

Saila Rosas

## **CO-OPERATIVE ACQUISITIONS – THE CONTEXTUAL FACTORS AND CHALLENGES FOR CO-OPERATIVES WHEN ACQUIRING AN INVESTOR-OWNED FIRM**

A thesis for the degree of Doctor of Science (Economics and Business Administration), to be presented with due permission for public examination and criticism in Auditorium 1381 at Lappeenranta University of Technology, Lappeenranta, Finland, on the 15th of December 2015, at noon.

- Supervisors Professor Iiro Jussila  
Department of International Business and Marketing  
School of Business and Management  
Lappeenranta University of Technology  
Finland
- Post Doctoral Researcher Pasi Tuominen  
Department of International Business and Marketing  
School of Business and Management  
Lappeenranta University of Technology  
Finland
- Reviewers Associate Professor Anu Puusa  
University of Eastern Finland  
Joensuu  
Finland
- Senior researcher, Dr.Sc. (Bus.Adm.) Eliisa Troberg  
University of Helsinki, Ruralia Institute  
Helsinki  
Finland
- Opponent Associate Professor Anu Puusa  
University of Eastern Finland  
Joensuu  
Finland

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# **Abstract**

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Mergers and acquisitions (M&As) have been seen as an important strategy in helping organizations to grow, gain access to new markets and resources, increase efficiency, and enable competitiveness in order to fulfil the purpose of the organization. These aspects have made M&As of central interest to academic literature. In co-operative studies mergers especially have been widely studied. The common focus of these studies is that M&As have taken place between organizations of the same form. It is noteworthy that there is a scarcity of literature concerning acquisitions between different organizational types. Moreover, M&As have not been evaluated concerning the organization's ownership and purpose, which may be significant integration factors.

The overall objective of this study is to describe and understand why co-operative organizations use acquisition as a strategic alternative. In more detail – and in order to develop understanding of the background ideals affecting the acquisition decision and the differences of organization ideals in the integration process – this study is based on a qualitative case study approach. By combining interview data gathered from the OP-Pohjola Group and associating the observations from various streams of research on acquisitions and management with the purpose of co-operation, and examining these issues further, the thesis contributes to the elaboration of theory in the field of the strategic management of co-operatives.

The dissertation consists of two parts. The first part introduces the research topic, methods and publications, as well as discussing the overall outcomes. The second part consists of four publications that address the research questions from different viewpoints. The analyses of this dissertation indicate that, from the strategic point of view, the acquisition of an investor-owned firm by a co-operative organization may create competitive advantage for the co-operative. On the other hand, there are differences in and following from the purpose of acquirer and the acquiree that may, in such case, pose several challenges to the integration process.

Keywords: co-operative, mergers and acquisitions, corporate purpose, competitive advantage, strategic management, organization forms



## Acknowledgements

My curiosity made me want to study, to know more, to dig deeper. But as a young person I wanted to act and become better in my working life too. During the decades after my baccalaureates I both worked and studied. I got married, gave birth to our beloved daughter, saw her grow up and move from home to go and study. I also established my own business career. But my dream of studying was still there.

Finally, in the autumn of 2007 I embarked on doctoral studies and this dissertation work, which gave me the chance to develop multiple skills – both academic and business skills. During my studies, my inspiration has been a saying by Thomas Huxley: "Try to learn something about everything and everything about something". Now this process nears its end I would like to use this opportunity to thank and acknowledge the people who have played a significant role in this research process.

First of all, I would like to thank my supervisor, Professor Iiro Jussila. It has been a pleasure to work with such an intelligent, talented, hard-working and straightforward thinker. Without a doubt, he is the person who has taught me most of what I now know about research and has opened the gate to the academic world to me: I wish to express my deepest gratitude for that.

Equally importantly, I wish to express my deep gratitude to my original supervisor, Professor Janne Tienari, for taking me under his wing in the very early stages. His guidance and mentoring comments helped me to initiate my doctoral studies and to write the first lines as a researcher.

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Saila Rosas

November 2015, Elimäki, Finland

*To Denise*



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Abstract

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## List of publications

This thesis is based on the following papers. The rights have been granted by the publishers to include the papers in this dissertation.

- I. Rosas Saila and Michelsen Karl-Erik (2015). The effects of global financial capitalism to the co-operative banking. The case of OKO in Finland. Submitted for publication review in 2015.
- II. Rosas Saila, Jussila Iiro and Tuominen Pasi (2012). Diversification Through Acquisition: Co-Operative Banks as Dynamic Players in Competitive Markets. *International Journal of Cooperative Studies*, 1(2), 37–46.
- III. Rosas Saila, Jussila Iiro and Tuominen Pasi (2012). Leading Together for Mutual Benefit: Shared Leadership in the Context of Co-operative Banking. *Business and Management Research*, 1(4), 99–108.
- IV. Rosas Saila, Jussila Iiro and Tuominen Pasi (2015). How different can an organizational bedfellow be? When a ballerina acquires a beast. Submitted for publication review in 2015.

## The author's contribution

Saila Rosas is the principal author and researcher in papers I–IV. Further, the contribution of Saila Rosas to the publications is as follows:

### Publication 1

Saila Rosas: prepared the research plan; conducted interviews on the core themes of the paper; prepared time lines concerning economic changes in Finland, in Europe and throughout the world within the banking business; conducted data analysis; wrote the paper with the co-author; presented an early version of the paper at the ICA Research Conference, Pula, Croatia, 25–28th June, 2014.

### Publication 2

Saila Rosas: prepared the research plan; conducted interviews on the core themes of the paper; analyzed the data; wrote and rewrote the first versions of the paper; was central in the joint effort of analysis, as well as discussing and drawing conclusions the findings; presented an earlier version of the paper in the Co-operative Responses to Global Challenges Conference, Berlin, Germany, 21–24th March, 2012.

#### Publication 3

Saila Rosas: prepared the research plan; wrote and rewrote the first versions of the paper; made the preliminary data analysis; was involved in the joint effort of discussing and concluding the findings; presented an early draft of the paper at the New opportunities for Co-operatives ICA Global Research Conference, Mikkeli, Finland, on the 24–27th August, 2011.

#### Publication 4

Saila Rosas: prepared the research plan; wrote and rewrote the first versions of the paper; made the first versions of data analysis; conducted the final data analysis together with the co-writers; was involved in the joint effort of discussing and concluding the findings; presented an early draft of the paper at the ICA Research Conference, Pula, Croatia, 25–28th June, 2014.





## 1 Introduction

In academic strategic management literature there is a general and widely accepted consensus on the fact that the corporate purpose of co-operatives differs from the purpose of IOFs (e.g. Puusa, Mönkkönen & Varis, 2013; Tuominen, T., 2013; Tuominen, P., 2012; Jussila, Tuominen & Saksa, 2008; Mills, 2008, 2001; Nilsson, 2001; Davis, 2001; Michelsen, 1994). The reason is that co-operatives are orientated towards the ideal of association: joining together, coalescing, combining, integrating and remaining united in order to satisfy common needs, to achieve common ends or derive mutual advantage (Jussila, Goel & Tuominen, 2012; Watkins, 1986). Following from this orientation, co-operatives are often seen as sustainable business models from the owners' and local communities' perspectives (Peredo & Chrisman, 2006; Majee & Hoyt, 2011).

Despite the different purpose, the question of how to create competitive advantage is just as important for co-operatives as it is for IOFs (Tuominen, P., 2012). The question has importance also from societal perspective. This is because co-operative organizations play a significant role in the economy of many industrialized nations (Normark, 1996; Defourny & Monzón Campos, 1992) and societies as, according the International Co-operative Alliance (2012), the co-operative movement brings together around one billion people around the world in co-operative organizations that together provide over 100 million jobs (Tuominen, P., 2012). Considering that co-operatives compete in the same increasingly turbulent, dynamic and complex business world as their investor-owned peers, specialized knowledge is highly important in strategic management of co-operatives.

In mainstream strategic management literature, acquisitions have long been considered as an option for investor-owned firms (IOFs) – one taken to survive competition, to gain greater profits and to grow. For co-operatives, the use of mergers and acquisitions (M&As) are strategic options as well. However, in co-operative literature there is lack

of detailed analyses of acquisitions by co-operatives in general (Richards & Manfredo, 2003) and co-operative banks in particular (Worthington, 2001, 2004), even though mergers of co-operatives have been widely studied (e.g. Bauer, Miles & Nishikawa, 2009; Cabo & Rebelo, 2005; Worthington, 2004; Richards & Manfredo, 2003; Lang & Welzel, 1999; Haynes & Thompson, 1999; Fried, Lowel & Yaisawarng, 1999; Barnes, 1985; Barnes & Dodds, 1981). Further, in the studies found, M&As have taken place between the same organizational forms. I believe that in order to understand acquisitions of other organizational forms as a source of competitive advantage, more empirical research aimed at qualitative theory building and development (instead of qualitative theory verification) is needed. This may also help us understand differences across organization forms.

Therefore, the doctoral dissertation at hand participates in the academic discussion of the strategic management of co-operatives (e.g. Tuominen, T, 2013; Tuominen, P, 2012; Mills, 2008; Spear, 2000; Davis, 1995, 1996, 1997; Cook, 1994) in order to generate new knowledge of acquisitions in the co-operative-IOF context and to assist co-operatives in their growth and the creation of competitive advantage.

First, a review of co-operative studies is conducted to map existing scientific knowledge of acquisitions in co-operative contexts. Moreover, important limitations and research gaps that have not yet been acknowledged in this area are uncovered. Second, by providing in-depth empirical evidence from the case co-operative organization, we are able to map the mechanisms by which co-operative organizations choose to acquire an IOF.

The overall objective of this study is to describe and understand why co-operative organizations use the acquisition of an IOF as a strategic alternative and how the differences between two different organizational forms may appear in an integration process. In the following, I introduce the dissertation in more detail by presenting the background of the research, the research gaps and objectives, the definitions and scope, and the outline of the thesis.

## 1.1 The research background

The background of this thesis reflects the research questions and the theories relevant to these questions. There are at least two main themes that should be noted in the studies of the strategic management of consumer co-operatives, which is the primary target of contribution. First, what are the differences between co-operatives and IOFs (Tuominen, T., 2013; Tuominen, P., 2012; Jussila, Tuominen & Saksa, 2008) and what are their implications for the strategic management of co-operatives? Second, what are the options for consumer co-operatives to create competitive advantage (Spear, 2000)? These themes are discussed in the following paragraphs.

In academic literature the concept of corporate purpose has become an important topic of academic discussion (e.g. Tuominen, P., 2012; Springett, 2005, 2004; Ellsworth, 2002; Duska, 1997). It answers the question "Why is the company in business?", reflecting the firm's mission and value declarations, and determining the way a firm should operate (Tuominen, T., 2013; Wilson, 2004; Duska, 1997). Co-operatives can be distinguished from other organizational forms in many ways (Puusa, Mönkkönen & Varis, 2013).

Important streams of research on co-operative purpose have been made concerning co-operative purpose versus limited companies' investors' perspective (Mills, 2001). An illustrative theoretical examination of the rationale behind co-operatives' dual purpose is offered by Michelsen (1994), based on the idea that a co-operative is both a business enterprise acting in the market and an association of civil members (Draheim, 1955). Further, there is the notion of the "dual nature of co-operatives" (Puusa, Mönkkönen & Varis, 2013), that is, the notion that co-operatives do not only aim for the improvement of the economic conditions of those who engage in the activities of co-operatives but also aim to improve their social and psychological conditions (e.g. Puusa, Mönkkönen & Varis, 2013; see also Jussila, Goel & Tuominen, 2012).

