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Mergers and acquisitions in OIC countries: the role of strategic similarity in bank performance

Raudhatun Nisa,[1] Sugiyarti Fatma Laela,[2] Mohamed Eskandar Shah[3]

[1,2]Institut Agama Islam Tazkia Bogor, Indonesia
[3]Hamad Bin Khalifa University, Qatar Foundation, Qatar
email: 2207.raudhatun.005@student.tazkia.ac.id

Abstract

Purpose - This research aims to evaluate the impact of strategic similarity on M&A performance in banking within OIC countries. The study investigates how strategic alignment influences M&A outcomes and explores the role of cultural fit, cross-border factors, and capital adequacy in shaping post-merger success.

Method - A quantitative approach is used in this study, using secondary data from annual reports of banking institutions in OIC member countries that experienced mergers and acquisitions from 2013 to 2022. This study uses 38 M&A transaction data obtained from Bank Focus. The hypothesis is tested using a partial least squares structural equation model.

Result - The finding reveals that the strategic similarity factor could not explain the success of M&A performance for both Islamic and conventional banks. Cultural misalignment and cross-border regulatory issues are key factors affecting post-merger success. The one-year observation period was too short, but capital adequacy was found to influence performance significantly.

Implication - Theoretically, models of M&A success should include cultural and regulatory dimensions and consider a longer-term view. Managers should prioritise cultural integration, address regulatory challenges, and align capital adequacy strategies to improve post-merger outcomes and resilience.

Originality - This research discussed the factors determining successful M&A performance in banks in OIC countries. The findings can be used to develop insights into mergers and acquisitions in the banking sector.

Keywords: strategic similiarity; mergers; acquisitions; Islamic bank

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Introduction

The global market in the Sharia economic and financial sector has experienced consistent growth alongside the increasing number of Muslims worldwide. In the annual report on the global Islamic economy in 2022, the world's Muslim community consumed 2 trillion United States (U.S.) dollars in the halal industry (State of the Global Islamic Economy Report, 2022). As members of the Organization of Islamic Cooperation (OIC), Islamic countries have the opportunity to dominate the global halal economic market. However, OIC member countries still needed to capitalise entirely on this opportunity. According to the 2022 OIC annual halal economic report, OIC member countries incurred trade losses of 63 billion U.S. dollars for halal economic products in 2021, encompassing food, fashion, pharmaceuticals, and cosmetics.

Banks in OIC member countries could play a pivotal role in financing halal project plans. It is assumed that the robust capital structure of OIC banks can bolster the growth of the halal industry. One strategy for companies to rapidly expand and strengthen their global market position is through mergers and acquisitions (M&A) (Gupta, 2012; Sui & Peculea, 2016). A merger occurs when two or more companies agree to collaborate as a single entity, while an acquisition occurs when one company purchases part or all of another company (Rahman et al., 2022). According to Gumilarsjah (2016), the benefits of M&A activities include revenue growth and expansion of assets, products, and customer base. Furthermore, Iankova (2014) highlighted that M&A activities provide access to technology, distribution channels, and broader market share.

However, the success of M&A activities has been a subject of controversy and interest for review. Several studies have consistently shown that M&A activities do not always increase profitability and may create new challenges, including issues related to cultural integration, diverse managerial styles, and impacts on financial and non-financial performance (Abbas et al., 2014; Ahmed et al., 2018; Edi & Irayanti, 2019; Ekadjaja et al., 2022). As a result,

differences in cultures and orientations have complicated integration efforts and hindered the realisation of potential merger synergies. Meanwhile, aligned and consistent cultures and concepts could enhance post-M&A performance (Ramaswamy,1997; Altunbaş & Marqués, 2008; Oreski, 2021).

Ramaswamy (1997) first introduced the concept of strategic similarity, suggesting that it can enhance post-M&A performance. Strategic similarity entails that the organization's direction is primarily reflected in management decisions concerning resource allocation, as supported by strategists' assertions (Dess & Davis, 2013). Hence, if two companies demonstrate comparable resource allocation patterns, as evidenced by financial statement data, across various strategically significant factors, they are typically deemed strategically aligned.

Overall, research discussing the relationship between strategic similarity and the success of M&A performance is relatively scarce. For instance, Altunbaş and Marqués (2008) utilized relevant characteristics from five areas to indicate similarity in banking strategy in post-M&A European Union banks. Similarly, Oreski (2021) developed indicators of strategy similarity to represent relevant corporate strategy attributes based on the implementation life-cycle theory.

Based on this phenomenon, this research aims to verify whether the theories and hypotheses regarding M&A success attributed to strategic similarity factors can be applied to the banking industry, including Islamic banks and conventional banks within Islamic countries, specifically those in the OIC (Organization of Islamic Cooperation). This research will empirically examine the impact of strategic similarity on the success of M&A in both Islamic and conventional banks. This research employs financial performance ratios, particularly ROE (Return on Equity) and ROA (Return on Assets), to assess mergers and acquisitions' success.

