عليها سوف لن تستخدم مطلقا فى هذه الدراسة .

**شكرا على حسن تعاونكم**

**حسن احمد سلامه**
**كلية الاعمال- قسم الادارة الماليه**
**جامعة نوتنجهام ترنت**
**المملكة المتحدة**
**البريد الالكترونى: N0310986@ntu.ac.uk**

## APPENDIX 7

اسئلة الاستبيان

1. معلومات عامة

ا. اسم المصرف قبل الاندماج ................. 2. اسم المصرف بعد الاندماج .................

3.تاريخ الاندماج ....................

4. ما هو موقعك فى المصرف وقت الاندماج ؟

رئيس مجلس الادارة ( )    عضو مجلس الادارة ( )    مدير تنفيذى ( )

مدير فرع ( )    مدير ادارة ( )    مدير قسم ( )

غير ذلك ( )

5. ماهى خبرتك فى العمل المصرفى ؟

اقل من 5 سنوات( )    5-10 سنوات( )    11-15 سنوات ( )

16-20 سنوات( )    21-25 سنوات( )    اكثر من 25 سنة ( )

6. ماهى خبرتك السابقة فى صفقات الاندماج؟

......................سنة

7. ماهو عدد الموظفين فى مصرفك قبل وبعد الاندماج تقريبا

قبل الاندماج ...................موظف تقريبا

بعد الاندماج ..................موظف تقريبا

8. هل لدى المصرف شراكة مع الحكومة أو مصرف أجنبي؟

( ) نعم    ( ) لا

، يرجى تحديد إذا كان الجواب (نعم) :

حصة الحكومة: ( ) أقل من 10٪ ( ) 10-20٪ ( ) 21-35٪ ( ) 36-50٪ ( ) 51-75٪
( ) 100٪حكومة

حصة المصارف الأجنبية ( ) أقل من 10٪ ( ) 10-20٪ ( ) 21-35٪ ( ) 36-50٪
( ) أكثر من 50٪

2) دوافع الأندماج

ما مدى أ همية دوافع الاندماج الاتية ؟

يرجى وضع دائرة حول الأجابة المناسبة حيث ان رقم (1) تعنى غير هام فى حين ان رقم (5) تعنى هام جدا

| | غير هام | | | | هام جداً |
|---|---|---|---|---|---|
| أ) لتمكين الدخول السريع في السوق | 1 | 2 | 3 | 4 | 5 |
| ب) لزيادة قوة السوق | 1 | 2 | 3 | 4 | 5 |
| ت) لاكتساب الفعالية من خلال التعامل | 1 | 2 | 3 | 4 | 5 |
| ث) لزياده حجم المصرف | 1 | 2 | 3 | 4 | 5 |
| ج) لأكتساب نمو جديد في الأعمال | 1 | 2 | 3 | 4 | 5 |
| ح) لاكتساب القدرات المعرفية العلمية التنظيمية | 1 | 2 | 3 | 4 | 5 |
| خ) للحصول على القدرات التقنية | 1 | 2 | 3 | 4 | 5 |
| د) لخفض التكاليف الثابتة ( تكاليف أدارية ، تقنية المعلومات ،،،، الخ ) | 1 | 2 | 3 | 4 | 5 |
| ذ) للحصول على موظفين مهرة | 1 | 2 | 3 | 4 | 5 |
| ر) للحد من التنافس | 1 | 2 | 3 | 4 | 5 |
| ز) لاستبدال الادارة غير الجديرة | 1 | 2 | 3 | 4 | 5 |
| س) لتغيير وضع المصارف الفاشلة الى الاحسن | 1 | 2 | 3 | 4 | 5 |
| ش) الأستجابه الى تحركات المنافسين | 1 | 2 | 3 | 4 | 5 |
| ص)للحد من مخاطر الأعمال | 1 | 2 | 3 | 4 | 5 |
| ض)للقدرة على المنافسة مع المصارف الخارجية | 1 | 2 | 3 | 4 | 5 |
| ط) لزيادة قدرة الخدمات | 1 | 2 | 3 | 4 | 5 |
| ظ) للأستجابة لضغوط المساهمين | 1 | 2 | 3 | 4 | 5 |
| ع) للحصول على موارد تكميلية | 1 | 2 | 3 | 4 | 5 |
| غ) للتغلب على الصعاب المالية | 1 | 2 | 3 | 4 | 5 |
| ف) بنود أخرى ( يرجى تحديدها ) | 1 | 2 | 3 | 4 | 5 |