Scholars have pointed out that one of the more important differences between co-operatives and IOFs (Normark, 1996) is that IOFs typically exist to maximize value for the shareholders (Jussila, Tuominen & Saksa, 2008; Grant, 2008; Hansmann, 1996). Co-operatives, on the other hand, do not aim to maximize profit (e.g. Tuominen, T., 2013; Puusa, Mönkkönen & Varis, 2013; Tuominen, P., 2012; Jussila, Tuominen & Saksa, 2008) for the shareholders (Grant, 2008; Hansmann, 1996). Further, while profit-making in co-operatives has been seen to have an instrumental role, the accumulation of capital “is not their end purpose, but merely a means to serve people better” (Davis, 2001, p. 36).

It is noted that co-operatives exist and aim to maximize value for their owner-members and customers (Fried, Lovell & Yaisawarng, 1999; Peterson & Andersson, 1996). They do this through the creation of benefits in product and services markets (Jussila, Tuominen & Saksa, 2008; Jussila, 2007), which promotes the economic wellbeing of the members and maintain for them a good standard of living (Puusa, Mönkkönen & Varis, 2013).

The members are not only users but also the owners of a co-operative (Normark, 1996). Furthermore, value in IOFs is based on shareholder returns but in co-operations it (value) is based on transactions with the co-operative (Jussila, Tuominen & Saksa, 2008). The primary task for co-operatives is to counteract monopolies organized around different purpose, as co-operatives exist to maximize member satisfaction, derived from the use of their services (Jussila, Tuominen & Saksa, 2008; Peterson & Andersson, 1996). Since there are no pressures for co-operatives to maximize profitability, they may concentrate on the long-term development of an efficient organization, with regards to the provision of particular goods and services (Syrjä, Sjögren & Tuominen, 2012), whereas IOFs, for example, have to adapt to the pressure of the quartile economy (i.e. quarterly financial reporting) (Jussila, Tuominen & Saksa 2008). Thereby, consumer co-operatives may be able to achieve sustained competitive advantage by accumulating

both financial and social capital (Tuominen, T., 2013).

To summarize, so far research in the context of co-operative organizations has largely relied on co-operative organizations needing to offer something different (Mills, 2008), to trade in a distinct way and for a different purpose (Tuominen, P., 2012) because “the most powerful way to challenge investor-owned businesses is by reference to their very nature, the way they operate and trade, the impact of what they do, the reason for their existence” (Mills, 2008, p. 25–26).

Despite co-operatives’ purpose and profit-making, what we now know is that co-operatives are different to IOFs as they are embedded in a particular geographical area. They cannot relocate their activities to more attractive ones (Tuominen, P., 2012; Jussila, Tuominen & Saksa, 2008). Moreover, it is worth highlighting that if the operating territory is to a certain extent limited, as is typical for co-operatives (Tuominen, P., 2012), it limits the size of the co-operative organization and its ability to grow (Tuominen, T., 2013). So far, scholars have seen the purpose, profit-making and geographic boundedness as significant boundary conditions for the strategic management of co-operative organizations (see Tuominen, P., 2012).

However, in strategic management literature, the first steps toward linking co-operative strategic choices to performance – focusing on understanding the range of strategy options available to and used by co-operatives – have been taken by Peterson and Anderson (1996). Further, Davis and Donaldsson (2000) have conducted a survey aimed to find out what the co-operative advantage is in practice. Moreover, as referred to above, Terhi Tuominen (2013) has discussed how consumer co-operatives can use social and financial capital to achieve sustained competitive advantage.

One of the key focuses in the literature has been that there is a challenge for co-operatives to protect their member-centred source of competitive advantage while pursuing growth strategies that will enable them to thrive in a 21st-century context

(Power, O'Connor, McCarthy & Ward, 2014; Tuominen, Tuominen & Jussila, 2013; Tuominen, Tuominen, Tuominen, & Jussila, 2013; Jussila, Tuominen & Saksa, 2008; Uski, Jussila & Saksa, 2007).

However, for all organizations, including co-operatives, achieving sustained competitive advantage is a strategic question. Acquisition has been understood to be an important factor in creating competitive advantage in a capitalistic market economy. Therefore, a lot of research on M&As is found in mainstream contexts. Even if scholars typically depict the development and evolution of co-operative enterprises as organic, slow and stable (Tainio, 1999), some have acknowledged that co-operatives may use acquisitions as part of their strategy (e.g. Boscia, Carretta & Schwizer, 2009; Boscia & Di Salvo, 2009; Jussila, Tuominen & Saksa, 2008).

So far M&A research in the co-operative context has been directed at market position (Hingley, 2010), structural change (Liebrand, 2001; Thompson, 1997), size and profitability (Kammlott & Schiereck, 2001) and the influence of capital constraints (Richards & Manfredi, 2003) or financial, managerial and regulatory influences on M&A activity (Stefanelli, 2009; Worthington, 2004). Most of the M&A research in the co-operative context has dealt with mergers of amongst co-operative banks and credit unions (e.g. Bauer, Miles & Nishikawa, 2009; Cabo & Rebelo, 2005; Worthington, 2004; Richards & Manfredi, 2003; Lang & Welzel, 1999; Haynes & Thompson, 1999; Fried, Lowel & Yaisawarng, 1999). In the following table (Table 1), the central, previous research on co-operative mergers and acquisitions is summarized.

As indicated earlier, common to both the mainstream and co-operative studies is that the M&As take place between companies of the same organizational form. For example, it is either IOFs merging with IOFs or co-operatives merging with co-operatives. Similarly, the research concerned with the integration process in an acquisition, both in mainstream literature and academic research concerning co-operatives, focuses on combining the same organizational forms. The acquisition arrangement in a case with

two totally different organizational forms is therefore interesting: according to my knowledge there is very little research concerning such a situation. Obviously acquisition between different organizational forms seems to be a somewhat exceptional solution in strategic management, but it does not necessarily need to be so. At least for a co-operative or a group of co-operatives, the acquisition of an IOF can be a viable, but challenging, solution – such as that presented in this dissertation.

In the following chapter, the research gaps and objectives are introduced. Furthermore, this dissertation introduces a case where a co-operative banking group acquires an IOF-based insurance company. Through its empirical findings, the case helps make a contribution to the academic discussion on the strategic management of co-operatives, particularly on the use of M&As as an option for gaining growth and competitiveness.

**Table 1. The perspectives of research on acquisitions**

### PERSPECTS OF RESEARCH ON CO-OPERATIVE MERGERS AND ACQUISITIONS

Year	Author(s)	Title	Keywords	Main theme	Main arguments
1997	Steve Thompson	Takeover activity among financial mutuals: An analysis of target characteristics	mutuals; mergers; organizational forms	takeover activity	The paper explores the mutual merger process via an examination of the targets' characteristics. It finds little support for the 'natural selection' view of mutual acquisitions, but it does reveal the importance of the regulatory process. The results show a surprising similarity to those from studies of the merger process in joint-stock firms.
1999	Harold O. Fried, C.A. Knox Lowell & Suthathip Yaisawarng	The impact of mergers on credit union service provision.	Mergers; Credit unions	mergers in credit union industry	Finds member service provision to have improved in acquired credit unions, and to have been unchanged in acquiring credit unions. Also provide three separate analyses, from three different perspectives, of the role of various characteristics of merging credit unions in determining the success of mergers.

1999	Michelle Haynes & Steve Thompson	The productivity effects of bank mergers: Evidence from the UK building societies	Building societies; Mergers; Productivity effects;	core financial intermediation activities	unions, and to have been unchanged in acquiring credit unions.
1999	Gunter Lang & Peter Welzel	Mergers Among German Cooperative Banks. A Panel-based Stochastic Frontier Analysis	banking; mergers; efficiency; stochastic frontier	analyze motives and cost effects of small-scale mergers in German banking.	separate analyses, from three different perspectives, of the role of various characteristics
1999	Matija D. Mayer & Dirk Schiereck	Germany's Alien Mutuals - Some Stylised Facts on the Merger wave of East German Co-operative Banks	alien mutuals; merger wave; co-operatives	merger wave in german co-operative banks	<p>* The group of mutual banks has managed a lot of mergers with results that are on average significantly better than those from public savings banks which find themselves in a comparable situation.</p> <p>* Not only the size of the banks were a factor in the mergers</p> <p>* The merger decision were the starting point for broader-oriented efforts to improve internal workflow and organization during the restructuring in the post merger integration period</p>
2001	Christian Kammlott & Dirk Schiereck	Bank Size, Mutuality and Market Success of German Co-Operative Banks	co-operative banks	merger, market success and optimal bank size	* Co-operative banks are trying to reduce the competitive disadvantage by merging each other. * The growth strategies of "Vokls- und Reiffisenbanken" did not lead to a positive result
2001	Carolyn Liebrand	Structural Change in Dairy Cooperative Sector 1992-2000	Cooperatives, milk marketing, milk, structure, vertical integration.	Structural Change in the Dairy Cooperative Sector	84 co-operatives went out of existence via dissolution, merger, acquisition or by reducing dairy to a minor share in their operations.

2001	Andrew C. Worthington	Efficiency in Pre-Merger and Post-Merger Non-Bank Financial Institutions	mergers & acquisitions; credit unions; data envelopment analysis; technical and scale efficiency	pre-merger and post-merger efficiency	<p>* The results suggest that the merger process is being led by high performing credit unions, it seems that the acquired credit unions, in terms of pure technical efficiency, are no less efficient than the industry average</p> <p>* The merger process in Australia reflects the reorientation of credit union services towards performance in a conventional banking sense</p> <p>* Loan portfolio diversification, management ability, earnings and asset size are a significant influence on the probability of acquisition, though the primary determinant of being acquired is smaller asset size</p>
2003	Timothy J. Richards & Marks M. Manfredo	Cooperative Mergers and Acquisitions: The Role of Capital Constraints	capital structure; cooperative; discrete choice; joint venture; mergers; multinomial logit; strategic alliances	motivation factors to cooperative mergers and acquisitions	<p>* A higher shadow value of capital increases the probability of a cooperative's decision to merge, acquire, form a joint venture, or create a strategic alliance</p> <p>* The econometric estimates indicate consolidation among agricultural cooperatives tend to follow "merger waves" throughout the non-cooperative sector - perhaps driven by the need to match efficiencies gained by the non-cooperative rivals choosing to consolidate</p> <p>* Higher interest rates and higher value of agricultural output lead to greater probability a cooperative will merge or form a strategic alliance, but a lower probability a cooperative will choose a form a joint venture</p>
2004	Andrew C. Worthington	Determinants of merger and acquisition activity in Australian cooperative deposit-taking institutions	mergers & acquisitions; credit unions, data development analysis, technical and scale efficiency	merger and acquisition activity	<p>* The results indicate that asset size and quality, management ability, earnings and liquidity are a significant influence on the level of M&amp;A.</p> <p>* One primary influence on credit union acquisitions would appear to be the perceived compatibility in associational bond and membership</p>