There are at least two updates in this research. Firstly, this research can be considered the first study to analyze the success of M&A performance in banks within OIC member countries, focusing on the role of strategic

similarity as a determinant for M&A success. Secondly, this research utilizes a cross-country sample by examining data from both Islamic and conventional banks, aiming to more comprehensively illustrate the crucial role of strategy in determining the success of mergers between the two types of banks.

Literature Review

Strategic Fit Theory

Strategic Fit Theory is a contingency perspective within strategic and organizational theory literature (Ginsberg & Venkatraman, 1985). The concept of strategic fit, based on alignment theory, refers to a strategy built on the principle of fit, which considers the level of alignment between competitive situations, strategy, organizational culture, and leadership style. In this context, alignment refers to the "fit" or congruence among these various elements. Research conducted in the United States, Europe, and Australia has revealed that performance effectiveness is influenced by a high degree of alignment among these four elements (Chorn, 1991). Thus, the more aligned (fit) the strategy is with its context, the better the performance, and conversely, the less aligned (misfit) the strategy is, the worse the impact on performance (Ginsberg & Venkatraman, 1985).

Strategic fit can be used proactively to assess the current strategic situation of a company as well as opportunities such as mergers and acquisitions (M&A) and divestment of organizational units. Strategic fit reflects how well an organization aligns its resources and capabilities with external opportunities. This matching process is carried out through strategy, making it crucial for companies to have the resources and capabilities to execute and support the strategy (Grant, 1998).

Strategists assert that the alignment of strategies between partners involved in a merger is a critical factor in determining the success or failure of the merger (Altunbaş & Marqués, 2008). Chatterjee et al. (1992) investigated the impact of cultural fit between two companies intending to merge. The findings showed compatibility between the target company and the bidding

company in dimensions such as risk-taking attitude, reward orientation, innovation orientation, and company orientation, leading to good performance and superior shareholder returns. On the other hand, cultural misalignment did not result in the same performance levels.

Laela et al.. (2018) found that alignment between strategic orientation, management accounting practices, and management control systems significantly impacted the performance of Islamic banking. Meanwhile, misaligned strategies led to declining Islamic bank performance (Laela, 2014). It can be concluded that strategic fit is a vital factor in developing competitive advantages that can be leveraged by companies undergoing mergers.

Strategic Similarity

Strategic Similarity in mergers and acquisitions (M&A) was introduced by Ramaswamy (1997) to measure post-merger impact. This concept emphasises that the success of M&A is influenced by the strategic similarity between the merging companies, which not only facilitates the rapid mobilisation of additional financial resources but also creates a more efficient internal capital market and reduces merger-related costs (Houston & Ryngaert, 1994). However, diversification also introduces risks, as increased complexity can make it challenging for managers to control the combined entity, potentially leading to reduced efficiency (Prahalad & Bettis, 1986).

In line with this, previous research has found that cultural mismatches between companies can negatively impact post-merger performance. For instance, Chatterjee et al. (1992) demonstrated that cultural compatibility can enhance performance and shareholder value, while inconsistencies in managerial approaches often correlate with decreased performance (Buono et al., 1985). Therefore, aligning strategy and cultural elements is crucial in determining post-merger outcomes.

In this context, resource allocation patterns are often used as indicators of the strategies implemented by organizations (Zajac & Shortell, 1989). For example, companies with a low-cost strategy typically exhibit lower

operational expenditures, whereas those focused on product innovation have higher expenditures on research and development (Porter, 1980; Ramaswamy, 1997). In M&A scenarios, if two companies demonstrate similar resource allocation patterns, they are considered strategically similar.

In the banking industry, five key areas of strategic resource allocation should be analysed: market coverage, marketing posture, risk propensity, operational efficiency, and customer composition (Altunbaş & Marqués, 2008). Strategic alignment in these areas is crucial for ensuring successful mergers. For instance, banks with similar diversification strategies will likely see improved post-merger performance. Additionally, similarity in credit risk management, operational efficiency, and liquidity risk management contributes to merger success. Thus, the greater the strategic alignment between merging banks, the higher the potential for achieving synergy and improved performance post-merger.

Hypotheses Development

Based on strategic fit theory and strategic similarity theory, the following hypotheses are developed to test the impact of strategic similarity on post-merger performance in the banking industry within OIC countries. Strategic fit theory focuses on the alignment between strategy, competitive situations, organizational culture, and leadership style, while strategic similarity theory assesses the impact of similar resource allocation patterns and strategies in mergers and acquisitions (M&A) (Ginsberg & Venkatraman, 1985; Ramaswamy, 1997). The hypotheses are as follows:

H1 : Strategic similarity positively affects the performance of M&A in both Islamic and conventional banks in OIC countries.

