

“BIG DIGITAL BANK” VS “LOCAL BANK”: HOW TO COPE WITH THE CONTROVERSIAL SITUATIONS?

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Abstract

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The Italian banking system has changed profoundly and nowadays banks have to adapt their strategies to attain an adequate level of profitability (Mattei, 2019). Digitalization and mergers and acquisitions (M&A) are useful to obtain this result. However, at the same time, they can have a negative impact on the relationship between the bank and the territory, compromising the local economic growth (Caporale, Di Colli, Di Salvo, & Lopez, 2016). The objective of this work is to understand if any strategies could be undertaken to maintain the territorial relationship even when M&A and digitalization have become necessary. The methodology used is an ethnographic exploratory single case study (Yin, 1984). The information collected using semi-structured interviews is interpreted through qualitative inductive content analysis (Elo & Kyngäs, 2008). The interviews suggest that even when M&A and digitalization have a negative impact on the relationship between bank and territory, these two processes, if well-managed, could both improve the bank's profitability and the contact with the local reality. Therefore, if a strategic management process is defined in advance, it is possible to maintain, or, even gain profitability.

Keywords: Profitability, M&A, Banks Dimension, Strategic Management, Digitalization

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1. INTRODUCTION

The contemporary period derived from globalization and technological developments, in general, benefits all companies. However, at the same time, these events have destabilized all the sectors, including the financial ones. Indeed, banks' profitability has been significantly affected by various elements, such as deregulation, technological changes, and the globalization of goods and financial markets. This has influenced all aspects of the operation of banks, bringing several changes (Goddard,

Molyneux, & Wilson, 2004; Mattei, 2019). In fact, the data related to all European banks have shown that they are suffering from serious profitability issues. In particular, a report of the European Central Bank (2018a) has demonstrated that even if the general trends of European banks are increasing, their profitability is still under pressure. As it will be explained in-depth, the improvement in profitability can be achieved with an increase in the revenues or a decrease in the costs. The latter is usually more feasible (Mattei, 2019). However, considering the results of the banks that have been able to

slightly increase their profits, it is possible to observe that they have achieved this aim by implementing a complex strategy, in which the reduction of the costs is only a part of a more comprehensive strategic plan (Mattei, 2019). In this light, to regain a high level of efficiency and effectiveness, it is imperative to set up a strategy that could eventually lead to a radical change in the banks' business models (Mattei, 2019).

One of the strategic solutions could be the improvement in the banks' dimension through merger and acquisitions (M&A) processes. As a step towards strategic management, the M&A transformation could sensibly increase the entities' flexibility to cope with this changing environment owing to an improvement in the operational efficiency (Wu, Luo, Wang, & Birge, 2016) and diversification of services that banks could offer to their customers (Goddard et al., 2004). Thus, this process improves accounting profitability (Altunbas & Marqués, 2008) and has a positive relationship with performance (Knapp, Gart, & Chaudhry, 2006; DeLong & DeYoung, 2007; Altunbas & Marqués, 2008). Due to the M&A processes in the last few years, banks have had greater gains than in the past. However, this increasing dimension results in an increase in the complexity of the organizational structure (Gooneratne & Hoque, 2013; Paoloni, 2018). The first step towards M&A in the banking industry started several years ago in the US, at the end of the 19th century, and then in the EU since 1992.

M&A takes place for different reasons; e.g., to gain major access to new geographies (Grave, Vardiabasis, & Yavas, 2012), to profit from a greater dimension necessary to counter increased competition and maintaining or, sometimes, regaining positive levels of profitability. The increase or maintenance of profitability is possible due to two different routes: an increase in revenues or rationalization of costs. The latter is a relatively easier route to avail (Mattei, 2019). In an M&A process, these two roads can be searched simultaneously as it allows managing the necessary diversification of the businesses better, which provides the possibility of increasing the revenues. Furthermore, this reduces different types of risks and some costs and provides greater access to capital. Indeed, the M&A process has become necessary to obtain some competitive advantages and increase profitability. On the other hand, this process is risky and somewhat difficult to manage (Boyd & De Nicolo, 2005; Altunbas, Di Tommaso, & Thornton, 2016; Laeven, Ratnovski, & Tong, 2016).

The past studies have demonstrated that M&A failure is not unusual, as one operation out of two is liable to fail (Habeck, Träm, & Kröger, 2001). Also, within the first two years of merger operations, more than half of the mergers fail to meet the shareholders' expectations for value or earnings potential. This is especially likely to occur in cross border operations caused by contextual and cultural differences among the participants.

The success of cross-border M&A depends on the choice of participants and their objectives and therefore, companies' management must be prepared for such challenges (Powell, 2001; Vander Vennet, 1996). In fact, it is not easy to have an M&A process succeed, as the factors to be

managed concurrently are numerous, diverse and at times controversial. For this reason, the strategic management process and, in particular, the predefinition of all the actions that must be taken, become essential for its success. In a single M&A transaction, there are two primary parties, represented by the buyer and the seller of the company. However, in addition to this, the interests of many other stakeholders are involved as advisors, creditors, suppliers, customers, employees, communities, governments, and so on (Bruner, 2002). In this changing context, it needs to be taken into account that M&A is usually accompanied by a digitalization process, which is gaining a growing role in supporting interaction and value co-creation with customers (Kowalkowski, Kindström, & Gebauer, 2013) and it is useful to rationalize human resources. In this perspective, it becomes fundamental to look at strategic management, in which the major objectives that firms should achieve and the actions that must be taken are predefined (Ansoff, 1980). This way, it is possible to evaluate the opportunities and to minimize the risks (Met, Uysal, Özkaya, & Orç 2020).

The present work analyzes the major problems related to the M&A process such as those concerning the employees, the information system integration, and the hypothetical disconnection with the territory, as well as the operations and proceedings integration, without neglecting the growing role of the technology.