3 ) عمليات أدراك الفروقات الثقافية :

البنود الأتية ذات علاقة بالمعتقدات و الأفتراضات التى كانت لدى الأدارة العليا قبل عملية الأندماج حول أهمية بعض ممارسات و أجراءات الأعمال ، و كيفية عمل الأشياء لانجاح الأعمال ، يرجى توضيح فهمكم حول المدى الذي تكون فيه البنود التالية مختلفة عن مجموعة الأدارة العليا في مصرفكم مقابل مجموعة الأدارة العليا للمصرف الدامج/المندمج .

يرجى وضع اشارة حول البند الذي يعتبر أكتر الإجابات ملائمة :

العلامة (1) تعني بأن مجموعات الأدارة العليا الأتنين متشابهتين جداً , في حين أن علامة (5) تعني أنهما مختلفتين جداً

| البنوذ | متشابه جدا | متماثلة | محايدة | مختلفة | مختلفة جداً |
|---|---|---|---|---|---|
| 1) على المدراء التشارك في المعلومات و أيصالها للوحدات الفرعية الأخرى بالمصرف . | | | | | |
| 2) على المدراء الأستجابة بسرعة للتغيرات في بيئة الأعمال . | | | | | |
| 3) في المدى البعيد ، يمكن للمدراء المضي قدماً بأسرع الطرق و بشكل امن وأكيد . | | | | | |
| 4) تعويض المدراء ينبغى ان يكون بصفة تنافسية مع المصارف المماثلة . | | | | | |
| 5) المقاييس المستخدمة للحكم على الأداء الادارى المتعلقة بالمدراء ينبغي أن تكون واضحة . | | | | | |
| 6) ينبغي أن تزود الأدارة العليا الدعم لهولاء المدراء الذين هم أقل درجة منهم . | | | | | |
| 7) الأستقلالية الذاتية في أتخاد القرارات يستوجب أن تعطى للمدراء . | | | | | |
| 8) على المدراء التعرف على الفرص المناسبة وانتهازها عند بروزها . | | | | | |
| 9) على المدراء استغلال فرص الأفكار الجيدة . | | | | | |
| 10) المكافأت و الأعترافات ينبغى أن تبنى على أداء المدير . | | | | | |
| 11) يستوجب أن يكون هنالك ضغط مستمر لاجل تحسين الأداء الشخصي و الأداء الجماعي . | | | | | |
| 12) السلطة الرسمية في أتخاد القرارات يجب أن تكون واضحه لكافة العاملين . | | | | | |
| 13) على المدراء الحفاظ و تطوير العلاقات المتبادلة مع باقى المدراء . | | | | | |
| 14) يجب تشجيع المدراء على أن يعرضوا النزاعات على الملأ و ينبغي النقد الموضوعي البناء بصفة مفتوحة . | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| 15) يستوجب تشجيع المدراء على تبني الأبتكار و التجديد و أتخاذ الأجراءات المستقلة والأخطاء المعقولة .<br>16) القواعد و الضوابط و الأجراءات الرسمية تستوجب أتباعها في حالة اتخاذ القرارات وتنفيذها .<br>17) يستوجب أن يكون المدراء مبدعين وليس محافظين في أتخادهم القرارات .<br>18) الترقيات الأدارية للمدراء تستوجب ربطها بصفة كبيرة مع الأمتياز في أداء الأعمال .<br>19) يستوجب أعطاء المدراء الحرية في أتخاد القرارات المستقلة .<br>20) المخاطر المحسوبة يستوجب اخذها في الوقت الصحيح .<br>21) أتخاد القرارات ينبغي أن يتم في حينه .<br>22) الأهداف تستوجب أن تنطو على مغامرة .<br>23) يجب على المدراء فى الفروع المختلفة فهم مشاكل ومصاعب بعضهم البعض .<br>24) يستوجب أن يكون المدراء مسئولين شخصياً عن النتائج النهائية التي يساهمون في أنتاجها .<br>25) لتحري الفعالية فأن على متخدي القرارات أن يكونوا على يقظة .<br>26) المسؤولية بشأن أتخاد القرارات يستوجب أيصالها بصغة جلية الى كافة المدراء .<br>27) على المدراء الحفاظ على التواصل و التعاون الفعال مع نظائرهم .<br>28) يستوجب تسجيع المدراء على عرض النزاعات و السعي للوصول الى طرق تساهم في حلها .<br>29) ترقية المدراء يستوجب أن يكون بناء على الكفاءة وبقدر ما ينعكس ذلك على أدائهم . | | | | | |