This hypothesis tests the overall impact of strategic similarity on M&A performance across both Islamic and conventional banks in the context of OIC countries. According to Strategic Fit Theory (Ginsberg & Venkatraman, 1985), a higher degree of alignment between the strategies of merging banks is expected to enhance post-merger performance. Previous research indicates

that strategic similarity can improve effectiveness and operational efficiency post-merger (Chorn, 1991; Ramaswamy, 1997; Altunbaş & Marqués, 2008).

H2 : Strategic similarity positively affects the performance of M&A in Islamic banks in OIC countries.

This hypothesis focuses on Islamic banks and examines how strategic similarity between merging Islamic banks impacts their post-merger performance. Strategic Similarity Theory suggests that similarity in resource allocation patterns and strategies, such as revenue diversification, credit risk management, and operational efficiency, can improve M&A performance in Islamic banks (Ramaswamy, 1997; Altunbaş & Marqués, 2008). Research by Laela et al. (2018) highlights that strategic alignment significantly affects Islamic bank performance, emphasising the importance of strategic similarity in this context.

H3 : Strategic similarity positively affects the performance of M&A in conventional banks in OIC countries.

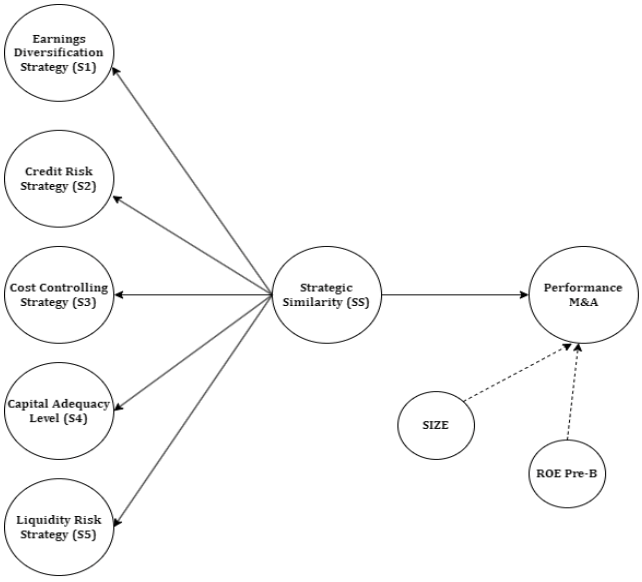

Figure 1. Research Framework

This hypothesis focuses on conventional banks and investigates the effect of strategic similarity on post-merger performance within this sector. Research by Ramaswamy (1997) and Altunbaş & Marqués (2008) indicates that conventional banks with similar strategies, including resource allocation for risk management, operational efficiency, and revenue diversification, will likely achieve better merger outcomes. Understanding similar resource allocation patterns can help conventional banks leverage synergies and improve performance post-merger. Figure 1 explains the research framework in this study.

Research Methods

This study utilizes a quantitative methodology alongside an associative explanation to examine the correlation between pre-M&A banking strategies and post-M&A performance. These countries had witnessed the rise of Sharia-compliant banks through mergers, aiming to establish world-scale Islamic banks ranked in the top 10 by capitalization values by 2025. The data, spanning from 2013 to 2022, were collected from Bank Scope sourced by Bureau Van Dijk. The dataset revealed that 57 banks underwent mergers and acquisitions during this period. The final sample selection was based on the availability of complete annual reports for analysis one year before and one year after the merger, resulting in 38 samples of M&A activity. Among these, 12 were Islamic banks, and 26 were conventional banks. The financial report data obtained include annual reports from both the bidding and target banks, one year before and one year after the merger.

The independent variable in this research is strategic similarity, which consists of five cost allocation strategy factors: earnings diversification strategy, credit risk strategy, cost control strategy, capital adequacy level, and liquidity risk strategy. The dependent variable is M&A performance and the independent variable's influence. It is measured using financial ratios such as Return on Assets (ROA) and Return on Equity (ROE). Analysing ROA and ROE provides insight into resource efficiency and the company's post-M&A shareholder value addition. Meanwhile, the control variables shield the

dependent and independent variables from external influences. This study's control variables include company size (SIZE) and the acquiring bank's pre-merger ROE ratio (ROE Pre-B).