2005	Paula Cabo & Joao Rebelo	Why do Agricultural Credit Cooperatives Merge? The Portuguese Experience	Mergers	Economic reasons to merge	Describes the economic reasons that have led the ACCs to merge, and analyses the ex post merger impact on their economic performance. The results show that: (a) incorporating ACCs are larger, more profitable and hold a better credit management; (b) incorporated ACCs are smaller, face difficulties in reaching a minimum efficient scale and have weaker credit management as well as leverage problems; and (c) merged ACCs have a heavy administrative cost structure and also face profitability problems. Regarding the mergers' ex post impact on the ACCs performance, no positive influence on cost reduction, credit management and solvency ratio is found.
2009	Keldon J. Bauer, Linda L. Miles & Takeshi Nishikawa	The effect of mergers on credit union performance,	mergers, credit unions	mergers in credit union industry	The motivation for mergers in the credit union industry differs from the commercial bank industry due to the lack of residual claimants to benefit from wealth gains. In the cooperative ownership environment of credit unions, the owners/members gain utility via the rates offered for loans and deposits. The acquiring credit unions may encounter regulatory pressure to merge. In addition, the owners/members of the acquiring firm may avoid potential disutility in the cooperative insurance environment were the target firm allowed to fail.
2009	Vittorio Boscia, Alessandro Carretta & Paola Schwizer	Concluding remarks in Cooperative Banking: Innovations and Developments	co-operative banks	the success for co-operative banks	Co-operative banks have adopted two strategies in order to deal with the higher level of competition in the new environment., a strategic choice compatible with the traditional characteristics and competitive advantages
2009	Vittorio Boscia & Roberto DiSalvo	The Theory and Experience of Cooperative Banking	co-operative banks	an overview of the evolution that has occurred in cooperative banking	Co-operative banks are nowadays being forced to perform their activities in more open and competitive markets which are challenging co-operative banks, especially the more locally focused and those with limited dimension.

2009	Valeria Stefanelli	Merger and Acquisition in Cooperative Banking Sector	co-operative banks, M&A	M&As in European co-operative banks	The theoretical analysis of the advantages of the concentrations for cooperatives shows that these operations do not represent a valid or suitable option for the development of co-operative banks.
2015	R. Raymond Sant, Stephen Bryce Carter	Acquired Credit Unions: Drivers of Takeover	ALM, asset liability management, charge-offs, credit unions, mergers.	study acquired credit unions and analyze their financial performance up to six years prior to merger, on a quarterly basis.	Acquired credit unions during the period 2008 (third quarter) to 2014 (first quarter) experienced negative return on assets for several quarters prior to their takeover. This was the result of a declining loan portfolio and increasing charge offs. In spite of decreasing lending activity, such credit unions continued to increase their deposits, i.e., adding to their cost base. Due to declining loans, their net interest margin as a proportion of deposits was also in decline.

## 1.2 Research gaps and objectives

The starting point of this research was the case acquisition introduced in this dissertation. From the first moment the acquisition went public I had a strong personal interest in this acquisition. The main reason for my interest was that I work as a bank manager for the acquirer, the co-operative banking group. So, when I started my doctoral studies, co-operative acquisitions were a likely choice of research for me. As a part of the research process I made interviews concerning this strategic choice. From this empirical material and through my deepening insight into co-operative literature I discovered the objectives and research gaps (discussed in this dissertation) that could be fulfilled in a meaningful manner.

As stated, there is lack of research regarding the use of acquisitions of other organizational forms as a strategic option in general and as one for co-operatives in particular. This dissertation opens up the discussion with a case of unique acquisition, where a co-operative banking group acquired an IOF from the field of insurance. This particular example was chosen because of both the opportunity it offered for research access and its unique revelations (Eisenhardt & Graebner, 2007; Yin, 1994).

In the first instance, the case is introduced. It offers a perspective on one of the biggest acquisitions ever made in Finland. This was when OKO Bank, owned by a group of co-operative banks (OP Bank Group), acquired (in September 2005) a majority shareholders' stake in Pohjola (a listed insurance company) and integrated it within the co-operative group to form the OP Financial Group. Today, the OP Financial Group is the leading financial group in Finland. It is made up of some 180 local member co-operative banks, the central bank Pohjola Bank PLC (formerly OKO Inc.), and OP Central Cooperative, including its subsidiaries and closely related companies, such as OP-Services Ltd. Pohjola Bank PLC, founded in 1902, is a Finnish bank, listed on the Helsinki Stock Exchange since 1989, with a market capitalization (A and K shares) of approximately EUR 1,300 million as of September 9<sup>th</sup>, 2005. It is the most significant subsidiary of the OP Central Cooperative, which is the central institution of the multiparty alliance of co-operative banks (OP-Pohjola Group Annual Review, 2009). Co-operative banks in the OP Financial Group provide banking and financial services to private customers, firms and communities (OP-Pohjola Group, 2011). Since 2005, insurance business has been integrated with the banking business. Further, since then, the new-born financial group has gone through several changes.

As the example of such an acquisition is rather complex and rich, it is useful for it to be viewed from multiple perspectives. In order to enrich thinking in this area of research, the mechanisms and potential impacts of acquisitions are identified by investigating several themes related to the acquisition – themes that emerge from the data and offer an interesting insight – instead of focusing deeply on one theme, such as the acquisition

choice. The following paragraphs address the main themes of the dissertation, acknowledging what existing literature maintains about these themes.

Although research on co-operatives has received increased scholarly attention in the last few years (e.g. Puusa, Mönkkönen & Varis, 2013; Tuominen, T., 2013; Tuominen, P, 2012; Mills, 2001; Nilsson, 2001; Spear, 2000; Michelsen, 1994), there have been relatively few studies that have investigated the interplay between global financial capitalism and co-operative banking in the modern capitalistic economy and, further, the influence of this interplay on the strategic management of co-operatives. However, the financial products have to be spread out to be equalled over time. New physical and virtual distribution channels and new services have arisen as a result of technological developments. The development of financial products, together with standardising deregulation (Skurnik, 2005), and strategies to grow and gain access to new resources and market shares have caused M&A activity in the banking sector (Söderberg & Vaara, 2003; Björkman, Hundsnæs, Hammarqvist, Söderberg, Tienari & Vaara, 2003). The increasing global competition (global financial capitalism), created by the economies of scale, has forced co-operative banks to face the need to defend themselves in competitive markets that are to great extent IOF-based. However, there is a lack of understanding about the acquisition context: What are the background powers affecting a co-operative's or co-operative group's decision to diversify through acquisition? It is this specific research gap that publications 1 and 2 aim to explore.

Further, acquisition is always a challenge to the organizations it affects. Previous mainstream research has shown that the challenges stem from strategic, organizational or cultural differences between the acquirer and the acquiree. We do know from the work of Jussila, Tuominen and Saksa (2008) that co-operatives can be differentiated from non-local competitors. For instance, they invest in sparsely populated areas, from which other service providers have withdrawn (Jussila, Kotonen & Tuominen, 2007). On the other hand, without sufficient resources and size, co-operatives will not be able to play their role as a steward of regional competitiveness. Thus, due to the

geographically limited market area (Tuominen, P., 2012), the purpose of co-operatives can be seen to be the basis for a more complex set of goals when seen in contrast to the goals derived from profit maximization in IOFs (Spear, 2004; Cook, 1994). Yet, we do not know how the complexity of goals turns into organizational complexity, nor do we know how the differences between co-operatives and IOFs in their goals and structures pose potential post-acquisition integration challenges. Thereby, more empirical research aimed at qualitative theory elaboration and development is needed. I believe co-operative business research would benefit from research that is indicative of acquisition and characterizes how the differences between co-operatives and IOFs express themselves in the acquisition situation. However, this requires specific elements of theory that have not been developed earlier. This is the research gap publications 3 and 4 aim to fill.

To sum up, common to the above ideas and serving to specify the gaps in knowledge this dissertation sets out to fill, is that there is the need for a *description of a co-operative organization using acquisition as a strategic alternative and an understanding of the process*. This objective is served by combining interview data that is gathered from the leading Finnish banking group, the OP Financial Group, combining it with previous literature and approaching it from the perspective of the co-operative's aims. Meeting the objective serves the purpose of generating new or elaborating the original ideas, definitions, outlines and associations of strategic management in co-operatives.

The research questions were, as is typical for qualitative research, specified and streamlined towards the final stages of this research process.

Based on the research gaps identified and the objectives set, the main research question of this study is formulated: *Why do co-operative organizations use acquisition as a strategic option and, if the acquiree is an IOF, do the differences between the organizational models somehow become apparent in the acquisition context?*

The research sub-questions of the study are formulated as follows:

*Q1: How does acquisition fit into the toolbox of the strategic management of co-operative organizations and on what grounds?*

*Q2: What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?*

Both of the sub-questions are examined in the four separate articles comprising Part II of the thesis. There are four publications that serve the objectives of this dissertation. Two of them are published in international academic journals and early versions of the other two were presented in international conferences of co-operative management and have now been submitted to international academic journals. The publications themselves are separate but they have a strong linkage to each other and the acquisition process, as all of them utilize the same empirical data. Each of the publications have their own target discussion and supporting theories. This approach allows theory building on the strategic management of co-operatives more broadly than if a single theme were concentrated on. It will also add to understanding about the specialty of the management of co-operative organizations, as they differ significantly from the management of IOFs, and in that way it will help to develop the management of co-operatives.

The publications 1 and 2 view the background powers in an acquisition decision in a co-operative context from different perspectives. Publication 3 explains leadership and management in a co-operative organization before the acquisition in order to set the stage for Publication 4. The latter then continues by explaining the challenges an acquisition may cause to a co-operative organization when the target is a different organization form. The context of the publications is presented in Figure 1.

**Figure 1.** The context of the publications

<b>Publication</b>	<b>Context</b>	<b>Contribution</b>
Publication 1: The effects of global financial capitalism to the co-operative banking: The case OKO in Finland	Strategic management in co-operatives at competitive markets	Explains the challenges strategic management faces in global competition. Explains the grounds for the acquisition decision.
Publication 2: Diversification Through Acquisition: Co-Operative Banks as Dynamic Players in Competitive Markets.	The strategic management of co-operatives under pressure and the purpose of geographic boundedness	Explains the grounds for acquisition in the form of diversification.
Publication 3: Leading Together for Mutual Benefit: Shared Leadership in the Context of Co-operative Banking	The leadership of the acquirer (the co-operative organization) in a pre-acquisition context	Explains leadership in co-operatives before the acquisition in order to open up the challenges an acquisition may cause (expressed in Publication 4).
Publication 4: How different can an organizational bedfellow be? When a ballerina acquires a beast	Challenges to strategic management in the post-acquisition integration process	Explains the strategic and cultural challenges an acquisition may cause to a co-operative organization when the target is a different organization form.

In the following, the key concepts and the scope of this dissertation are defined and further discussed.

### 1.3 The key constructs and scope of the dissertation

The key concepts of this dissertation are derived from the research questions (see above). Thus the definitions of *the purpose of co-operation*, *co-operative banks*, *corporate strategy*, *competitive advantage*, *M&As* and *diversification* serve as the foundation for this doctoral dissertation.