4) درجة التشابه و التكامل:

برجى تقدير التشابة و التكامل بين المصارف المندمجة في كل وظيفة بأعطاء الأجابة الأكثر ملائمة :

علامة (1) تعني ضعيف جداً بينما علامة (5) تعني ان التشابة والتكامل عاليه جداً .

| البنوذ | ضعيف جدا | ضعيف | محايد | عالى | عالى جدا |
|---|---|---|---|---|---|
| 1) التشابه في التسويق بين المصارف المندمجة تعتمد أساسا على أسواقها الجغرافية و مجموعات زبائنهم.<br>2) التشابه في الخدمات بين المصارف | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| المندمجة تعتمد أساسا على طاقتها و أنواع خدماتها .<br>3) التشابه فى البحوث والتطوير بين المصارف المندمجة تعتمد أساس على نوع أبتكارها (الخدمه مقابل الأبتكارات الصناعيه ).<br>4) التشابه في تقنية المعلومات بين المصارف المندمجة<br>5) التشابة في التمويل والمحاسبة بين المصارف المندمجة.<br>6) التشابة في انظمة التقييم و الضبط بين المصارف المندمجة .<br>7) التشابة في قنوات التوزيع بين المصارف المندمجة<br>8) التشابة في الموارد البشرية بين المصارف المندمجة<br>9) التشابة في الشراء بين المصارف المندمجة<br>10) التشابة في القدرات الأدارية العامة(صياغة وتنفيذ الأستراتيجيات - والقيادة بين المصارف المندمجة)<br>11) التكامل في التسويق بين المصارف المندمجة من حيث المدى الذي تتلائم فيه قدراتها التسويقية المختلفة مع بعضها البعض و بالتالى يمكنها أن تتحول بين العديد من الخدمات التابعه للمصرفين<br>12) التكامل في الخدمات بين المصارف المندمجة من حيث المدى الذي تتلائم فيه قدرات خدماتها المختلفة مع بعضها البعض .<br>13) التكامل في الخدمات بين المصارف المندمجة تعتمد أساساعلى نوع أبتكاراتها ( الخدمات مقابل الأبتكارات في الصنع ) .<br>14) التكامل اللوجستى بين المصارف المندمجة.<br>15) التكامل في تقنية المعلومات بين المصارف المندمجة<br>16) التكامل في المالية و الحسابات بين المصارف المندمجة<br>17) التكامل في أنظمة الرقابة و التقييم بين المصارف المندمجة<br>18) التكامل في قنوات التوزيع بين المصارف المندمجة .<br>19) التكامل في الموارد البشرية بين المصارف المندمجة<br>20) التكامل في القدرات الشرائية بين المصارف المندمجة<br>21) التكامل في القدرات الأدارية العامة (صياغه و تنفيذ الأستراتيجيات و | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| القيادية ) بين المصارف المندمجة . | | | | | |

5 ) اسلوب او نهج التكامل بعد الأندماج :

يرجى تحديد اسلوب التكامل ما بعد الاندماج المنفذ في إدارتكم من خلال الاساليب الثلاثه التى تم تزويدها أدناه :

الاسلوب ( النهج) (أ):

- توفير التكاليف وتعزيز مكانة المصرف بالسوق بأعتبارها دوافع رئيسية .
- ممارسات وا جراءات المصارف المندمجة التي يتم أستخدامها في المصارف المستهدفة .
- الخطط الخاصه بأعادة الهيكلية والتقليص .
- تتم الاشارة فقط باسم المصرف المندمج .
- أستخدم كلمات أو عبارات مثل ( الأستيعاب ) أو ( الأمتصاص ) .
- الوجود محدود للمدراء التنفيذيين للمصرف المندمج .