Table 1. Mergers and Acquisitions OIC Countries (2013-2022)

No	Bidder Bank	Target Bank	Agreement Date	Country
A.	***Islamic Banking Sector***			
1	Al Salam Bank B.S.C	B.M.I. Bank B.S.C	2/3/2014	Sanabis, Bahrain
2	Barwa Bank Q.S.C	International Bank of Qatar Q.S.C	12/4/2018	Doha, Qatar
3	Dubai Islamic Bank Plc	Noor Bank PsJC	1/22/2020	Dubai, U.A.E.
4	Kuwait Finance House K.S.C	Ahli United Bank B.S.C	2/25/202	Safat, Kuwait
5	Bank Syariah Indonesia	BRI Syariah; Bank Syariah Mandiri; and Bank BNI Syariah	2/1/2021	Jakarta, Indonesia
6	Masraf Al Rayan Q.S.C	Al Rayan (UK, London)	8/23/2021	Doha, Qatar
7	Ithmaar Bank B.S.C	Faisal Islamic Bank of Egypt	10/18/2020	Al Seef, Bahrain
8	Oman Arab Bank	Alizz Isamic Bank S.A.O.G	7/1/2020	Ruwi, Oman
9	Rab Banking Coorporation B.S.C	Blom Bank of Egypt	8/1/2021	Manama, Bahrain
10	Bank Islamic Pakistan Ltd	K.A.S.B. Bank Ltd	5/7/2015	Karachi, Pakistan
11	Alabaraka Bank	Burj Bank Ltd	11/1/2016	Karachi, Pakistan
12	Abu Dhabi Commercial Bank	Al Hilal Bank Pjsc		
No	**Bidder Bank**	**Target Bank**	**Agreement Date**	**Country**
B.	***Conventional Bank Sector***			
1	National Bank of Bahrain	Bahrain Islamic Bank B.S.C.	1/20/2020	Bahrain
2	Saudi British Bank J.S.C.	Alawwal Bank (from The Royal Bank of Scotland Group, Banco Stander)	6/16/2019	Riyadh, Saudi Arabia
3	First Abu Dhabi Bank	Bank Audi Egypt S.A.E.	5/5/2021	Abu Dhabi, U.A.E.

4	Saudi National Bank / National Commercial Bank	Samba Financial Group	4/14/2021	Saudi Arabia
5	Eurasian Bank AO	Bankpozitif Kazakhstan A.Q.	12/30/2015	Almaty, Kazakhstan
6	Kina Bank Ltd	Australia and New Zealand Banking Group (PNG) Ltd's Retail, Commercial, and S.M.E. Banking Business in Papua New Guinea	9/23/2019	Port Moresby, Papua New Guinea
7	Bank Central Asia and BCA Finance	Bank Rabobank International Indonesia	9/25/2020	Jakarta, Indonesia
8	Fortebank A.O	Bank Kassa Nova / BANK FREEDOM	5/2/2019	Kazakhstan
9	D.F.C.U. Bank Ltd	Crane Bank Rwanda Ltd	2/19/2018	Uganda
10	American Bank of Investments S.A.	National Bank of Greece	7/4/2018	Albania
11	Bank Agris Tbk	Bank Mitraniaga Tbk, PT	8/23/2019	Indonesia
12	Bank of Africa - Benin	Banque de l'Habitat du Benin	2/10/2018	Benin
13	Intesa Sanpaolo Bank Albania S.H.A	Veneto Banka S.H.A.	6/29/2017	Albania
14	Skye Bank L.C.	Mainstreet Bank Ltd	10/31/2014	Nigeria
15	Arab Banking Corporation BSC	Blom Bank Egypt SAE	8/11/2021	Egypt
16	Bank Saudara Tbk	Bank Woori Indonesia	12/30/2015	Bandung, Indonesia
17	Baiduri Bank Bhd	HSBC Holdings Plc's Retail and Commercial Banking Business in Brunei	11/11/2017	Brunei Darussalam
18	Bank Tabungan Pensiunan Nasional	Sumitomo Mitsui Banking Corporation Indonesia	2/1/2019	Indonesia
19	Ekspobank	Yapi Kredi Bank Moscow AO	10/25/2017	Turkey
20	Access Bank Nigeria	Diamond Bank	4/30/2019	Nigeria
21	Qazaqstan Khalyq Banki AQ	Tenge Bank	7/10/2019	Kazakhstan

22	Societe Generale de Banque au Liban SAL	KBL Richelieu Banque Privée, Paris, KBL Monaco Private Bankers SA	7/10/2018	Lebanon
23	Al Ahli Bank of Kuwait K.S.C	Piraeus Bank Egypt SAE	11/10/2015	Kuwait
24	Bank Danamon Indonesia	Bank Nusantara Parahyangan	5/1/2019	Indonesia
25	Bank of Beirut S.A.L	Fortuna Banque SC	11/6/2020	Lebanon
26	MCB Bank Ltd	NIB Bank Ltd	7/7/2017	Pakistan