*The purpose of consumer co-operation* is to provide services and goods that are needed at fair prices for the members (Jussila, Tuominen & Saksa, 2008; Fulton & Ketilson, 1992). Consumer co-operatives exist to provide the owners with (a) services and goods that are needed but not otherwise provided and/or (b) services and goods at fair prices when they are (in the absence of the co-operative) provided with unfair prices (Tuominen, P., 2012; Jussila, Tuominen & Saksa, 2008; Fulton & Ketilson, 1992). For that reason, co-operatives are “not oriented towards earnings in terms of money only, but on members’ ‘earnings’ in terms of concrete services” (Michelsen, 1994, p. 23). The co-operative business model does not aim primarily at profits and the increase of share value but aims to provide lower prices and better products and services for its owners and customers (cf. Spear, 2004; Borgen, 2004). In co-operatives the owner’s primary role is that of a user, not an investor (or speculator) (Tuominen, P. 2012, Spear, 2004). Thereby, co-operatives are typically geographically-bound organizations (e.g. Tuominen, P., 2012; Mills, 2001).

*Co-operative banks* are financial institutions that have traditionally played a central role in the economic and social development of their members, and of the territories they operate in (Boscia, Carretta & Scwizer, 2009). They are limited by their owner-members to execute the purpose of co-operative banking, to deliver sustainable financial services for members and the local society. Typically these banks are local as they serve their owner-members and customers in their own territory where they remain stable, profitable and competitive economic entities (Boscia, Carretta & Scwizer, 2009). They share common roots (co-operation, mutuality, locality, member-ownership, ethics, solidarity, social cohesion etc.). Thus, co-operative banks are consumer co-operatives that are established to execute the purpose of consumer co-operation. Further, as the owners benefit through the consumption of services, co-operative banks are typically geographically-bound organizations (Tuominen, P., 2012; Mills, 2001). Due to these roots, the business model of co-operative banks has evolved differently over time in each country and continent in which they exist.

*Strategy* in this dissertation is seen as the organization's determination of the basic goals and objectives, the adoption of courses and actions and the allocation of the resources necessary for carrying out these goals (Grant, 2008; Cummings, 2008; Chandler, 1962) in order to develop the company's desired position in the market (e.g. Ansoff, 1965; Learned, Christensen, Andrews & Guth, 1969; Andrews, 1971; Cummings, 2008), to survive and prosper (Grant, 2008) and, finally, to determine the organizations relationship with its environment, in order to execute its purpose (Bourgeois, 1980). Thus, *corporate strategy* is "what makes the corporate whole add up to more than the sum of the business unit parts" (Porter, 1987).

*Competitive advantage* gives a company an edge over its rivals and the ability to generate greater value for the firm and its owners. The more sustainable the competitive advantage an organization has, the more difficult it is for its competitors to neutralize that sort of advantage (Porter, 1980; 1987). The study of such advantage has attracted profound research interest due to contemporary issues regarding the superior performance levels of organizations in the present competitive market conditions. According to Barney, (1991, p. 102) "*a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors*". When applied to the context of co-operative banking, a bank can be seen as having a competitive advantage when it is able to provide better services and products to its members, than no current or potential competitor is able to deliver.

*M&As* are defined in this study to be an aspect of corporate strategy to fulfil the strategic aims as an alternative solution to internal organic development, corporal co-operation and strategic alliances (Johnson, 1999, pp. 335–345). An acquisition is an arrangement where one company buys another firm as a whole, or buys the stock majority to achieve the full control of the target firm (Söderberg & Vaara, 2003; Vaara & Tienari, 2002; Vaara, 1992; Trautwein, 1990). Such a purchase may be the majority of the assets or ownership equity of the acquired entity. From a legal point of view, in

an acquisition, the target company still exists as an independent legal entity, which is controlled by the acquirer. According to Sarala (2009) the terms *mergers* and *acquisitions* are often used “interchangeably to the extent that Haspeslagh and Jemison (1991) argue that distinctions between mergers and acquisitions are in the ‘eye of the beholder’” (p. 40). Such loose definitions of M&As have led to an ill-defined focus in M&A studies (Sarala, 2009; Teerikangas & Very, 2006). Therefore, in this thesis, an *acquisition* is defined as the purchase of one organization by another (Schraeder & Self, 2003), where one company takes a controlling interest (over 50%) of another company, regardless of the sizes of the companies (Sarala, 2009; Butler, Ferris & Napier, 1991; Schraeder & Self, 2003). The term *merger* is characterized as the consolidation of two equal-sized firms (Haspeslagh & Jemison, 1991) into one single organization (Schraeder & Self, 2003), in which neither party can clearly be seen as the acquirer.

*Diversification* through acquisition has been a major aspect of the widening scope of the modern corporation during most of the 20<sup>th</sup> century (Grant, 2008). Using acquisition to diversify is about expanding into a new segment of an industry that the business is already in or to invest in a promising business outside of the scope of the existing business (Ansoff, 1957). In this thesis the term *diversification* is defined as expansion into a new business area (from banking to insurance) to offer new products and services to new and existing members and customers.

#### 1.4 An outline of the study

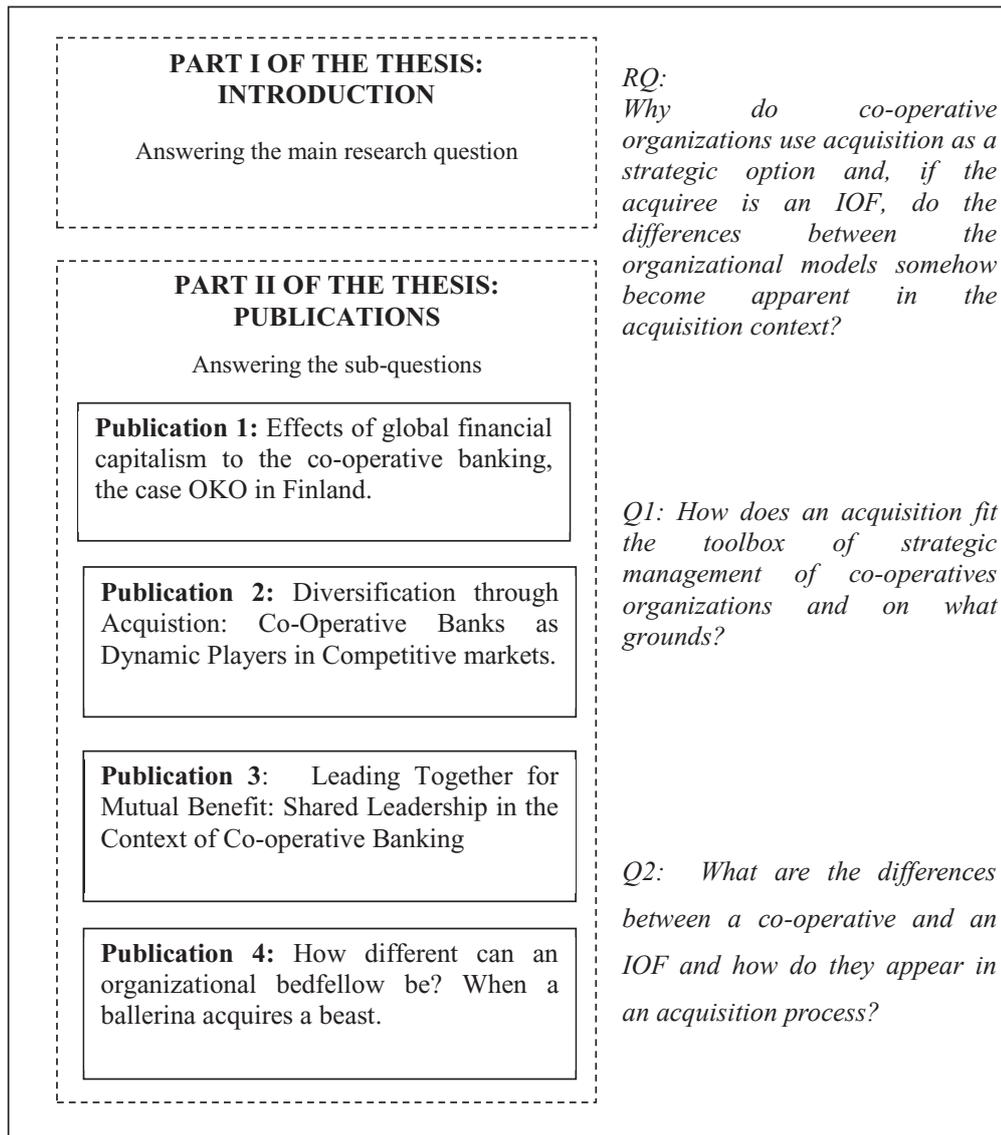
This dissertation consists of two separate parts. Part I comprises of the four main chapters. In more detail, the first chapter introduces the reader to the motivation for this research. It also delineates the research background, sets out the objectives and introduces the outline of the study. Chapter 2 continues with presenting the research methods, theoretical purpose and research strategy used in this dissertation.

Furthermore, the research process of the study is presented and the quality of the study is discussed. Finally, this chapter concludes with an introduction to the key analytical framework assisting in data analysis. Chapter 3 then introduces the four publications of this study, presenting the overall objective and the main findings of each of the publications. It also briefly reports the findings of each publication as well as presents answers to the research questions. Finally, Chapter 4 reports a summary of the findings and presents both the theoretical and practical contribution of the research. Further, it also gives suggestions for further research.

Part II of the thesis consists of four publications addressing the main research question and the sub-questions.

Figure 2 presents the outline of the study. The outline of the study was formed during the research process.

Figure 2. The outline of the study.





## 2 The methods and research design

The research design is established based on four different publications, each publication having its own specific role in this doctoral dissertation. In more detail, each of the publications aims to provide increased understanding on the research questions. Table 2 summarizes the research design of the study by presenting the specific roles, methods, analyses and the data used in the publications.

**Table 2. The research design**

<i>Publication</i>	<i>Role</i>	<i>Method and Data analysis</i>
1. The Effects of Global Financial Capitalism to the Co-operative Banking: The case of OKO in Finland.	Exploring the contextual factors that impact on co-operatives adopting the course of action of IOFs	A qualitative case study Semi-structured theme interviews Theme analysis Historic data analysis
2. Diversification through Acquisition: Co-operative Banks as Dynamic Players in Competitive Markets	Exploring an acquisition as a tool for the strategic management of co-operatives organizations	A qualitative case study Semi-structured theme interviews Theme analysis
3. Leading Together for Mutual Benefit: Shared Leadership in the Context of Co-operative Banking	Examining the differences between co-operative and IOF-based leadership traditions in the post-acquisition integration process	A qualitative case study Semi-structured theme interviews Theme analysis

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4. How different can an organizational bedfellow be? When a ballerina acquires a beast.	Examining differences in the acquisition process and post-acquisition integration process	A qualitative case study Semi-structured theme interviews Theme analysis	36 interviews Company websites Historic data analysis Internal and public material
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## 2.1 Methods, theoretical purpose and research strategy

This dissertation represents a qualitative study (e.g. Eisenhardt & Graebner, 2007, Gebhart, 2004) including thematic analysis (see e.g. Braun & Clarke, 2005; Gioia, Corley & Hamilton, 2012) and inductive reasoning (Bryman & Bell, 2011). The decision to use these methods is based on the research questions presented in each of the four publications in this doctoral dissertation. More justification is provided in the following.