The individual impacts of M&A and digitalization on banks have been widely examined in the literature. However, there were only a few studies (Paoloni, Mattei, & Paoloni, 2019) reporting the combined impact that these two processes may have on the banking sector, as the Italian one, which is characterized by a strict connection with the territory in which they operate. It should be noted that a larger banking institution and the implementation of digitalization could lead the perception of the financial entities more distant from the collectivity, compromising the growth of the local economy (Caporale et al., 2016). However, another aspect that has to be analyzed is related to the digital trend that could be used as a tool to support the improvement of the customers' experience, by providing faster, low-cost, and high-quality services (de Rozario, 2016).

Consequently, investigating the existence of any strategic action that could be taken to maintain a strict contact with the territory despite the growing dimension and the improvement in complexity has become relevant to support the local growth, as it happens in the Italian reality. It is well known that big digital banks have to be created but, it is also strategically necessary to maintain the link with the citizens and clients, despite the differences in the modus operandi of small and large banks (Berger & Udell, 2002; Felici & Pagnini, 2008). The objective of all these processes is to create value for several interested parties, especially for employees and customers, who must be seen as stakeholders and not simply clients (de Rozario, 2016), to improve, indirectly, the profitability of banks.

Therefore, analyzing the current context in which the banks operate and considering the strategic management process that must be

done, the research question (RQ) this work addresses is:

RQ: Are there any effective managerial strategies or actions that can be defined in advance to simultaneously face the M&A process and the digitalization, without deteriorating the relationship with the territory?

In an attempt to answer this question, this article is organized as follows. Section 2 reviews exhaustively the academic literature on the major problems related to the M&A process, as well as the digitalization and the difficulties in maintaining the “local” dimension during the implementation of these two processes. The research methodology employed is presented in Section 3 and the research findings are chronicled in Section 4. Finally, in Section 5 authors discuss in detail the conclusion of the research work and findings.

2. LITERATURE REVIEW

To face the pushing factors already cited such as deregulation, technological changes, and the globalization of goods and financial markets, the European Central Bank (2018b) advises reduction in the number of smaller banks or increase in the dimension of the existing entities through certain strategic processes such as M&A. For this reason, such processes have witnessed a substantial acceleration (Vander Vennet, 1996) that has resulted in the creation of more economically sustainable banks.

The acquisition has the effect of bringing together the management groups of two organizations with possibly varying styles. Significant differences can contribute to, what Buono, Bowditch, and Lewis (1985) call, “cultural ambiguity”, a situation characterized by uncertainties concerning whose style or culture will dominate. This could be avoided through the definition in advance of the strategic objectives, which is the first step of the strategic management process, instead of taking defensive actions *ex-post* (Nilsson & Öhman, 2012). Among all the possible causes, an acquisition might form a part of a strategy of related diversification and, therefore, be expected to provide synergistic benefits. These benefits include, among others, operating efficiencies and economies of scale, which can reduce unit costs in production, inventory holding, marketing, advertising, and distribution (Howell, 1970; Rappaport, 1987), but, at the same time, requiring a high level of integration of operations (Porter, 1985; Salter & Weinhold, 1979). The primary objective of this integration is to make more effective use of existing capabilities and being able to efficiently manage the human resource in a strategic view.

Summarizing the problems linked to M&A processes found in literature, it is possible to assert that the main difficulties are related to 1) employees’ integration; 2) information system and business-processes integration; 3) banks’ over-sized structure.

Regarding the first problem, existing literature on M&A considers employees as victims of unintended negative effects of integration, resulting in lack of motivation and reduced productivity (Shrivastava, 1986). Although integration is indispensable for taking advantage of potential

synergies, cumulatively they may have negative effects on employees. The organizational and psychological turbulence which often follows an M&A process can cause stress, anxiety, internal power struggles, and politicking (Meyer & Altenborg, 2007). For this reason, accurate human resource management (HRM) is essential for M&A to be successful and must be a fundamental part of the strategy’s definition. Good integration is more difficult if the managers also suffer during the integration as they are the ones who should be able to lead integration or, at least, regulate its negative effects on other employees (Schriber, 2012).

Another critical challenge the companies face during a merger is integrating their information systems. Most merging companies run into problems causing delays and lost opportunities, in turn causing a decrease in revenues. The primary purpose of integrating diverse information systems is to realize ideal synergies among departments. To make the information system merger successful, Information Technology (IT) system professionals must be an integral part of the M&A team from the early stages of the merger planning. Otherwise, there is a possibility for the entire merger process to be compromised (Harrell & Higgins, 2002). To merge different IT systems, various strategies could be adopted (Harrell & Higgins, 2002) such as maintaining status quo sans integration problems, and interrupting business processes without data sharing between systems, using one company’s system or the best among the available options, acquiring a new system or outsourcing. A significant challenge for banks arises from the integration of operations and proceedings. In the predetermination of strategies and objectives, which is the first part of the strategic management process, the organization’s M&A integration process and capabilities must be in place before the deal is finalized (Galpin, 2014) to properly manage the structural capital in the post-merger period.

The third challenge which typically accompanies an M&A process is the management of the oversized structure. In fact, the reduction in the operational costs can be achieved by cutting the number of bank employees, merging administrative offices, and most commonly closing branches (Athanasoglou & Brissimis, 2004). Considering the employees, a past study of Mylonakis (2006) showed that bank employees feel personally threatened by M&As, which are not considered to be necessary entrepreneurial activities conducive to qualitative banking services. HRM within the M&A environment is problematic due to changes in the general procedures and in the practices followed by the acquired companies to carry out various new tasks. Most employees regard M&A as a threat to their jobs since shareholders often demand limitations in the number of employed staff, growing competition between the employees of the merged parties (Gunu & Olabisi, 2011). These fears are substantiated with the decrease in the number of employees in the companies involved in M&A (Gunu & Olabisi, 2011). Thus, the restructuring process of European and global banking, caused by the M&A process, has brought substantial changes in the nature and quality of employment. The problem of the oversized structure also affects the reduction in the number of branches number since after an M&A

process, it is necessary to reallocate all the bank's resources - human, financial, and technological - to increase efficiency (Altunbas et al., 1997).