Table 2. Research Variables

Variable	Symbol	Description
Dependent Variable		
Return on Asset	ROA	Net income to total assets
Return on Equity	ROE	Net income to shareholder equity
Independent Variable		
Earning Diversification	OOR	Other operational revenue to total assets
Credit Risk	CL	Loan Loss provisions to net interest revenue
	ROL	Customer loans to customer deposits
Cost Controlling	CIR	Total cost to total income
Capital Adequacy Level	CA	Total capital to total assets
Risk Liquidity	LIQ	Liquid assets to total deposits
Control Variable		
Company Size	SIZE	Total assets of the target to total assets of the bidder
Acquirer's ROE before the merger	ROE Pre-B	Return on equity of the bidder (pre-merger)

Cost allocation figures for the five strategic issues were analyzed using distance metrics, considering characteristics commonly used by practitioners to assess bank financial performance, as outlined by Altunbaş & Marqués (2008). Specifically, the score of the bidder bank on the same variable X_{Bs} and the score of the target bank on the same variable, X_{Ts}, were compared. A

smaller S.I. value indicates more remarkable similarity in the banks' strategies. The dimensions of size differences related to the five indicators of strategic similarity and their impact on post-M&A financial performance were investigated through structural equation modelling - partial least squares (SEM-PLS) analysis. This analysis employed the second-order mode to test multidimensional constructs with formative dimensions. The formula used for S.I. calculation is:

$$SI = \sqrt{\sum_{i=1}^{n} (X_{Bs} - X_{Ts})^2}$$

Table 3. Data Analysis

OOR	CL	ROL	CIR	CA	LIQ	ROA	ROE	ROE Pre-B	SIZE
A. Islamic Bank Data Analysis									
1.00	17.45	330.14	26.47	11.05	160.04	0.58	3.25	5.39	0.67
0.59	0.70	16.01	3.30	1.69	26.87	1.26	8.38	10.14	0.68
1.88	69.14	0.76	7.56	1.35	18.37	1.55	13.68	18.53	0.20
0.14	28.99	10.91	8.02	1.74	21.57	1.43	14.83	12.13	2.08
0.81	8.89	26.24	38.27	3.98	48.99	0.80	14.56	16.31	759.31
0.10	6.08	106.67	63.69	5.64	5.15	0.80	5.81	15.18	0.02
1.40	8.85	71.48	58.93	8.53	42.87	0.16	5.11	1.65	35.04
0.10	72.43	216.94	38.64	2.10	43.81	0.21	1.98	11.21	0.29
0.55	1.95	57.65	45.04	4.66	5.39	0.58	4.77	-1.74	1.28
1.42	67.53	19.03	15.43	4.91	8.59	0.55	8.52	8.34	0.69
1.47	3.71	8.91	35.27	6.87	10.18	-0.31	-3.52	3.95	0.39
0.32	1.15	2.62	30.73	1.92	21.35	0.93	7.60	16.91	0.16
B. Conventional Bank Data Analysis									
0.22	19.08	35.17	26.55	6.78	22.01	1.24	10.36	14.72	0.38
0.01	41.94	7.31	40.38	1.75	40.67	-1.54	-7.80	8.17	0.47
0.81	19.17	43.94	10.38	1.94	34.84	2.37	20.97	11.16	0.67
0.39	8.28	8.17	20.73	4.50	29.69	2.01	12.41	17.47	0.50
0.55	16.00	122.35	12.47	59.29	57.26	0.04	0.46	18.20	0.02
5.62	1.69	82.93	24.67	25.82	90.28	0.35	5.86	10.83	0.00
6.68	157.01	1788.05	8.83	8.26	153.67	2.73	16.22	17.53	2.51
1.76	79.41	5.68	2.35	1.03	9.72	2.55	21.52	14.74	0.08
3.72	24.06	12.45	7.47	1.24	4.09	2.55	14.29	34.88	0.60
0.35	44.31	55.06	18.07	10.44	2.82	0.96	8.01	17.49	0.96
0.07	28.08	43.50	82.59	3.65	43.08	-2.17	-11.40	-5.67	0.56
1.33	15.61	13.63	20.40	0.60	4.13	1.68	18.12	16.89	0.02
0.38	71.49	5.58	24.29	2.05	34.61	0.52	4.22	11.73	0.18
1.47	14.41	31.66	44.52	12.04	0.44	-3.11	-34.45	16.24	0.30
0.03	48.33	59.09	45.72	2.26	24.65	0.58	4.77	-1.74	1.45