First, the researcher should choose the research methods to suit the questions motivating the study, the previous work, the planned research design and the contributions the researcher wishes to make so that the methods best fit the research questions and analytical situations (Lee, Mitchell & Sablynski, 1999; Edmondson & MacManus, 2007). The theoretical purposes of the qualitative study are to generate, elaborate or test theories. Theory generation produces formal and testable new research propositions. When conceptual ideas or a preliminary models drive, the design of the study appears elaborating theories, but if formal hypotheses or formal theory determinate the study, occurs theory testing (Lee, Mitchell & Sablynski, 1999). Critical theory grants one final purpose to qualitative research: to induce radical change through a political agenda aimed at seeking “to expose the status quo, as the system is imposed by the powerful on the powerless” (Lee, Mitchell & Sablynski, 1999, p. 168). The articles of this

dissertation aspire to generate and elaborate theory, rather than testing or verifying former theories. (see Eisenhardt & Graebner, 2007).

Second, for the themes of this dissertation, little or no previous theory of the phenomenon exists. The case examined in the publications of this thesis was somewhat unusual, which is why there were very few academic studies concentrating directly on the themes of the publications. Therefore qualitative methods were considered to be appropriate for studying a phenomenon that is not well understood (Eisenhardt, 1989) or that has received little explicit attention (Edmondson & MacManus, 2007). In such a context, more open-ended research questions are needed because the researcher does not know the issues that the data may reveal. Moreover, the lack of prior theory on the examined themes in co-operatives meant that the researcher avoided hypothesizing about certain relationships between variables. Detailed and rich qualitative data was needed to shed light on the co-operative acquisition of an IOF. Further, inductive reasoning was required, which means that the empirical findings are the starting point for creating new knowledge (Bryman & Bell, 2011).

Third, qualitative research is well-suited for the purposes of description, interpretation and explanation (Lee, Mitchell & Sablinski, 1999; Welman & Kruger, 1999). The qualitative case study is commonly used for addressing “what”, “how” and “why” questions (Yin, 1994; 2003; Voss, Tsiriktsis & Frohlich, 2002). Questions, such as “What is occurring?” and “How is it occurring?” can successfully be addressed. On the contrary, it cannot effectively answer the question “How often is it occurring?” Thereby, qualitative research such as this dissertation seeks to provide a deeper understanding of the social phenomena from the perspectives of the populations it involves.

Fourth, the studied issue was complex, unusual and extreme in nature so that a qualitative approach investigating rich real-life organizational contexts was needed in order to enhance understanding (Eisenhardt & Graebner, 2007; Yin, 2014). The theoretical sampling of this study is straightforward (Eisenhardt & Graebner, 2007) and

extreme exemplar (Yin, 1994). The qualitative study was chosen as a means to achieve more in-depth knowledge on acquisitions in the co-operative context. The use of qualitative data can enrich the analysis, since the interplay of the concepts would be hard to examine using quantitative methods. The approach enabled the analysis of complex issues that could not have otherwise been studied.

According to Eisenhardt (1989), qualitative study is a research strategy that focuses on understanding the dynamics presented within single settings. It is defined as an empirical inquiry into a contemporary real-life situation (Yin, 2003) as it enables the researcher to closely examine data within a specific context. Also, case studies are rich empirical descriptions of particular instances of a phenomenon and typically based on a variety of data sources (Yin, 1994), for example historical accounts, but case studies are more likely to be contemporary descriptions of recent events (Eisenhardt & Graebner, 2007). The central notion is to use such qualitative cases and qualitative data as the basis from which to develop theory inductively (Eisenhardt & Graebner, 2007), with the theoretical framework as the starting point but with several iterative loops between analysis and theory when drawing conclusions. Furthermore, following the observation of Walton (1992) that “case studies are likely to produce the best theory” and identify “black swans” (Popper, 1959) because of their in-depth approach (Flyvbjerg, 2006) that is better for testing hypotheses than for producing them (Eckstein, 1975). Theory building from cases has been seen as one of the strengths of case studies because of its likelihood of generating novel theory (Eisenhardt, 1989). According to Flyvbjerg (2006) “atypical or extreme cases often reveal more information because they activate more actors and more basic mechanisms in the situation studied” (p. 229). The case in the limelight of this study is an example of an atypical case: the layout of co-operative acquisitions has typically been that of acquisition between two co-operatives. In this case the layout is between a co-operative and an IOF.

There is a notion that a qualitative study has its own **rigour**, different to be sure, but no less strict than the rigour of quantitative methods (Campbell, 1975; Geertz, 1995),

because “the advantage of the case study is that it can ‘close in’ on real-life situations and test views directly in relation to phenomena as they unfold in practice” (Flyvbjerg, 2006, 19). The intimate interaction with actual evidence often produces theory that closely mirrors reality (Mintzberg, 1979; Eisenhardt, 1989). According to Eisenhardt (1989) “the likelihood of valid theory is high because the theory-building process is so intimately tied with evidence that it is very likely that the resultant theory will be consistent with empirical observation” (p. 547). Further, the case study is well suited for identifying “black swans” because of its in-depth approach: what appears to be “white” often turns out on closer examination to be “black”(Flyvbjerg, 2006).

Generally, case studies have been criticized for lacking the grounds for generalization (Stake, 2000; Yin, 1994). According to Yin (1994) case studies are only “generalizable to theoretical propositions and not to populations or universes” (p. 10); the purpose of case studies is for “analytical generalization” to expand theory but not statistical generalization. Further, Stake (1995) argued that researchers make “naturalistic generalizations” (p. 85) with case studies that are different from deductive generalizations based on statistical analysis. Moreover, according to Donmoyer (2000) thinking of generalizability “solely in terms of sampling and statistical significance is no longer defensible or functional” (p. 46) because human beings act toward meaningful things and because meanings are generated by social interaction rather than by external causes: “to expect Newton-like generalizations describing human action is to engage in a process akin to ‘waiting for Godot’” (Cronbach, 1982, p. 48).

However, the issue of generalization should not be dismissed as irrelevant, but that boundary of cases should be clarified in order to make appropriate generalizations (Gomm, Hammersley & Foster, 2000). The selection of cases should be carefully carried out. This depends on whether the researcher hopes to claim “significant likely dimensions of heterogeneity of a population” or to provide evidence “in support of claims that the case(s) studied are typical (or atypical) in relevant aspects” (p. 111).

In case studies, the in-depth research of specific instances can actually show causal processes in context (Gomm, Hammersley & Foster 2000) and, further, allow researchers to see which theoretical perspectives provide the best explanations (Gomm, Hammersley & Foster 2000). Stoecker (1991) adds that a case study has the ability “to explain idiosyncrasies, which make up the ‘unexplained variance’” (p. 94). Furthermore, a case study is intensive research in which interpretations are given “based on observable concrete interconnections between actual properties and people within an actual concrete setting” (Stoecker, 1991, p. 95). A case study is “the best way by which we can refine general theory and apply effective interventions in complex situations” (Stoecker, 1991, p. 109) as it allows researchers to explore the different outcomes of general processes suggested by theories, depending on different contexts. Walton (1992) has in fact proposed that “cases are wrapped in theories” (p. 122). Further, cases are “embodiments of causal processes operating in microcosms” and case studies are used “to demonstrate a causal argument about how general social forces take shape and produce results in specific settings” (Walton, 1992, p. 122). According to Walton (1992), understanding a specific case by applying available knowledge is an important intellectual task for social scientists. Further, understanding a particular empirical instance in its own right and contrasting it with other cases are “practical steps toward constructing theoretical interpretations” (Walton, 1992, p. 128), why case studies are likely to produce the best theory. This is why case studies unique strength study is its ability to deal with a variety of evidence collected from documents, interviews and observations (Walton, 1992).

**A single case** can be justified to the “*mandatory* intermediary in attempting to grasp the common nature of individual actions and behaviors” (Hamel, 1992, p. 104). According to Hamel (1992) a singular feature of some phenomenon can be considered as part of a whole. He further stated that singularity can be defined as “accentuating generality” (p. 108). For Stoecker (1991), single case studies allow us to “see variables operating that are lost in cross-sectional quantitative research (Scranton, 1986)” (p. 94).

In this study, I do not believe the chosen single case will be one that accentuates generality. What I am attempting in this study is “a detailed examination of an event or series of related events which [I] believe exhibits the operation of some identified general theoretical principles” (Mitchell, 1983, p. 192). Mitchell (1983) has explained, that the validity of the case study depends “not on the typicality or representativeness of the case but upon the cogency of the theoretical reasoning” (p. 207).

Following Eisenhardt and Graebner (2007), theoretical sampling of one case is straightforward and is chosen because it is an unusually revelatory, extreme exemplar or provides the opportunity for unusual research access (Yin, 1994). Single-case research typically exploits opportunities to explore a significant phenomenon under extreme or rare circumstances (Eisenhardt & Graebner, 2007) and can richly describe the existence of the phenomenon (Siggelkow, 2007). Even single-case studies “are multiple in most research efforts because ideas and evidence may be linked in many different ways” (Ragin, 1992, 225). Following Geertz (1995, p. 119), in most in-depth case studies “the field” itself is a “powerful disciplinary force: assertive, demanding, even coercive”. A particularly “thick” and hard-to summarize narrative is not a problem for the case-study researcher but a sign that the study has uncovered a particularly rich problematic (Flyvbjerg, 2006). The case story itself is the result – a “virtual reality” (Flyvbjerg, 2006).

This kind of theoretical sampling (also called information-oriented selection) is appropriate here as the purpose of this study was to generate or elaborate theory, not to test it (Eisenhardt & Graebner, 2007). In this study, the objective was to achieve the greatest possible, or at least sufficient, amount of information on the given phenomenon (Flyvbjerg, 2006), which might not be possible to achieve with a typical or average case. Therefore, this dissertation is based on one case of a rich variety of data sources, including interviews, archival data, survey data, ethnographies, and observations (Eisenhardt & Graebner, 2007; Yin, 1994).

The data used in these publications consists of 36 thematic interviews (with the decision-makers of the OP Financial Group: CEOs, managing directors and managers both in the central units and local banks). Moreover, we had access to archival materials (e.g. the annual reports of the OP Financial Group, Nordea and Sampo, protocols, both intern and public bulletins, announcements, reports), amounting to several thousand pages, which were used in addition to the interviews. The role of the interviews was remarkable because, access to the protocols concerning the acquisition moment was denied and they were declared confidential.

In the interviews the acquisition decision-making processes, as well as the different aspects of the strategic management and leadership of the banks and the constellation, were thoroughly covered as the “starters” to a larger set of themes. The interviewer sought for open, broad and informative discussions on each theme. A list of questions was used during the interviews to make sure all the essential themes were thoroughly covered. However, the specific questions were not revealed to the informants before the interviews. Instead, the interviewees were only given the subject and main themes beforehand. These thematic interviews lasted from one to three hours. In the attempt to conduct a valid and reliable study, the recorded and carefully transcribed material from the interviews was first studied systematically, in order to gain an understanding of the research context. Furthermore, the data was organized in themes (see Braun & Clarke, 2006; Boyatzis, 1998) and analyzed in detail.