الاسلوب ( النهج) (ب) :

- توسيع الخدمات بأعتبارها دوافع رئيسية .
- أستخدام عبارات مثل (أفضل الأثنين ) أو ( أفضل الممارسات ) .
- لاتوجد خطط للتكامل أو تأخير التكامل فى العديد من الادارات الوظيفية .
- تتم الاشارة الى أسماء كلا المصرفين .
- بقاء بعض مدراء الادارات العليا بالمصرف المندمج .

الاسلوب (النهج) (جـ ):

- نمو الأيرادات و وضع السوق بأعتبارها دوافع رئيسية .
- لاتوجد خطط للتكامل فى الادارات الوظيفية الرئيسية .
- لم يتغير أي من المصرفين بصفة هامة .
- الأحتفاظ بأغلبية مدراء الادارات العليا والعلامة التجارية بالمصرف المندمج .

6) مفاهيم مدراء الادارات العليا بالمصرف المندمج / الدامج حول درجة تطبيق اسلوب مابعد الدمج .

البنود التالية تتعلق بالمفاهيم الخاصه بالأدارة العليا للمصرف المندمج /الدامج التى كانت لافرادها بعد اتمام الدمج .

يرجى توضيح مفاهيمكم حول المدى الذي كانت فيه الأهداف و القرارات ( الأستراتيجية منها و العملية)من طرف المصرف المندمج على المصرف الدامج ، يرجى وضع اشارة حول كل بند تعتبرونة أفضل أجابة ملائمة :

حيث ان( 1) تعنى استقلالية تامة للمصرف الدامج، فى حين ان رقم (5) تعنى فرض تام على المصرف الدامج ، و في حاله عدم تطبيق ذلك يرجى وضع اشارة على غير مطبق .

| البنود | غير مطبق N/A | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1) تحديد أهداف الربحية .<br>2) تحديد أهداف الخدمة .<br>3) التوسع في أقاليم تسويق جديده بالمنتجات الموجودة .<br>4) عرض منتجات جديدة .<br>5) تحديد أهداف الموارد البشرية .<br>6) تحديد أهداف الموارد الأدارية .<br>7) تحديد و تغيير خطط الميزانية .<br>8) تمويل الأستثمارات الرئيسية .<br>9) تغيير أساليب البيع والسوق .<br>10) شراء مواد خام هامه .<br>11) البرامج الرئيسية و خطط الأنتاج .<br>12) تحديد مستويات المكافأت و التعويضات لمدراء الادارات العليا .<br>13) تحديد ميزانية البحوث و التطوير .<br>14) تغيير تصميمات المنتج .<br>15) تغيير و تعديل أسعار المنتوج .<br>16) توظيف و ترقيه ا و الأستغناء عن مدراء الادارات العليا<br>17) تغيير أنظمة تقنية المعلومات . | | | | | | |

7) سرعه تكامل الأندماج :

يرجى تحديد سرعة التكامل (بأشهر )ووضع اشارة حول كل بند ترى ان أجابته أكثر ملائمة .

1) ماهي سرعه تكامل الأندماج المخطط لها ؟ ............ شهر
2) ماذا كانت سرعه تكامل الأندماج الفعلي ( من تاريخ الأعلان عنها حتى التاريخ الذي تمت فيه عملية أجراء التكامل )؟ .............شهر
3) في أستعادة الأحداث ، هل تعتقد أن سرعه التكامل ينبغي أن :

أ) تتم عمليتها بشكل أسرع .

ب) تتم عمليتها ببطئ أكثر .

ت) عملية التكامل كانت هى الأمثل .