1.73	1.26	31.60	44.60	7.48	0.80	1.45	7.25	4.97	352.03
0.96	0.07	9.92	35.30	3.15	22.56	0.59	8.12	1.81	0.00
2.75	17.99	125.85	16.88	7.59	5.65	1.10	6.23	11.83	0.87
0.40	22.58	66.21	15.14	2.79	31.39	3.60	15.33	25.09	3.77
0.47	9.72	5.98	30.43	7.84	32.39	1.34	15.62	18.96	0.28
0.90	9.39	36.74	50.36	2.34	46.13	3.59	25.19	25.34	0.00
8.13	1.21	48.88	1.62	33.14	38.01	-0.61	-8.20	12.48	0.01
0.34	141.72	14.16	33.36	7.78	8.15	0.76	5.85	6.84	25.52
1.31	15.00	35.42	21.90	6.11	17.78	0.55	2.45	10.13	43.95
0.22	39.09	46.95	116.61	9.06	23.54	3.05	51.33	-13.81	15.09
0.37	0.24	64.97	3.19	5.85	18.36	1.37	13.26	15.39	0.23

Results and Discussion

Table 4. Descriptive Statistics The earnings diversification strategy (S1) shows the slightest deviation among synergistic banks, indicating relatively high similarities, suggesting that the merging banks predominantly generated income from sources other than low-interest loans, aligned with banks' core business as intermediary institutions, where the primary income was derived from credit or financing activities (Siringoringo, 2017). This data also implied a low level of product diversification strategy. Similarly, a high level of similarity was observed in the fourth strategy, the capital adequacy strategy (S4). Synergistic banks demonstrated relatively equal capital scales, which theoretically influenced their bargaining position post-merger. Conversely, the most significant deviation among synergistic banks was observed in the credit risk strategy (S2), particularly in the customer loans to customer deposits indicator, with a mean value of 96.543, suggesting that banks involved in acquisitions exhibited lower similarity in credit risk strategy.

The performance assessment was carried out one year after the merger and acquisition. After the banks merged, the average ROA value was 0.951. Meanwhile, the average ROE score was 8,183. Compared with the average ROE value of acquirers before the merger, which was 11.57, this shows a decline in ROE one year after. A decrease in ROE one year after a merger is average because the impact of a merger on profits is usually long-term (Nissa, 2022; Aggarwal & Garg, (2022).

Table 4. Statistic Descriptive

Item Variable	Indicator	Mean	Min	Max	*Std. Dev*
S1	Diversity of earnings	1.355	0.013	8.131	1.804
S2	Credit Risk	29.844	0.075	157.012	36.261
	Customer loans	96.543	0.757	1788.047	285.078
S3	Controlling cost	29.74	1.622	116.61	23.272
S4	Capitalization	7.61	0.599	59.286	10.591
S5	Liquidity	31.839	0.44	160.041	34.777
ROA	Return on assets	0.951	-3.108	3.596	1.373
ROE	Return on equity	8.183	-34.449	51.332	12.618
SIZE	Relative size	32.927	0.000267	759.313	132.123
ROE Pre-B	Bidder performance	11.57	-13.815	34.878	8.881

Strategic similarity and M&A performance in Islamic and conventional banks within OIC countries

In this study used Structural Equation Modeling Partial Least Squares (SEM-PLS) to examine the impact of strategic similarity on M&A performance in both Islamic and conventional banks within OIC countries.

For all the banks analyzed, the influence of strategy similarity on M&A performance was found to have a P-value of 0.313, which was higher than the specified significance level of 0.005. Additionally, the control variables for company size and Return on Equity (ROE) of the acquirer before the merger were also found to be insignificant, with P-values exceeding the specified significance level of 0.05. As a result, the first hypothesis was rejected.

Strategic similarity and M&A Performance in Islamic Banks within OIC countries

Subsequently, sub-sample testing was conducted on Islamic and conventional banks using Multi-Group Analysis in SEM-PLS. For the Islamic banks, the results indicated that the strategy similarity variable and control variables did not significantly influence M&A performance, as all P-values were more significant than the specified significance level (sig < 0.05). Therefore, hypothesis two was rejected.

Strategic Similarity and M&A Performance in conventional banks within OIC countries

Regarding conventional banks, the findings demonstrated that all P-values obtained were more significant than the specified significance level (sig < 0.05). Hence, the third hypothesis was also rejected.

Assessing the structural model using SEM-PLS involved observing the R-squared value for each endogenous latent variable as an indicator of the structural model's predictive power (goodness-of-fit test). The R-squared value of the M&A performance variable was 0.111, indicating that only 11% of M&A success could be explained by strategy similarity. In comparison, the remaining 89% was influenced by other variables not included in this research.

This research does not support the hypothesis that strategic similarity affects post-M&A performance in banks in OIC countries. This finding is also inconsistent with research conducted by Ramaswamy (1997), Altunbaş & Marqués (2008), and Oreski (2021) regarding the performance impact of consistent resource allocation, which has been shown to have a positive effect on post-merger performance.