**Thematic analysis** is a research method for identifying, analyzing and reporting certain themes or patterns within the data (Braun & Clarke, 2006). It is a flexible and useful research tool that can potentially provide a rich, detailed and complex account of data (Braun & Clarke, 2006). According to Braun and Clarke (2006), what counts as a theme is not dependent on quantifiable measures but on the potential the theme has to capture something relevant to the investigated research question. Accordingly, the *inductive approach* is an evidence-based approach that is deeply embedded in rich empirical data.

The data used in Publication 1 consists of six thematic interviews and the data in publications 2, 3 and 4 consists of 36 thematic interviews. The decision to use thematic interviews arose from the notion that qualitative in-depth interviews can provide rich data and are stated to be particularly useful in revealing the story behind an individual's experiences. Further, they enable the exploration of the linkages among complex constructs in real life, probe the minds of people and pursue deeper information around the topic. As stated by Rubin and Rubin (1995), the strengths of qualitative interviewing can be listed as follows: 1) interviews are regarded as conversations; researchers need to hear the meaning of what is being said; 2) interviews attempt to discover the world of the interviewees, including learning their symbols and metaphors, the different meanings of terms and the interviewees' and 3) interviewees are viewed as conversational partners, not the object of research.

In Publication 1 the primary data consists of both thematic interviews and thousands of pages of archival materials (e.g. the annual reports of the OP Financial Group, Nordea and Sampo, protocols, history books etc.) used in this longitudinal survey that involved repeated observations of the same variables over long periods of time. The benefit of this type of research was that it allows looking at changes over time. Because of this, longitudinal methods were particularly useful when studying development and lifespan issues. Further, in this paper our research project was consistent with the description of the process of theory elaboration (Lee, Mitchell & Sablynski, 1999) that "occurs via recursive cycling among the data, emerging theory and later, the extant literature" (Eisenhardt & Grabner, 2007, p. 25).

The interviews were gathered from six of the OP-Pohjola Group (a Finnish co-operative financial services constellation providing banking, investment and insurance services): CEOs, managing directors and managers both in central units and local banks were extremely important as they were "highly knowledgeable informants who view the focal phenomena from diverse perspectives" (Eisenhardt & Graebner, 2007, p. 28) to explain the backgrounds and the acquisition process. Therefore, the interviews of top managers working in the organization under investigation provided us with valuable information

and deeper understanding of the acquisition and the context in which it took place. Moreover, Lee, Mitchell and Sablynski (1999) maintain that “although archival records may not be a study’s main source of data, they can effectively confirm, supplement, or elaborate upon one’s more primary information” (p. 178). Therefore, the quotes from the research material were presented in order to establish a chain of evidence and to allow the evaluation of consistency between the theoretical concepts and the interview data. Further, they also enable representation of the authentic voice of the study participants, which is at the heart of qualitative research (Lee, Mitchell & Sablynski, 1999). The theory elaboration in Publication 1 was inductive.

In Publication 2 the interviews and archival materials were organized using thematic analysis (Gioia, Corley & Hamilton, 2012; Braun & Clarke, 2006) in order to help explain when and why an acquisition becomes a relevant strategy for a co-operative (banking group).

In Publication 3 the data was gathered and generated for theory elaborating purposes (Lee, Mitchell & Sablynski, 1999). To compose a valid and reliable study, the interviews were studied systematically to develop an overall understanding of essential meanings. The analysis was based on social constructionism (Wood & Kroger, 2000; Denzin & Lincoln, 2003; Berger & Luckman, 1966), which refers to the idea that “we do not construct our interpretations in isolation but against a backdrop of shared understandings, practices, language and so forth” (Denzin & Lincoln, 2003, p. 197). That is, the knowledge is not found or discovered as we construct or make it when we invent concepts, models and schemes to make sense of experience, and we continuously test and modify these constructions in the light of experience (Denzin & Lincoln, 2003). In other words, “talk creates the social world in a continuous, ongoing way; it does not simply reflect what is assumed to be already there” (Wood & Kroger, 2000; p. 4). As shared leadership was found as a construct that captures the leadership processes depicted in the data, features of shared leadership were adopted as a more structured theoretical basis for coding.

Publication 4 aimed at achieving “qualitative rigor”, which has often been accused of being missing from qualitative research. In this publication, we followed the guidelines set by Gioia, Corley and Hamilton (2012) and analyzed the data using inductive thematic analysis. The data analysis was made through several rounds of studying the data, reanalyzing, reorganizing and redefining the data, and establishing specific first order concepts and second order themes. After several analyses and revisions, the data structure is presented visually to express the progression from raw data into terms and themes when conducting data analysis (see Pratt, 2009). The aggregate dimensions in the data analysis are also established in order to achieve more qualitative rigour (see Gioia, Corley & Hamilton, 2012).

## **2.2 The research process**

The research process of this dissertation started at the end of 2007 when the researcher started to investigate the acquisitions of an IOF that a co-operative banking group made. According to Kilduff (2006), the route to good theory leads through an engagement with problems in the world that you find personally interesting. The personal interest here arises from the researcher’s profession as a bank manager in a local co-operative, which is part of the financial services constellation. Thus, the more important reason to choose this case was the urgent need to build understanding and to create theory to contribute to the strategic management of co-operatives.

This theory arena with little or no existing theory was a challenge itself. It required both an intense learning orientation and the adaptability to follow the data inductively in order to figure out what is important (Edmondson & MacManus, 2007). According to Edmondson and MacManus (2007, p. 1158) the nascent theory arena “proposes tentative answers to novel questions of how and why, often merely suggesting new

connections among phenomena”. About the results of such a study, Edmondson and MacManus (2007, p. 1163) suggest that “the essential nature of the contribution of this type of work is providing a suggestive theory of the phenomenon that forms a basis for further inquiry”.

The theory arena having little or no existing theory puts a label on this research; it can be characterized as both a *reflexive* (e.g. Denzin & Lincoln, 2000) and an *iterative* learning process (Morse, Barrett, Mayan, Olson & Spiers, 2002). Reflexivity indicates the attitude of the researcher when attending systematically to the context of knowledge construction. It refers to the process whereby the researcher critically evaluates the research phenomenon and questions the choices selected (Banister, Burman, Parker, Taylor & Tindall, 1994). An iterative process refers to the fact that the researcher moves backward and forward between design and implementation, rather than following a linear research process (Morse, Barrett, Mayan, Olson & Spiers, 2002). By working this way, the analysis in qualitative research is actually self-correcting since congruence in question formulation, literature, recruitment, the strategies of collecting data and analysis is ensured (Morse, Barrett, Mayan, Olson & Spiers, 2002).

In this study the research questions were revised several times during the research process (Denzin & Lincoln, 2000). This also figures in the rest of the research process of this thesis, where each publication’s views and the specified knowledge within it are derived from the central phenomenon: the acquisition and the early stages of post-acquisition integration. Publications 1 and 2 reframe the circumstances where organizations in the financial sector today compete. Publication 3 strengthens the understanding of the organizational differences and reframes the leadership tradition in the acquirer organization. Together, publications 3 and 4 deepen our understanding of the differences of the two organizational structures and leadership styles among other things, when the co-operatives and the IOF are concretely in the middle of the post-acquisition integration process. Furthermore, it opens up the differences in attitudes that undulate from the purpose to differences in the different organization’s forms.

It is notable that utility is not a sufficient condition for a theoretical contribution, it must also contain originality into incremental and revelatory insight (Corley & Gioia, 2011). Incremental insight refers to significantly advancing our understanding on a given topic. Revelatory insight suggests that “a contribution arises when theory reveals what we otherwise have not seen, known, or conceived” (p. 17). Consistent with Huff (1999; cited in Corley and Gioia, 2011) this “makes a distinction between contribution to a current conversation and starting a new” conversation. Likewise, Conlon (2002) points out that a contribution can be made by “offering a critical redirection of existing views or by offering an entirely new point of view on phenomena” (p. 489). The extent to which the contributions of this thesis fall within incremental and revelatory insights will be evaluated in the Conclusions section.

### 2.3 Evaluation of the quality of the study

Qualitative research is hard to evaluate with the traditional reliability and validity concepts used in quantitative research because of the nature and choices related to the approach. Furthermore, there are no standards or methods to collect and analyze qualitative data (Bluhm, Harman, Lee & Mitchell, 2011) nor any standardization of the criteria by which the qualitative data and rigour of qualitative research are evaluated. Thus, there are several suggestions for the evaluation of qualitative research. First, the view that reliability and validity are terms pertaining to the quantitative inquiry is supported (Altheide & Johnson, 1998; Leininger, 1994). Second, adopting new criteria in the qualitative paradigm to ensure its trustworthiness through credibility, transferability, dependability and confirmability is suggested (Denzin & Lincoln, 2000; Lincoln & Guba, 1985). **Credibility** evaluates the truthfulness and accuracy of the description of the research subject and **transferability** the possibility of transferring the research findings to another environment. **Dependability** evaluates the quality of the research process, coming close to the concept of reliability. Finally, **confirmability**

evaluates the sufficiency of the research process and whether the research findings are based on the data. Third, the use of the terminology of *reliability* and *validity* in qualitative inquiry has been accompanied with arguments that the broad and abstract concepts of reliability and validity can be applied to all research because the goal of all research is to express plausible and credible outcome explanations (e.g. Hammersley, 1992). Fourth is the view that “strategies for ensuring rigor must be built into the qualitative research process per se” (Morse, Barrett, Mayan, Olson & Spiers, 2002, p. 17), rather than to evaluate reliability and validity after the study has been conducted.

According to Morse, Barrett, Mayan, Olson and Spiers (2002) verification (“the process of checking, confirming, making sure and being certain”) in qualitative research refers to the “mechanisms used during the process of research to incrementally contribute to ensuring reliability and validity and, thus, the rigor of the study” (p. 17). Being iterative – that is to say that, rather than moving in a linear fashion, a researcher moves back and forth between design and implementation to ensure consistency among question formulation, literature, recruitment, and strategies to collect data and analysis – makes the analysis in qualitative research self-correcting (Morse, Barrett, Mayan, Olson & Spiers, 2002). Therefore, the strength of qualitative approach lies in validity (closeness to truth). Instead of only skimming the surface, researchers are able to touch the core of the phenomenon under investigation.

Simplified, these traditions provide shared criteria with which it is possible to judge an argument to be true or false and an action to be being right or wrong. It is therefore possible to assess the “truthfulness” of research. This corresponds with Schmidt’s (1994b, p. 621) findings; he claims: “When producing sense or meaning, the most relevant aspects are those of collective knowledge. These aspects are shared by individuals (via rules, conventions, norms, common sense) and via expected expectations, to enable social acting as well as are being confirmed in it (knowledge about knowledge).” In short, historical and social paradigms in research enable the assessment of truth.

In summary, no single, universal standard criteria for the evaluation of qualitative research exist in the methodological literature. Thus, there are suggestions of how to ensure the quality and rigor of qualitative research as, without rigour research is worthless – it becomes fiction and loses its utility (Morse, Barrett, Mayan, Olson & Spiers, 2002). In the following section issues concerning the publications of this dissertation have been addressed.

Yin (2003) suggests four different types of tests should be conducted in case study research: construct validity, internal validity (only for explanatory or causal studies), external validity (whether the findings are generalizable beyond the immediate case) and reliability (whether a later investigator would arrive at the same findings as the earlier investigator by conducting the same study again). Next, the qualitative data gathered for this study is evaluated in terms of this categorization

According to Yin (2003) *construct validity* (establishing the correct operational measures for the concepts being studied) can be enhanced by using multiple sources of evidence in a manner encouraging convergent lines of inquiry when establishing a chain of evidence. This has been exceptionally important because this study is based on a single case.