In this scenario, it is important to note that M&A may exploit new technologies in a more efficient manner as they may bear the cost for the implementation of such technologies (Koutroukis & Terzidis, 2010), due to the dimension of the NewCo. The scenario becomes more complicated by the change in consumer behavior and the impetuous digitalization that requires the identification of new channels and products. It also requires adapting to the technological infrastructure to change the organization, especially if the purpose is to obtain a strategic positioning in the digital environment (Cuesta, Ruesta, Tuesta, & Urbiola, 2015). Thus, digitalization has strongly influenced the role of the banking sector, in general, of finance, enabling transformation in the way companies organize themselves and the relationship with their stakeholder. If on one hand, banks had to develop new products and services, such as digital investment services, electronic trading, and online cash management, on the other hand, they had to improve their consumer offerings (Omarini, 2017). In such cases, digitalization is regarded as a driver for 'disintermediation' in a well-established ecosystem (Milkau & Bott, 2015). Digitalization also has a relevant impact on employees, which modifies their relationship with the bank. In fact, it may increase employee productivity, but, on the other side, it also requires the banks to offer training courses to provide employees the new necessary skills (Rachinger, Rauter, Müller, Vorraber, & Schirgi, 2019). In addition, as it has been observed, both the M&A process and digitalization may cause a reduction in the number of employees.

It has been remarked previously that the major changes resulting from such processes impact the bank's relationship with customers and their experience (Cuesta et al., 2015). This has resulted in a review of the idea of branches' format, considering that mobile banking offers benefits such as freedom from time and place and efficient transactions (Yakhlef, 2001; Laukkanen, 2017). In general, the result of both digitalization and M&A is a significant shift from branch dependence of customers to digital preference. Internet-based connections can be used to establish stronger relationships with clients, allowing banks to customize and personalize their offerings much more appropriately (Hotchkiss, 1997). However, these processes have necessarily influenced the employees' role as well, with the possible removal of certain professional figures (Gastaldi, Corso, Raguseo, Neirotti, Paolucci, & Martini, 2014; Haake, 2017). The logic most typically adopted is to retain the most talented employees who are prone to change within the organization. Those employees who remain are called to ensure they have adequate training and personal skills to adapt to the already materialized changes and future ones. They are required to align their skills to the new strategic objectives the bank may define (Lodesani, Torriero, Bottino, Del Conto, & Marazza, 2018). This concerns the ability of managers to govern the human resources, defining in advance all the roles and responsibilities in the strategy's implementation.

Therefore, the need to adopt new technologies to provide additional banking channels for customers and the increase of organizations' dimension through the M&A process have become a strategic necessity for the service industries, predominantly for banks (Ibbotson & Moran, 2003) and the existing relationship between the bank and territorial economic organizations, for instance, SME (small and medium enterprises). This relationship between banks and the territory in which they act is critical in the Italian banking system, which has always been characterized by the presence of a large number of small banks that have invariably supported the local realities (De Bonis, Pozzolo, & Stacchini, 2011). The main feature of this type of traditional retail banking sector is the unique link with their base of members and customers based on physical proximity (Fernández-Torres, Gutiérrez-Fernández, & Palomo-Zurdo, 2019).

However, in this changing period due to M&A and digital transformation, the theme of the traditional retail banking sector's role, that has always supported the local economic growth, must be addressed (Modina & Polese, 2008), especially considering its relevance during the financial crisis (Barboni & Rossi, 2013). Thus, after having analyzed the general consequences of the M&A and digitalization, it is necessary to focus on the specific effects that these two processes have on the local dimension of the traditional retail banking sector. Firstly, the Italian banking system, characterized by a widespread presence across the territory, has been affected by a major change because of the rationalization in the number of branches due to M&A and digitalization, changing its historical relationship with the local realities (De Bonis et al., 2011) and reducing the number of occasions in which people go to the branch and have direct contact with bank's employees. Thus, in the article, the topic of the perfect dimension of banks is discussed in a context, as the Italian one, in which, on the one hand, there has been pressure to create large banks and, on the other hand, it is considered important to maintain a relationship with the territory, both to ensure a high level of profitability and to avoid endangering local economic growth. Even though various studies have analyzed the problem related to the digital transformation and the consequent change of the way banks relate with the local realities (Fernández-Torres et al., 2019; Modina & Polese, 2008), minimal attention has been paid to the combined effect of both M&A and digitalization on this relationship (Paoloni et al., 2019), especially in the Italian context, where these two processes are still taking place. Thus, the present study will analyze this specific case with a qualitative approach to understand if there are any actions or strategies that banks can undertake to overcome these difficulties and link the "internal" exigencies and the traditional relationship with the territory.

3. RESEARCH PROTOCOL

3.1. Background of the research

This work is developed using a case study methodology, an empirical approach aimed at investigating contemporary phenomena in a relevant

context (Robson, 2011; Runeson & Höst, 2009). The present research can be considered as an exploratory single-case study (Neale & Liebert, 1973; Yin, 1984), defined as an approach used to investigate any phenomenon in the data which is taken into account by the researchers. In contrast to other methods, such as experiments, which require control over the behavioral events, a case study can be used when the researchers want to analyze a phenomenon (Yin, 1984) strictly connected to its context. In addition, the present research method can be considered as an ethnographic study, that is a particular and specialized type of case study focused on cultural practices through field observations (Easterbrook, Singer, Storey, & Damian, 2008) useful to understand how the members of a community make sense of their social interactions (Robinson, Segal, & Sharp, 2007). Therefore, this study concerns an ethnographic exploratory single case study as it analyzes a specific Italian bank and explores the way this bank has coped with digitalization and M&A processes and the actions and strategies undertaken by it to overcome the difficulties in maintaining the “local” dimension, taking into account its specific context.