4) ماهو الوقت الذي يتم فيه اتمام التكامل المرغوب من خلال الأوجه الأتية ؟

(1) أكثر من 24 شهرا. (2 )بين 19 و 24 شهرا. (3) بين 13 و 18 شهرا (4) بين 6 و 12 شهرا .(5 )أقل من 6 أشهر .

| أقل من 6 أشهر | بين 6 و 12 شهرا | بين 13و 18 شهرا | بين 19 و 24 شهرا | أكثر من 24 شهرا | البنود |
|---|---|---|---|---|---|
| | | | | | 1- التسويق .<br>2- البحوث والتطوير<br>3- الموارد البشرية ( توظيف ، ترقية – استغناء ،،،، ألخ )<br>4- أنظمة الخدمة و الأنظمة العملية .<br>5- المحاسبة / المالية .<br>6- الشراء .<br>7- أنظمة تقنية المعلومات .<br>8- خدمات الزبائن . |

8 ) فعالية التكامل :

نورد هنا الادارات التي يمكن ربطها بين المصرفين ، حيث يوضح الجدول الأتي كيفية فعالية الربط في انجاح الأندماج .

يرجى وضع اشارة حول البند الذي يشكل أفضل أجابة :

علامة (1) تعني أن الربط غير فعال ، علامة (3) تعني أن الربط متوسط الفعالية في حين أن العلامة (5) تعني أن الربط عالي الفعالية ، وأذا لم يكن ذلك مطبقاً ضع اشارة حول ( غير مطبق )

| عالي الفعالية | فعال | متوسط الفعاليه | فعال نوعاً ما | غير فعال | غير مطبق N/A | البنود |
|---|---|---|---|---|---|---|
| | | | | | | 1- مرافق التشغيل .<br>2- المشتريات .<br>3- الأبحاث و التطوير<br>4- المحاسبة و المالية .<br>5- الادارة القانونية .<br>6- ادارة العلاقات.<br>7- الموراد البشرية .<br>8- قنوات التوزيع .<br>9- خدمات الزبائن .<br>10- الترويج و الأشهار .<br>11- التخطيط الأستراتيجي .<br>12- أنظمة المعلومات . |

9 ) تقدير أنجاح صفقة الاندماج:

فيما يلي من بنود تخص تقدير نجاح الدمج ، يرجى توضيح مفاهيمكم حول نجاح الأندماج .

يرجى وضع اشارة على الأجابة التي ترونها أكثر ملائمة :

العلامة (1) تعني أن النجاح عالي جدا و العلامة (5) تعني أن النجاح ضعيف جدا .

برجى أعطاء العوامل الخمسة الاولى وزن من صفر و حتى 100% حسب رأيكم حول أهمية العامل في نجاح الدمج بشكل عام

يرجى ملاحظة أن أجمالي كافة الأوزان ينبغي أن تكون 100

| البنود | وزن العامل % | عال جداً | عال | محايد | ضعيف | ضعيف جداً |
|---|---|---|---|---|---|---|
| 1) ماهو تأثير الاندماج على تحسين العائد على الاستثمار؟<br>2) ماذا كان تأثير الأندماج على تحسين جودة الخدمات ؟<br>3) ماذا كان تأتير الأندماج على تحسين أرضاء الزبون ؟<br>4) ماذا كان تأتير الأندماج على تحسين التدفق المالي النقدي ؟<br>5) ماذا كان تأتير الأندماج على تحسين نمو المبيعات ؟<br>6) ماذا كان تأتير الأندماج على تحسين الأداء الأجمالي ؟ | | | | | | |

<u>ملاحظات أخرى :</u>

اذا ما كنتم ترغبون في الأدلاء بأي ملاحظات أخرى حول تأثير العوامل السابقة واللاحقة لعملية الدمج فى القطاع المصرفى الليبى أو ترغبون في كشف أي مسألة بتفاصيل أكثر ، الرجاء أيراد ذلك هنا أدناه .

<u>أستطلاع ردود الافعال:</u>

يسرنا أن نرسل لكم موجزاً عن نتائج هذا الاستبيان ، في حاله رغبتكم في أستلام الموجز ، يرجى تزويدنا بالتفاصيل أدناه .

البريد الالكتروني ( اختياري ) ..............................

أود أن أتقدم بشكري و أمتناني و تقديري لتعاونكم معنا وتكريس وقتكم الغالي و مجهوداتكم في ملء هذا الأستبيان .