Some researchers argue that, more than with multiple case studies, a single case study can offer the possibility of greater depth in the study (e.g. Dyer & Wilkins, 1991). Thus “single cases can enable the creation of more complicated theories than multiple cases, because single-case researchers can fit their theory exactly to the main details of a particular case” (Eisenhard & Graebner, 2007). To ensure the construct validity in the publications of this thesis, it is ensured by having rich multiple data, such as internal and external documents, archival materials etc. alongside the primary interview data in order to confirm the primary information. “Although archival records may not be the study’s main source of data, they can effectively confirm, supplement, or elaborate upon

one's more primary information" (Lee, Mitchell & Sablynski, 1999, p. 178). Testing or extending prior theory, or building new theory (Eisenhardt, 1989), are the most typical objectives for conducting case studies. Triangulation is generally accepted as a way to ensure the comprehensiveness of the findings within a set of qualitative data, rather than as a test of truthfulness or validity (Mays & Pope, 2000; 2006). The triangulation forms that are used in this study are related to the data (cross-checking information by using multiple empirical sources) and to the researchers (several researchers examined the materials) (Eriksson & Kovalainen, 2008). Furthermore, power quotes from the interview data are presented in all the publications in order to establish a chain of evidence and allow the evaluation of consistency between the theoretical concepts and the empirical evidence. According to Pratt (2009, p. 860) "power quotes are the most compelling bits of data you have, the ones that effectively illustrate your points. These should be in the body of your paper." Lee, Mitchell and Sablynski (1999) have also pointed out that these quotes enable representation of the authentic voice of the study participants, which is at the heart of qualitative research. In all the publications of this dissertation power quotes have been selected from the rich interview material collected. Detailed reports of the processing of empirical material (such as interviews and archival materials) are from 2005 to 2014 and take the form of annual reports, protocols, press releases, information sheets and magazines for customers and personnel that have been described in the publications.

Analyzing the *external validity* (whether a study's findings are generalizable beyond the immediate case study) of the findings does not need them to be generalizable statistically but they should be able to be generalizable for the theory used – in analytical generalization "an analyst should try to generalize findings to theory, analogous to the way a scientist generalizes from experimental results to theory" (Yin, 2003, p. 38). The findings from the contexts are "intertwined with the theory to demonstrate the close connection between empirical evidence and emergent theory" (Eisenhardt & Graebner, 2007, p. 29). This external validity approach suggested by Yin (2003) is followed in this study and the findings are intertwined with broader theoretical

issues following the guidelines given by Eisenhardt and Graebner (2007) and Healy and Perry (2000).

*Reliability* in a study aims to minimize errors and biases, and to demonstrate that the operation of a study can be repeated with the same results (Yin, 2003). In the repeatability of the study process, such as in the data gathering, reliability is evident (Yin, 2003) – although opinions are divided on whether this is an adequate evaluation criterion for qualitative research (Eriksson & Kovalainen, 2008).

Careful documentation of the procedures followed in a study could be seen to increase reliability. To do this, Yin (2003) also suggests using a case-study database in the collection process. Lee, Mitchell and Sablynski (1999) have also suggested that qualitative researchers should adopt a high standard of methodological description in a study, detailed enough to allow hypothetical or actual replications. The importance of transparent methods in qualitative research has been suggested by Gebhart (2004) as well. In the publications of this thesis, the interview questions and the process of data gathering are reported and an electric database covering all the case-study material and the analyses is kept to increase the reliability. The way the data has been utilized is also explained. Similarly, the guidelines of Eisenhardt and Graebner (2007) are followed to eliminate the biases often related to interview data. Analysis of the data in the publications is not based on subjectivity. The existing definitions and theories from the assisting literature (used as rules or support for interpretation) are followed to guarantee objectivity.

Finally, being at work in the organization under investigation provides deeper understanding of the organization, acquisition and the context in which it took place. This should also enhance the reliability of the study, as the interpretations are contrasted over a long period of continuous observation. Also the co-authors of the publications are familiar with the research context and have spent time reading and reflecting on the materials arriving at similar interpretations as I have.

## 2.4 The key analytical framework assisting data analysis

In qualitative research it is important to introduce the analytical framework that assists data analysis in addition to defining the theoretical purpose of the study. Furthermore, the concepts and sets of concepts (theories) that are used to help to fill in the knowledge gaps identified in the academic discussions to which the study is contributing, should be expressed. In this thesis every publication has its own target discussion, knowledge gaps and assisting concepts and theories. The key analytical frameworks that assisted in the data analysis are presented in the following.

Publication 1 utilizes the transnational history concept concerning notions of global capitalism, neoliberal economic regime and competition. The transnational history concept is used to draw a framework of the trends co-operatives face today. Tyrrell (2009) suggests that transnational history concerns the movement of peoples, ideas, technologies and institutions across national boundaries. The transnational history approach is related to, but not the same as, globalization, world history and comparative history; a global perspective is seen to be a part of transnational history. One constitutive element of transnational history is its concern with cross-border flows (Tyrrell, 2009). Worldwide, globalization has affected all the fields of economic and financial activities, intensifying competition among companies (Carrasco, 2004). The pressure of increasing competition has accelerated the constant evolution of the change process in recent decades. These processes have challenged all organizational forms to grow, to gain access to new markets and resources, to increase efficiency, and to enable growth and competitiveness in order to fulfil the purpose the organization has. Economists and business historians have paid little attention to co-operative banking, even if increasing global competition, due to the economies of scale (Mayer &

Schiereck, 1999), has forced co-operative banks to face the world of global financial capitalism the same as other banking groups (Söderberg & Vaara, 2003) and, as an actor in such turbulent markets, to find ways to compete and survive. In this publication a step is taken towards uncovering what the effects of the interplay between global financial capitalism and co-operative banking are in a modern capitalistic economy. The closeness of intense interaction between the co-operatives and the changes in its environment become important. Globalization and competition refer to the continuing interaction in which the co-operative organization tries to fit itself into the neoliberal economic regime. In these circumstances, competitiveness and the possibility to grow play a central role. The article opens up how the causal relation is played out during the decision-making process, the result of which is that a co-operative banking group acquires an IOF and diversifies an insurance business to include banking business.

In Publication 2 mainstream strategic management literature was used as a lens to analyze how strategies to acquire and diversify may, or may not, be applied in order to follow the mission and execute the purpose of a co-operative organization.

For organizations, M&As are an increasingly popular strategic option (Schraeder & Self, 2003). The dominant explanation for M&A activity is that acquiring organizations may improve financial performance or reduce risk. Further, a firm can grow through internal development or through M&As and the possibilities they may provide. An acquisition is a way to realise company strategy, a plan to fulfil the strategic aims (Volberda & Elfring, 2001) as an alternative solution to internal organic development, collaboration and strategic alliances (Johnson, 1999, pp. 335–345). For an organization, strategy defines how it uses its resources to acquire benefits, to adapt to a changing environment and to answer needs the markets has and, at the same time, fulfil the expectations owners have (Johnson 1999, p. 10; Bruner, 2004, p. 127).

An acquisition is a strategic option when one is hoping for quick and expansive growth and development, different kind of synergies, market shares, greater market position and marketing power, or, for example, profitability. It also makes access to new products or

utility markets possible and higher growth in new or existing markets possible. So far, M&As have been seen an important strategy for competitive advancement: to grow (e.g. to diversify) (Bauer & Mazler, 2013), to gain access to new resources and markets (Teerikangas & Very, 2006), to gain external growth and corporate development (Bauer & Mazler, 2013), to increase efficiency (Sarala, 2009; Sarala & Vaara, 2010; Schraeder & Self, 2003; Cartwright & Cooper, 1993) and to enable higher overall competitive advantage (Straub, 2010; Sirower, 2000). M&As in general are more popular than ever (Söderberg & Vaara, 2003) even if a great deal of them miscarry. These aspects have made M&As of central interest in the academic literature of various fields (Cartwright & Schoenberg, 2006; Olie, 1994). In the publication 2 the data was analyzed to depict the context of the acquisition decision and to identify particular themes (forces and boundary conditions) seen as setting the stage for the strategic move. The article has opened up new research gaps on a more general level. These research gaps are discussed in more detail when presenting the implications of this thesis for future research.

Publication 3 starts from the insight that the information age, the introduction of more organic social structures (Burns & Stalker, 1961) and complex networks all challenge the traditional notions of leadership from the industrial era. Further, there is a growing body of literature shedding light on the shared leadership construct in order to study leadership, for example, in team settings (e.g. Carson, Tesluk & Marrone, 2007; Mehra, Smith, Dixon & Robertson, 2006; Mayo, Meindl & Pastor, 2003), boardroom settings (e.g. Vandewaerde, Voordeckers, Lambrechts & Bammens, 2011), groups (e.g. Seibert, Sparrowe & Liden, 2003; Shamir & Lapidot, 2003) and wider collaborative settings (e.g. Lambrechts, Bouwen, Grieten, Huybrechts & Schein, 2011; Huxham & Vangen, 2000). Against this background, the concept of shared leadership (e.g. Pearce & Conger, 2003) has the potential to provide additional rigour to the theorizing of leadership in the co-operative context. To our knowledge, the construct has not been used carefully to analyse leadership in the context of co-operative organizations. The examination of the

shared leadership phenomenon opened up new research gaps, which are discussed in more detail when presenting the implications of this dissertation for future research.

Publication 4 starts from the notion that M&As often fail because of the problems involved in the integration of the two firms (Sarala, 2009; Sarala & Vaara, 2010; Schraeder & Self, 2003). Further, based to these studies, the key sources of integration problems are to do with the strategic fit (Lubatkin & Chung, 1985; Cartwright & Schoenberg, 2006) and cultural fit (Olie, 1994) of the two organizations. In fact, an acquisition might be a huge risk and a one way ticket to disaster for organizations if strategic or organizational issues drive most deals and if the human side of M&As (Buono & Bowditch, 1989) – such as cultural differences and identity change – are underestimated or ignored. The culture, the organizational identity, is the members' shared sense of who they are as an organization (Alvesson, 1990; Aaltio-Marjosola, 1991). The culture has and will always continue to exist in organizations and each organization has its own culture or is a culture shaped by the business and people in it (Aaltio-Marjosola, 1991; Smircich, 1981) as a shared meaning (Smircich, 1981, 1983a, 1983b). In academic studies concerning M&As, organizational culture has been identified as a potential catalyst for M&A success (Schraeder & Self, 2003). Further, according to Bauer and Mazler (2013), M&A success is a function of strategic complementarity cultural fit and the degree of integration. Teerikangas and Very (2006) argue that, instead of studying the simple performance impact of cultural differences in M&As, one should move on to thinking about *how* cultural differences impact on the M&A process and its outcome. Sarala (2009) proposes that post-acquisition conflict can be explained by cultural differences and acculturation factors. Further, both national and organizational cultural differences and cultural integration in the form of cultural convergence and crossvergence affect knowledge transfer (Sarala & Vaara, 2010). Likewise they affect cultural compatibility in acquisitions (Cartwright & Cooper, 1993).