The data are collected using semi-structured interviews (Runeson & Höst, 2009) to allow the interviewees to specify the concepts they consider more relevant (Horton, Macve, & Struyven, 2004) and ensuring flexibility and freedom for both the interviewer and the interviewees (Corbetta, 1999; Dunn, 2005; Runeson & Höst, 2009) since the interviews are almost predetermined.

It shall be remarked that the analysis of a single case study is not an exhaustive methodological approach that can be used. The acquired research findings can be expanded using a multiple case study design, as will be discussed in detail in the conclusions of this paper.

3.2. Research process

3.2.1. Sample and data collection

This study involves the top management of one of the most important Italian banks that operated an M&A process and had to face the context of the digital area. In particular, the bank that was chosen was established in 2007 from an M&A operation between two local banks, and nowadays, is one of the biggest financial bank group in Italy. Thus, the choice of this bank is related to the possibility to explore the manner in which it managed these challenges.

The interview was conducted with the managers who were within the investigated entity at the time of the M&A as they are the only ones who can judge the effects of these processes on the bank and its relationship with the territory. In particular, the present research considers managers at the highest levels of the departments such as administration, communication, organization, planning and control, human resources, and law. Six top managers of the main corporate functions were contacted and four of them were interviewed. A summary of the bank functions and the details of contacted functions and answers are provided in Table 1.

Table 1. Summary of the contacted functions and answers

Function	Contacted	Answers
Administration and budget	X	
Audit		
CFO	X	
CLO		
Commercial		
Data governance and IT security		
Compliance	X	X
Communication		
Corporate		
Credit management		
Finance		
Investor relation	X	X
Institutional and voluntary sector	X	X
Legal and regulatory affairs		
NPL		
Operations		
Organization	X	X
Shares		
Planning and control		
Special project monitoring		
Risk		
Human resource		
Corporate affairs		
IT		
Marketing		

Source: The authors' elaboration.

The selection of the managers based on the above-mentioned criteria can be viewed as an example of a purposive sampling technique (Longhurst, 2003). The methodology used for collecting data is a semi-structured interview. In fact, since the aim of an interview is not to be representative (Valentine, 2005), but rather to capture the genuine opinions of the interviewees, the sample selected does not have to be large or necessarily random (Longhurst, 2003).

As mentioned previously, the information was collected through a semi-structured interview, which is useful to obtain answers which are not standardized (Runeson & Höst, 2009) and allows interviewees to give their interpretation of the phenomenon analyzed.

The interviews were personally conducted and lasted from 45 minutes to 1 hour. Two interviews were conducted online, via telecommunication application Skype, to meet the requirements of the managers involved in the study.

All the interviews began with a presentation regarding the aim of the present research, including the reason why each interviewee was chosen (Corbetta, 1999). During the interviews, besides posing questions, the researchers were required to stimulate answers and focus the attention on the main issues (Corbetta, 1999). This was accomplished by repetitions of questions and answers and demands for deepening.

The specific structure of the interview will be discussed in the following sub-paragraph and a complete list of questions is provided in Appendix, Table A.1.

3.2.2. Structure of the interview

In line with the suggestions to conduct semi-structured interviews, the questions that were asked to managers can be subdivided with consideration of the various domains identified in the literature: 1) challenges and opportunities in M&As; 2) digitalization process; 3) territoriality dimension of banks; 4) bank oversize structure. This

is done to ensure that all issues of the present study were covered during the interviews.

All the interviews were preceded by a preliminary group of introductory questions that were used to confirm that the managers fulfilled the desired criteria and to identify their specific roles.

In particular, the domain challenges and opportunities in M&A was investigated considering the main problems that could arise from this process, such as the difficulty to integrate previously employed workers in two different realities, the problems emerging from the integration of the information system, and the challenges in the integration processes of management concerning issues like credit granting. For this reason, this category has two different subtopics, problems in employee integration processes and problems in information system and business-process integration.

The digitalization process is examined considering challenges and opportunities and highlighting the impact that this process has on the internal organization and its relationship with customers. The fourth group of questions is focused on the link with clients, underlining the territoriality dimension of the banks and how it was influenced by the new forms of communication. Finally, the fifth group of questions concerns the opinion of the interviewees about the problem of the banks' oversized structure caused by both M&A transactions and digitalization.

Some of the questions framed were based on contributions by scholars (Galpin, 2014; Harrell & Higgins, 2002; Khalfan & Alshawaf, 2004; Lewis, Wright, & Geroy, 2004; Patton, 1982, 1990; Salama, Holland, & Vinten, 2003) and revised considering the peculiarities of the present work.

3.2.3. Method of the analysis of research' findings

The results are examined with content analysis, a research technique for making replicable and valid inferences from texts to the contexts of their use (Krippendorff, 2013). This research technique provides new and valuable insights into the phenomenon under study (Downe-Wamboldt, 1992). The content analysis that has been conducted

in this research is a qualitative approach proven successful in diverse kinds of studies, such as the ethnographic and socioeconomics ones (Krippendorff, 2013). This approach involves co-operation and understanding between researchers and interviewees (Burnard, 1991).

In this context semi-structured interviews allow participants to specify the concepts they value the most in their own words (Horton et al., 2004). To explore the concepts included in these interviews, a necessary initial step is to transcribe the conversations (Krippendorff, 2013). In fact, according to Graneheim and Lundman (2004), the transcriptions of the interviews are the most suitable unit of analysis, because they are large enough to be considered a whole and small enough to be analyzed.