Table 5. Result Path Coeficient

Item Effects	Sample		Sub Sample (Islamic Banks)		Sub Sample (Conventional Banks)	
	Sample Mean (M)	P-Values	Sample Mean (M)	P-Values	Sample Mean (M)	P-Values
Strategic Similarity -> Performance M&A	0.026	0.313	-0181	0.353	0.027	0.287
SIZE -> Performance M&A	0.058	0.461	0.202	0.432	0.109	0.234
ROE pre-B -> Performance M&A	0.264	0.195	0.638	0.110	0.234	0.193

Reevaluating Strategic Similarity

The results of this study suggest at least two factors. Firstly, in terms of content, the success of mergers and acquisitions is influenced by various complex factors. Despite the potential for synergy in the merger or acquisition process, which positively impacted post-merger success, it does not guarantee that the final combination will achieve the expected synergy. Empirical studies consistently demonstrated that only half of all mergers and acquisitions met financial expectations, as seen in failed studies by Edi & Irayanti (2019) and Ekadjaja et al. (2022). Cultural incompatibility is often cited as a cause of poor post-merger performance (Chatterjee et al., 1992). Even if a company has a thriving culture, it does not necessarily mean that its culture can be easily transferred, suitable, and accepted by other companies. Previously, separate cultures were often very different, leading to managerial challenges, low morale, poor work quality, and decreased financial performance (Cartwright, 1993; Ramaswamy, 1997). This passage emphasizes the importance of cultural fit as opposed to strategic fit. Cartwright (1993) attributed the failure factor in this cultural integration to the management of the acquirer, which tended to adopt a quicker and more proactive approach in the process, such as directly taking control and rapidly implementing change, even though the expertise and knowledge on the part of the acquirer did not fully understand the product and organizational culture. Acquisitions can present challenges in the change process and make it difficult to achieve synergies. Therefore, efforts to adjust culturally and strategically needed to be aligned with an understanding of acquisition management and an in-depth cultural audit of the profile, beliefs, and managerial style of the industry that was the target of the acquisition.

Cross-border factors between synergistic companies also influence the success of the merger. When M&A actors come from different countries (cross-border) are likely to clash with various regulations, legal systems, and business habits. Cross-border mergers can hinder interaction and coordination and exacerbate cultural clashes that encourage employee resistance (Larsson & Finkelstein, 1999). Additionally, KPMG & Kaplan

(2011) found that companies that made acquisitions in the home market fared better and indicated that it was easier to integrate acquisitions. Similarly, Altunbaş & Marqués (2008) found that consistency or similarity in strategic orientation between merging companies had a more positive impact on performance than cross-border mergers. It's important to note that this study did not differentiate between cross-border mergers and mergers within the same country, which could have affected the research results.

Larsson and Finkelstein's (1999) findings emphasized that the potential for combination was one of the determining factors for synergy. The concept of combination potential highlighted the integration of operations from different but complementary company resources. However, realizing this potential required an integration process, including the level of interaction (exchange of information) and coordination between the merging companies, to overcome potential obstacles to synergy.

Secondly, regarding methodology, the assessment of post-M&A performance success in this study was limited to a one-year timeframe, which may have needed sufficient to observe changes that required a medium to long-term process. The adjustment process following M&A transactions could take longer to yield measurable results. Research indicated that performance differences might only sometimes have been significant in the first year after a merger. For instance, Gustina (2017) found that performance differences in the first year post-merger were insignificant. Similarly, the research of Abbas et al. (2014) rejected the significance of performance differences in the second year post-merger in Pakistan. However, studies involving more than one year of post-merger observations tended to show positive and significant impacts. For example, after five years, Ekadjaja et al. (2022) discovered a positive and substantial increase in post-merger ROA. Similarly, Yazar (2019) reported a significant rise in ROA and ROE in the third year post-merger. Research on M&A activities in India by Aggarwal & Garg (2022) demonstrated success in the third year post-M&A.

Additional Analysis

After all hypotheses in this study were rejected, the researcher proceeded with additional analysis using the first-order model to understand further each strategic indicator's role in influencing M&A success.

Table 6 indicated that variable S4 (capital adequacy level) was the only variable that exhibited a significant effect on M&A success (0.042 < 0.05 sig). This significance was evident through the strategy similarity metric analysis in S4, which revealed the minimum average value of 7.61 among other strategies. The capital level was assessed by examining the capital-to-assets ratio. Its significant impact on post-merger performance underscored the importance of capital as a fundamental factor in maintaining stability and shielding the bank from unforeseen losses, indicating that the bank would be better equipped to handle post-merger risks (Sorongan, 2020).