The content analysis applied in this study is traceable to the inductive approach, in which the aim is to directly create categories defined based on the reading of the units of analysis, in this case, the interviews' transcriptions, and that are not derived from previous theoretical considerations (Elo & Kyngäs, 2008; Mayring, 2014). This approach differs from the deductive approach, in which a priori selection of categories is based on a broader theory and not on the particular text under study (Goel, Ganesh, & Kaur, 2019). Thereafter, the analysis of the interviews is performed manually, examining each transcript individually to identify the main topics that occurred, and the opinions and actions of the managers about them (Schmidt, 2004). In particular, this procedure has been used to code the open-ended questions in the interviews. Afterwards, the first readings aimed to identify some categories from the codes recognized (Galletta, 2013) and are later grouped to create broader categories and merge similar ones (Burnard, 1991). Subsequently, the categories are revised by other researchers, the main topics are individuated and a comparison between all the categories identified is performed to detect key ideas (Krippendorff, 2013). A synthetic representation of the framework used for the content analysis developed based on previous studies (Goel et al., 2019; Mayring, 2014), is represented in Figure 1.

Figure 1. The framework of the qualitative content analysis



Source: The authors' elaboration based on Mayring (2014) and Goel et al. (2019).

As previous studies stated (Elo & Kyngäs, 2008; Krippendorff, 2013; Mayring, 2014), it is necessary to ensure the trustworthiness of the process, measures for validity, and reliability checks. In this qualitative analysis, it has been achieved using two methods. Firstly, the categories are presented in the following section "Findings and Discussion" using some representative quotations identified in the interviews to confirm the connection between data and the results (Elo, Kääriäinen, Kanste, Pölkki, Utriainen, & Kyngäs, 2014; Elo & Kyngäs, 2008). The second method consists of involving more than one author in the category development process (Mayring, 2014), as was explained previously.

4. FINDINGS AND DISCUSSION

The results of the qualitative content analysis are presented in a discursive manner to convey to readers the main concepts behind the interviews employing the same words used by the interviewees (Corbetta, 1999). To enhance the trustworthiness of the content analysis procedure, the categories are shown in Table 2 with the relevant text portions useful to support the choice of the selected categories.

Table 2. Categories' development

Main categories	Sub-categories	Text portions of the interviews
Employees' perception of M&A and digitalization	Employees' uncertainty	"Certainly, the main challenge for employees is the exigency to confront with different cultures and the hypothesis to see company welfare reduced" (Manager 1). "The initial perceptions were a sense of uncertainty and fear for the changes taking place, which could have affected both the job performed and the location of the organizational function" (Manager 4).
	Employees' good participation	"The general perception was characterized by a good participation in the life of the new banking group..." (Manager 3). "All employees were involved (in the process)" (Manager 1).
Actions that can be taken to overcome the employees' difficulties	Active involvement	"... The employees have explained the industrial and strategic logic of the M&A plan; In addition, information regarding the maintenance of the expected employment level and corporate welfare were provided" (Manager 2). "... Some training courses have been promoted to positively welcome the changes brought about by the merger" (Manager 4). "At a managerial level, some meetings after the working hours were organized" (Manager 3). "The managerial roles were immediately appointed (in order to allows) the identification of the new reference points within the organizational structure" (Manager 3).
	Communication	"Communication played an important and strategic role. After the M&A an important internal communication campaign was created with the aim of creating 'one team'" (Manager 2). "... The communication was essential to support all the innovations introduced" (Manager 1). "Well, the main challenge is the change management process that must be implemented. It's necessary to guide the employees to change the vision towards on the digital culture" (Manager 2).
IT systems' integration	Problems related to IT integration	"... There have been some problems in some structures that have changed systems following the integration, but also from comparisons with similar experiences of acquaintances all in the normalcy of the merger processes" (Manager 3). "Digitalization will drastically change the way to do banking. (...) Operational risks will become ICT risks" (Manager 1).
	Solutions	"... It was decided to use one company's system and, subsequently, in several steps, the excellences of the systems of the two banks were incorporated into the system used" (Manager 2). "... One of the two was chosen and adopted, possibly modified to better adapt to the new reality" (Manager 4).
Challenges and opportunities related to digitalization	Challenges of digitalization	"I think that the most relevant challenges that companies must face are to reconvert the staff and create new professional skills" (Manager 1). "Mmm, the main challenge is to evolve the relationship with the customers" (Manager 3). "The automation of many business processes makes it necessary to direct the business towards activities with greater added value... for example personalized advisory for high-end customers, product customization for corporate companies and institutional counterparties, to carry out which it is necessary to have adequately trained staff with relationship skills" (Manager 4).
	Opportunities of digitalization	"Well, the staff is constantly updated for the growth of digital skills, however, it is not always easy to be 'updated' and, for this reason, banks are increasingly turning to professionals from specific experiences especially in the field of social media or the web, with skills aimed to manage complex data from different sources and specialized in the mass market" (Manager 3). "... We really work towards objectives with this new structure and new internal communication" (Manager 1).
Relationship between bank and customers	New digital tools	"I personally believe that smartphones will soon supplant the other communication channels" (Manager 1). "Smartphones (are the most effective communication channel) because, compared to a phone call or a meeting, which suppose the simultaneous availability of both interested parties, an email or a message allows you to read and respond when you have time" (Manager 2). "... However communication through social networks and websites dedicated to financial news is gradually gaining more space and importance" (Manager 3). "Despite maintaining an institutional approach, communication with customers has become 'friendly', drawing in this case also from the web and social media and networks" (Manager 3).
	Traditional approach	"However, for more complex relationships, it still is necessary to speak with someone... the face-to-face contact is fundamental" (Manager 2). "Traditional channels, such as press releases, presentations, financial statements and DFN, meetings with the financial community, continue to be an important one and, at this moment, they still are the main vehicle for corporate communication" (Manager 3). "In the sector of big customers and institutional stakeholders, the privileged communication channel is always represented by direct relationships and interpersonal interaction" (Manager 4).
Reorganization of the bank structure	Branches' network	"Mmm yes, approximately 560 branches were closed in the period between 2017 and 2018" (Manager 2). "The commercial network has been revised with targeted closings also in relation to the development of the use of telematic channels by customers" (Manager 3). "... Without losing the traditional human relationship with branches' colleagues" (Manager 2).
	Employees' role	"A pension accompanying plan has been activated which has allowed the release of several thousand employees. For the other employees, different training course has been done to improve their skills" (Manager 2). "In some cases, the overlapping of roles required the change of role of some employees. Other times the role has been changed because new activities have been created in the new New-co reality" (Manager 2). "The reorganization of the branches network involved many employees and many had to take on new professional roles" (Manager 3). "Fortunately, no employees were fired. The staff was reduced with measures to block or at least reduce turnover and through the use of a solidarity fund" (Manager 4).
Connection with local realities	Action that can be taken to maintain a strict connection with the territory	"The bank has great attention to the territory. In fact, there are statutory clauses that provide for the allocation of profit shares to foundations that operate in the territory and carry out social activities" (Manager 2). "We carry out sponsorship activities in several sectors on the basis of the Group's reference values and relating to the areas of culture, education and research, solidarity, health, sports, and environment. (Some) initiatives have been launched to make the branches and offices a reference point to offer the possibility to carry out initiatives and meetings that can meet the needs of the community" (Manager 3).

The first category developed, *Employees' perception of M&A and digitalization*, collects all the comments and ideas of the managers about the way employees perceive these two processes. In particular, this category has been divided into two sub-categories: the first one is *Employees' uncertainty*, which confirms that bank's employees feel personally threatened by M&A (Mylonakis, 2006) and they suffer from stress and anxiety (Meyer & Altenborg, 2007), particularly related to the maintenance of their previous welfare benefits, the job performed and the location of the organizational function. The second sub-category that has been identified is *Employees' good participation*. In fact, even if some employees suffer from stress and fear about the aforementioned changes, most of them participate in these challenges and are an active part of these processes.

The reason why this happens can be explained by taking into account the second category identified: *Actions that can be taken to overcome the employees' difficulties* related to M&A and digitalization. From the interviews, it was possible to deduce that the bank applied a comprehensive process for HRM. First of all, managers were designated to become a reference point for all the other employees. This was done for managers to lead integration or, at least, limit its negative effects on other employees (Schriber, 2012). The integration and participation of employees were obtained through two sub-categories of actions: *Active involvement* and *Communication*. Meetings after the working hours were organized to create a feeling of belonging. The industrial and strategic logic of the M&A plans were explained to the employees to inform them about future projects. Relating to *Communication*, managers were fundamental to build a sense of unity among everyone involved, improving an internal communication campaign whose aim was to create the idea of one team.

Relating to the effects that M&A had on the information systems and the business-process integration, the main category that can be found in this part is the *IT systems' integration*. As it was seen in the existing literature (Harrell & Higgins, 2002), IT system professionals ought to be an integral part of the M&A team from the early stages of M&A planning. Otherwise, the entire merger process could be compromised. During the interview, two aspects were addressed: *Problems related to IT systems integration* and the associated *Solutions*. The main problem refers to the Information, Communication, and Technology (ICT) risks. In this fundamental phase, the greater operational problems are the ICT risks, which must be addressed and analyzed. To solve this problem and reduce this type of risk, all the managers argued that the main strategy was to employ the system already used in one of the merged banks and improve it with the excellence of the other system.

The process of digitalization was analyzed through the managers' considerations related to *Challenges and opportunities* derived from this process, which can be inserted in a specific category. From the interviews, it is possible to assert that the sub-category concerns the *Challenges* related to this process. The main challenges identified were related to evolving the relationship with the customers, including several new communication methods and being able to maintain an adequate quality of services. Internally, the most

significant challenge refers to a change in the relationship between employees and be able to manage complex data from different sources specialized in the mass market. Considering the *Opportunity*, digitalization offers several instruments that can be useful to improve efficiency. In particular, all the managers highlighted the influence of digitalization on the improvement of internal communication that produces more flexibility and capacity to react to challenging environments, using, e.g., the agile approach (Kettunen & Laanti, 2017).

Another relevant category discovered from the content analysis is the *Relationship between the bank and customers*. During the interviews, managers suggested using two different types of communication tools: *New digital tools* and tools inspired by the *Traditional approach*. Managers recommended adopting new digital tools such as online banking, e-mail, and others, that could offer several benefits to customers, e.g., freedom from time and place and improved monetary transactions (Laukkanen & Lauronen, 2005; Yakhlef, 2001). Furthermore, even if the digitalization results in the branches' reduction causing a separation between bank and clients, the interviewed managers noted that the digital channels make the bank closer to the customers due to familiarity and rapidity in communication. However, in some cases, they found that a face-to-face relationship, inspired by the traditional approach, remains important to provide the best quality of the services, especially for the consulting services. In fact, according to the opinion of the managers, the digitalization process does not change the characteristics of the relationship with customers, if used to maintain an adequate level of communication according to the customers' individual preferences. However, as it was also emphasized by all the managers, it is necessary not to lose the traditional human relationship with branch colleagues, especially for services that are more complex. Therefore, the use of new digital tools is perceived more as an opportunity to improve this relationship than a threat to the traditional link with customers.

One of the main themes of the interview which can be considered as a distinct category was the *Reorganization of the bank's structure*. It is well-known that M&A and digitalization have a relevant impact on the banks' structure, considering both the *Branches' network* and the *Employees' role*, the two sub-categories selected by authors in the interviews. In fact, according to a previous study (Gunu & Olabisi, 2011), M&A and digitalization together could affect the operational costs related to the numbers of employees and branches that are numerically more than required. Consequently, they increase the operative costs that can, in turn, compromise the profitability. To circumvent this problem, it is first necessary to completely change the employees' role which implies that they suffer from uncertainty due to the possible staff reduction, the most common effect of the M&A process (Gunu & Olabisi, 2011). However, all the interviewees affirmed that no employee was fired after the M&A and the digitalization process, and to avoid the oversize structure's effect, a pension accompanying plan was implemented. Consequently, in this case study, the dismissal of the "additional employees" arises not as the only solution that can be taken