Capital is a crucial indicator of success in financial institutions such as banking. Bank Indonesia Regulation No. 13/1/PBI/2011 elucidated that capitalization was one of the critical metrics for evaluating a bank's health, aligned with the case of the merger involving Bank Syariah Indonesia (BSI), where the consolidation of three central Islamic banks resulted in assets exceeding 200 trillion and garnered the prestigious best financial performance award in 2022. The infusion of capital through the merger elevated the economic scale (Ahmadi et al., 2021), as the amalgamation of resources and capital led to income growth surpassing that of individual entities. Islamic banks that underwent mergers experienced an enhancement in capital adequacy levels post-merger, enabling them to wield more outstanding prime capital for financing and fortifying their global market presence, consistent with Sui & Peculea (2016) and Gupta (2012), who asserted that M&A facilitated the expansion and bolstered global market positions, having robust capital for financing, necessitating financial contributions, and mitigating associated risks. Consequently, the post-merger enhancement in Islamic banking services was high quality.

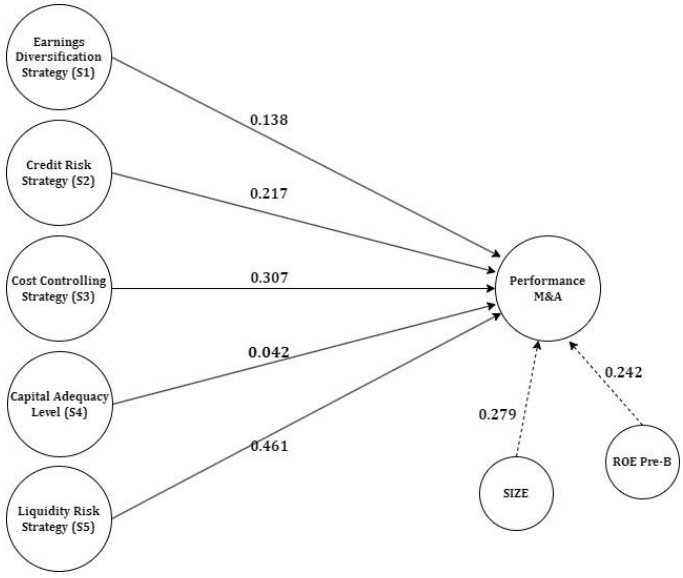

Figure 2. First-Order Bootsrapping

Table 6. First-order Path Coefficient Results

Variable	Original Sample (O)	T statistics (|O/STDEV|)	P-Values
S1 -> Performance M&A	0.361	1.091	0.138
S2 -> Performance M&A	0.191	0.781	0.217
S3 -> Performance M&A	-0.155	0.503	0.307
S4 -> Performance M&A	-0.297	1.731	0.042
S5 -> Performance M&A	0.020	0.099	0.461
SIZE -> Performance	0.078	0.701	0.242
ROE pre-B -> Performance M&A	0.148	0.585	0.279

Conclusion

The research findings indicate that the impact of strategic similarity on bank M&A performance lacked empirical support. This outcome holds for both Islamic and conventional banks, as indicated by the data. Two potential explanations for the differences between research results and expectations have emerged. First, the determinants of M&A success are complex, with cultural considerations playing a crucial role. Cultural misalignment significantly contributes to poor post-merger performance, emphasizing the importance of cultural fit over strategic alignment.

Additionally, cross-border factors influence post-M&A success, with cross-border mergers often encountering regulatory, legal, and cultural differences that impede integration efforts. Second, methodologically, the one-year observation period post-merger may need to capture the longer-term impact of M&A transactions adequately. However, analysis using the first-order model reveals that similarity in capital adequacy level (S4) directly impacts post-merger performance. Aligning capital adequacy strategies during mergers enhances post-merger performance by bolstering the bank's resilience against risks and unforeseen losses. In the case of Islamic banks, post-merger changes in capital levels provide more outstanding prime capital for financing, thereby reinforcing their global market position and enhancing the quality of Islamic banking services.

This study highlights several limitations that should be considered when interpreting the findings. Firstly, limiting the findings to a specific period may restrict how broadly the results can be applied. Therefore, future research should include data from a longer timeframe, such as 3 to 5 years post-merger. Extending the research duration, especially for assessing post-M&A performance, would provide a more thorough understanding of the long-term effects of mergers and acquisitions. Secondly, this research combines merger and acquisition participants regardless of their country of origin, which could significantly impact the success of the merger. Hence, future research could explore mergers and acquisitions involving banks within the

same country and across different countries to identify potential differences in outcomes based on geographical factors.

This research indicates that strategic similarity does not always predict M&A success and highlights the importance of cultural integration and cross-border regulatory challenges. Theoretical implications include the need for a more holistic model to understand M&A success, incorporating cultural and regulatory factors. The study also underscores the importance of considering a more extended period in evaluating post-merger performance. For practitioners and managers, the findings suggest a greater focus on assessing and integrating cultural aspects and cross-border regulatory issues during the M&A process. Effective merger planning and management, addressing cultural differences, and adjusting capital adequacy strategies can improve M&A success. Moreover, it is essential to consider a more extended timeframe to assess the full impact of mergers, allowing for the adjustment of post-merger strategies to achieve optimal outcomes.

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