since it is possible to obtain the same results (the reduction of the employees' number) with less intrusive alternative actions. According to what the managers said during the interviews, another possible action that may be taken is related to the necessity to retrain the employees through a massive professional training (Rachinger et al., 2019) that is essential to educate them to play a new role in the company arising from the overlapping roles. The objective of these actions is to maintain and nurture the most talented resources and the ones most prone to change. The employees who remain are called to ensure that their training and personal skills are suitable for changes that have occurred and to the ones likely to occur, aligning their skills to the new strategic objectives, as suggested in the literature (Lodesani et al., 2018). In this process, as it is also observed in previous studies (Galpin, 2014), the bank identifies the key people and their abilities and skills as well as develops elaborate strategies, considering these strengths. Due to this, the managers have been able to enhance the employees who play a key role in the success of these processes (Gates & Very, 2003). The interviews have demonstrated that new roles are required to be implemented as the new company provides many new activities that the merged companies did not perform in the pre-merger period. With regards to branches' network, of course, the M&A and digitalization have resulted in the reduction of the number of branches since several stores were in close proximity to each other. This could affect the traditional relationship between banks and their territory. However, this is not what happened. As it is possible to see from the last category, the analyzed bank continued to have a positive impact on the local growth and, at the same time, the reduction of the branches' number did not affect the relationship with customers, as highlighted in the previous category.

The last category identified is the *Connection between bank and local realities*. In this category is possible to summarize all the *Actions that can be taken to maintain the strict connection with the territory*. The literature review highlights the possibility that a larger banking institution and digitalization could lead to a more distant relationship with the territory, putting the growth of the local economy at risk (Caporale et al., 2016). However, this is not what was observed in the analyzed case study, in which managers described several actions they undertook to make the banks closer to the local reality and defend the local growth. To preserve the advantage derived by the relationship with third parties, known as the relational capital, which is the knowledge collected by the firms (Azzahra, 2018), the bank used to organize social and cultural initiatives in the branches. Another activity performed is related to the support of local realities, e.g., funding foundations and associations with the charitable purpose to create value for the territory in which the bank operates. All these actions, together with the others described in the first part of this discussion, are useful to overcome the difficulties linked to the M&A and digitalization processes and, at the same time, cannot damage the local dimension of banks.

5. CONCLUSION

The globalization that has occurred in the recent period requires firms to be able to develop new medium and long-term strategies designed to obtain companies' competitive advantages that, in some cases, are represented by an adequate level of profitability. Particularly in the bank industry, where, after the global financial crisis, the level of profitability has reduced significantly (Goddard et al., 2004), it is important to recover the previous level so that such entities can play a crucial role in the financial markets. To improve the profitability, it is not sufficient to cut the costs, but rather necessary to take into account other variables as well, and set up a complex strategy, that could eventually, lead to a change of the banks' business models (Mattei, 2019). Thus it is fundamental for the strategic management processes to predefine the objectives and the actions that must be taken in response to this challenging period (Ansoff, 1980).

M&A and digitalization can be visualized as strategies that may increase the level of banks' profitability, enhancing the services' offer and operating efficiencies and economies of scale (Howell, 1970; Omarini, 2017; Rappaport, 1987). However, these two processes may have some side effects, especially for employees and clients, due to the increase in the complexity of organizational structure (Gooneratne & Hoque, 2013; Paoloni, 2018). For this reason, a strategic management approach and the predefinition of all the actions that must be taken become essential (Ansoff, 1980). Besides these general effects, all these processes have a stronger impact on the banking systems that are chiefly based on the direct relationship with the local realities through the huge presence of branches (Fernández-Torres et al., 2019). However, there was minimal attention (Paoloni et al., 2019) paid to further analyze the specific effects of both these two processes on the relationship with the territory and this is a major gap in the literature that this study aimed to fill, giving some managerial and practical suggestions.

From the interviews conducted and the qualitative inductive content analysis, it was possible to define the general perception of top members of the management about the processes considered in this work and, therefore, answer the research question elaborated by the authors that is RQ: *Are there any effective managerial strategies or actions that can be defined in advance to simultaneously face the M&A process and the digitalization, without deteriorating the relationship with the territory?* This research question becomes relevant in the Italian context, which has historically been characterized by the presence of a huge number of small banks and a strong relationship with the local realities (De Bonis et al., 2011). However, because of the changing period and the need to improve their profitability, the Italian banks have also carried out M&A and digitalization processes, which have several effects that had to be strategically managed. Even if the M&A process can be considered as an adaptable solution, allowing modification of the business mix of banks, this operation must be well-managed to limit some side effects. To understand how to conduct these two processes, managers of an Italian banking group were interviewed and suggested some solutions to

overcome the main difficulties related to M&A and digitalization.

Firstly, all the managers stated that M&A transactions must be preceded by the definition of a broader medium or longer-term strategy (Altunbas & Marqués, 2008), with a perspective view of patrimonial consolidation and not greatly related to short-term profitability, avoiding different factors that can compromise the success of the process. Furthermore, the profitability can be sensibly influenced by the additional outside challenges that managers are called to take on, represented by digitalization. M&A and digitalization together could affect the operational costs related to the numbers of employees and branches (Gunu & Olabisi, 2011) as well as the integration of both information systems and business processes. To avoid some negative effects that may involve the feelings of employees, the inefficiency of the integrated systems, and, in general, the relationship with their customers and the territory in which they operate, banks have to adequately manage these processes, which can become strategic. During the interviews, managers suggested some ideas to avoid problems with employees, for example by improving internal communication and sharing the strategic logic behind these processes, all this to create the idea of belonging to one team. Related to employees, they highlighted the need to improve the employees' skills to better face the challenges due to digitalization. Considering the customers, managers said that, even with the reduction of the branches' number due to the digitalization, the bank has been able to maintain a strict contact with their customers, using some new digital tools which have been useful to provide the best quality of the services, especially for the consulting services. Finally, to not compromise the local economic growth and the link with the territory in which the bank operates, managers identified some actions that could protect this relationship. In fact, they said that the bank has still been able to create value for the local realities, organizing social and cultural initiatives and funding foundations and associations with a charitable purpose.

In conclusion, the experience of the interviewees confirms that the reduction of costs is not sufficient to increase the profitability of banks, and some strategic actions, such as M&A and digitalization, become fundamental and critical. However, all these actions have to be taken considering the interests of customers and involving the employees from the first step. The relationship with the collectivity is still considered valuable and needs to be maintained, implementing actions and initiatives to support the local growth.

These conclusions result from the analysis of the ideas and opinions of managers of a single case study and can be considered as useful suggestions to overcome some difficulties linked to the M&A and digitalization processes without damaging

the local dimension of banks. However, changing the institutional context and taking into account other case studies, some other conclusions and suggestions may arise, but, in any case, they would be consistent with the results and the practical implications of the present study.

Thus, the limitations of this study are related to the methodological approach adopted. First, it refers to a single case study, and therefore, the observations are limited. Thus, the results of a single case study cannot be generalized in all contexts. Furthermore, it is set up considering only the Italian context, which, as mentioned previously, has some specific characteristics. For all said above, it would be an interesting idea to explore multiple case studies. Future research can be directed in this sense.

Several limitations are related to the data-collecting technique and analysis performed. Firstly, the number of interviews analyzed was limited and for this reason, the content analysis was easily performed manually. On increasing the number of interviews, this process will be required to be done through the use of some computer software. Secondly, even if the categories have been developed considering also the literature review done, an excessive researchers' interpretation in the texts' analysis and the development of the categories can thwart the success of the analysis. However, this is a common disadvantage related to all qualitative methods analysis (Elo & Kyngäs, 2008).

This study was developed to support other managers in challenging contexts such as the bank sector after the financial crisis and globalization. The relevance of this study is both practical and theoretical. From a practical perspective, in this changing situation, banks' managers are required to define a broader medium or longer-term strategy, regarding ways to manage the intellectual capital components to obtain a competitive advantage that improves profitability. For this reason, this study aims to assist other managers on how to manage controversial situations they may come across, such as how to avoid a reduction in staff reduction or how to reallocate human resources to new activities. Some suggestions address how to operate the systems' integration effectively and how they can manage internal and external communication. Thus, this case study is useful to managers who will face the advent of M&A and digitalization in the future, especially in the Italian context, where this challenging situation exists.

In addition, the theoretical significance of the analysis is characterized by the implications emerging from the interviews which can be useful for academics as well to stimulate the debate concerning the management of large banks and their role in the territorial economic context as managers explained how to be proactive and supportive to local realities even when the branches' presence is reducing.

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APPENDIX

Table A.1. Semi-structure interviews scheme

<p>1st group: Introductory questions:</p> <ul style="list-style-type: none"> • Describe your work experience prior to the present one. • Describe your last work experience prior to the present one*(Patton, 1982). • How long did you work in the last company? • Describe your current role*(Patton, 1982). • How did you join this company?*(Patton, 1982). • For how many years have you been with this company? • Describe your level of satisfaction with your involvement with this company* (Patton, 1982). • How does your role on this company differ from your previous work experience?* (Patton, 1982).
<p>2nd group: Focus on challenges and opportunities of M&A processes:</p> <p><i>Problems in employee integration processes:</i></p> <ul style="list-style-type: none"> • What practical steps can be taken to minimize the feelings of uncertainty normally expected by employees, and also to facilitate the learning process between two groups of people in their cultural and behavioral integration, as an M&A process?(Salama et al., 2003). • What perceptions and obstacles did most employees bring forward regarding the M&A process?* (Galpin, 2014). • Were any social activities undertaken to create a better environment during the M&A process?*(Galpin, 2014). • Were Employees benefits defined during the M&A process?*(Galpin, 2014). <p><i>Problems in information system and business-processes integration:</i></p> <ul style="list-style-type: none"> • Were different management systems applied in the merged organizations or were the existing company's systems used? Was a new system chosen or was the IS system outsourced to a third party to process all information requirements?**(Harrell & Higgins, 2002). • Did one company's strategies predominate over another's?*(Harrell & Higgins, 2002). • How was the IS department structured?*(Harrell & Higgins, 2002). • Were business processes and systems created or was a pre-existing one used during the process?*(Galpin, 2014).
<p>3rd group: Focus on the digitalization process:</p> <ul style="list-style-type: none"> • What are the primary factors emerging from the digital economy?*(Patton, 1990). • What are the challenges associated with working within the digital economy?*(Patton, 1990). • How does working within the digital economy change the communication of teams?*(Lewis et al., 2004). • In your opinion, which channels are more effective, least effective? Why?*(Lewis et al., 2004) • What are the communication challenges?*(Lewis et al., 2004). • What is the communication success?*(Lewis et al., 2004). • Have you found the lack of adequate skills in the staff, with reference to the IT systems** (Khalfan & Alshawaf, 2004).
<p>4th group: Focus on the link with clients (territoriality dimension):</p> <ul style="list-style-type: none"> • What are the primary channels used to communicate with clients?*(Lewis et al., 2004). • How does working within the digital economy change the communication with clients?*(Lewis et al., 2004). • Have sponsorship activities been carried out in the territory in recent years? • Have any actions been taken to maintain contact with the territory recently?
<p>5th group: Focus on oversize structure of banks:</p> <ul style="list-style-type: none"> • Have employees been fired after M&A or have other measures been taken to increase the number of employees to actual needs? • Were the remaining employees trained in consideration of the new skills needed to face a different competitive environment as well as to align their skills with the new strategic objectives defined by the bank? • Have there been ad hoc interviews with employees to understand the abilities and attitudes of each person? • Have branches been closed in recent years? • Are there some employees that were assigned to a different role after the M&A process because the previous task does not exist in the new entity?

Note: *These questions are based on quoted works but are revised considering the specificities of the present study.
 ** These questions are elaborated considering the literature found in the quoted papers.