In the M&A context, strategic fit refers to the unifying features of the environments of the acquirer and the acquiree (Lubatkin, 1983), referring to the similarity, relatedness and/or complementarity of certain strategic attributes (e.g. Cartwright & Schoenberg,

2006; Chatterjee, 2009; Haspeslagh & Jemison, 1991), such as resources (e.g. production technology), supply chains and the market-orientation of a product (e.g. customers served or products sold) of the firm (Bauer & Matzler, 2014; King, Dalton, Daily & Covin, 2004; Shelton, 1988).

As the above discussion suggest, strategic fit considerations alone are not sufficient to identify M&A success (Bauer & Matzler, 2013; Sarala & Vaara, 2010; Mirvis, 1985). In studies concerning the strategic fit between business strategies in the post-acquisition performance (Lahovnik, 2011) the limelight has been on the role of culture (Cartwright & Cooper, 1993; Chatman & Jehn, 1994; Olie, 1994), cultural differences and acculturation (McEntire & Bentley, 1996; Sarala & Vaara, 2010), the ramifications of conflicts in acquisitions (Mirvis, 1985), value creation in the integration process (Birkinshaw, Bresman & Håkansson, 2000), sociopolitical forces in the integration process (Vaara, 2001) and challenges and opportunities in M&As (Salama, Holland & Vinten, 2003).

The human aspect of the phenomenon is seen as important (Schaefer & Self, 2003; Cartwright & Cooper, 1993) since there is a notion that integrating two different organizations with different traditions and backgrounds into a single unit with a common identity or culture often proves to be difficult and filled with conflicts (Olie, 1994). Further, cultural incompatibility or misfit has substantially contributed to the failure of M&As that appeared potentially successful from the strategic fit point of view (Cartwright & Schoenberg, 2006; Chatterjee, Lubatkin, Schweiger & Weber, 1992), while cultural similarity is seen to foster integration, making it more readily accepted and thereby faster (Bauer & Matzler, 2014).

Moreover, there are important differences between co-operatives and IOFs (Normark, 1996) that may cause misfit, such as IOFs' mission of maximizing shareholder value (Jussila, Tuominen & Saksa, 2008; Grant, 2008; Hansmann, 1996) versus co-operatives seeing profit-making as instrumental in serving their owners better (Davis, 2001). The aim for value maximization (Fried, Lovell & Yaisawarng, 1999; Peterson & Andersson,

1996) in co-operatives focuses on creating benefits, products and services (Jussila, Tuominen & Saksa, 2008) for the owners of the co-operative (Normark, 1996) through long-term development (Syrjä, Sjögren & Tuominen, 2012), instead of responding to the pressures of the quartile economy (Jussila, Tuominen & Saksa, 2008), as IOFs are typically conceived to do.

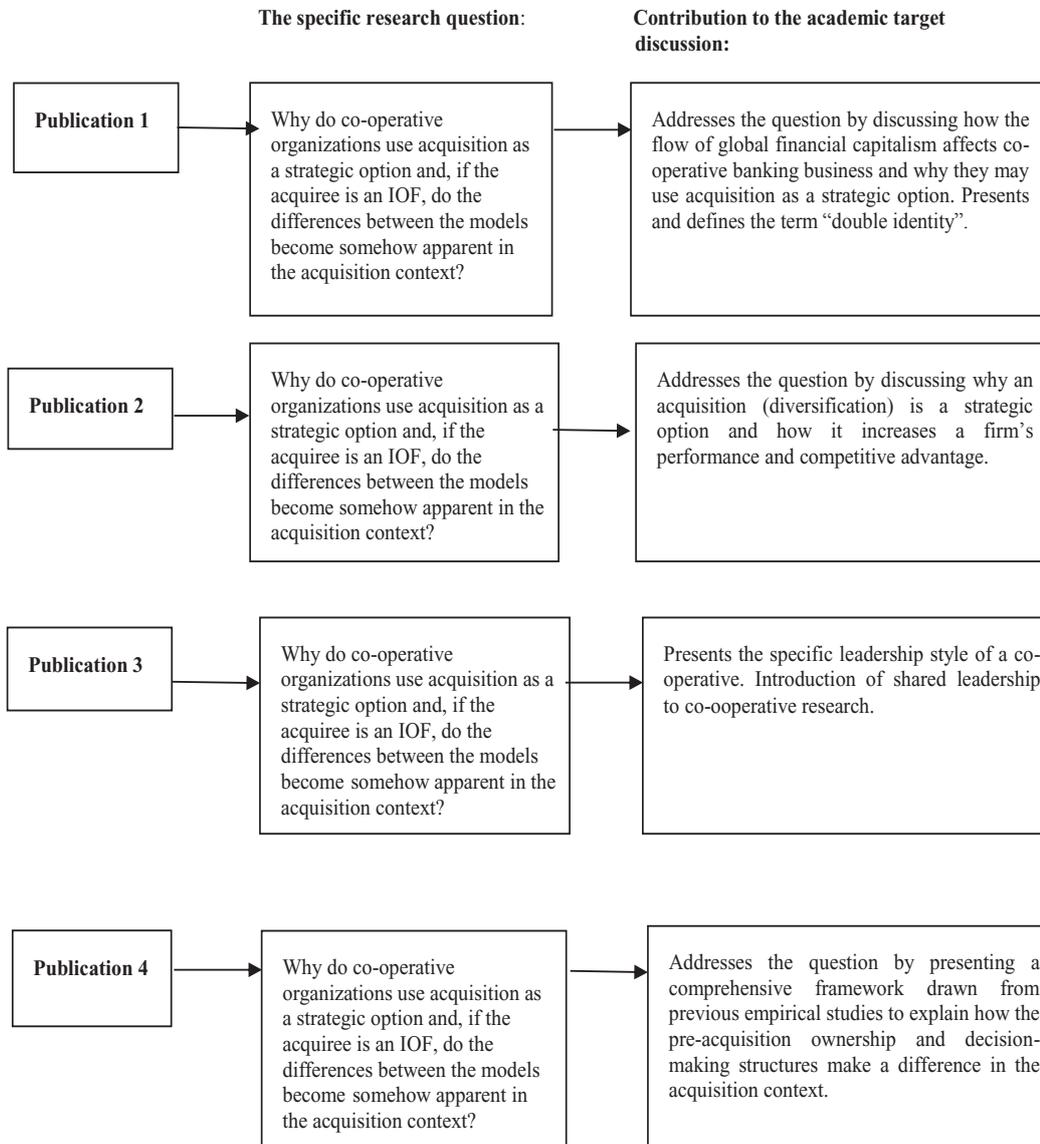
In Publication 4, we go further: we go from analyzing our data to the existing academic knowledge. We compare our analysis to the former academic research concerning the literature on strategic fit (Chatterjee, 2009; Cartwright & Schoenberg, 2006; Schraeder & Self, 2003; Haspeslag & Jemison, 1991; Lubatkin, 1983; Lubatkin & Chung, 1985), cultural fit (Bauer & Manzler, 2013), the differences between co-operatives and IOFs (Hansmann, 1999; Holmström, 1999), the purpose of co-operatives (Tuominen, P., 2012; Borgen, 2004) and other literature that relates to our findings.

### 3 The Publications

This chapter presents the publications that compose Part II of this dissertation. In this chapter, the publications and their overall objectives, and their main findings are thoroughly introduced.

The overall objective of this study, and consequently also of the publications, is to describe and understand why co-operative organizations use acquisition as a strategic option and, if the acquiree is an IOF, to identify if the differences between the models become somehow apparent in the acquisition context. Each of the publications contributes differently to the above-mentioned objective, and they are presented in a chronological order. In Publication 1, we introduce the historic background of the global flow of financial capitalism. It focuses on contextual factors that impact on co-operatives adopting such a course of action that is typically associated with IOFs. Further, it contributes to the research question “*Why do co-operative organizations use acquisition as a strategic option and, if the acquiree is an IOF, do the differences between the organizational models somehow become apparent in the acquisition context?*” Further, the findings from Publication 2 contribute to the research question “*How does acquisition fit into the toolbox of the strategic management of co-operatives organizations and on what grounds?*” Publication 3 introduces the shared leadership style of the case co-operative. Publication 3 and Publication 4 contribute to the research question: *What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?* Figure 3 presents the specific research question of each publication and the contribution of each publication to the target academic discussion.

Figure 3. Interconnections between publications



### **3.1 The effects of global financial capitalism on co-operative banking. The case of OKO in Finland.**

#### **3.1.1 The overall objective**

Publication 1 (Rosas & Michelsen, 2015) addresses the sub-question *How does acquisition fit into the toolbox of the strategic management of co-operative organizations and on what grounds?* Despite a multitude of research of financial capitalism, the effects of the interplay between global financial capitalism and co-operative banking have so far been neglected. What seems to be missing is research that might discover causal connections in the historical development of financial capitalism and co-operatives. In order to fully describe and explain the contextual factors behind co-operative action adopted from the course of action of IOFs, it is necessary to take a historic viewpoint to discover the relevant concepts for the purpose of theory building. This theory building can then add clarity to the definition of co-operative acquisitions made in order to diversify with an IOF. Therefore, in this publication, empirical investigation is engaged concerning the contextual factors of global financial capitalism that promote the need for strategic manoeuvres, such as making an acquisition in order to diversify.

#### **3.1.2 The main findings**

The findings of this publication provide the researchers and practitioners of co-operatives with a more comprehensive understanding of the interaction between financial capitalistic flow and co-operative banking. The publication suggests that the flow of global financial capitalism can be seen to indicate a realized influence on co-operative business. Further, the findings from this publication indicate that although financial capitalism challenges the strategic management of co-operatives, it may also

provide new instruments for competitiveness. The pressure of global competition (caused by global financial capitalism), together with internal motivations, may drive co-operatives to protect themselves against competitors; to compete and grow through the acquisition of an IOF. In the publication, the term “double identity” is used for the first time and it is defined as the “*dual nature of co-operatives containing elements from co-operative and financial capitalism*” thus providing an answer to the twofold identity problem caused by the flow of neoliberalism.

## 3.2 Diversification through acquisition: co-operative banks as dynamic players in competitive markets

### 3.2.1 The overall objective

Publication 2 (Rosas, Jussila & Tuominen, 2012) builds on the literature of the strategic management of co-operatives in the context of the acquisition decision to examine when and why acquisition becomes a relevant strategy for a co-operative. Publication 2 addresses the research sub-question *How does acquisition fit into the toolbox of the strategic management of co-operative organizations and on what grounds?* Mainstream strategic management literature has for a long time considered acquisitions as one of IOFs’ options in pursuing growth, competitive advantage and profits. However, relatively little attention has been paid to acquisitions in the literature of co-operatives. Although previous studies have provided us with valuable evidence on acquisitions between co-operatives, there is no literature concerning diversification through the acquisition of another organizational form. Consequently, the main objective of Publication 2 is to identify boundary conditions for the strategic move, thereby adding clarity to the decision to acquire.

### 3.2.2 The main findings

The publication suggests that competition must be acknowledged when developing theories of co-operative organization and management. Further, the publication sheds light on the justification of acquisitions and helps us to understand of the roles of co-operative purpose, competition, geographic boundedness and growth opportunities in the decision to diversify through acquisition.

The publication shows that the strategic management of co-operative banks is based on their purpose of creating value for their members. In a competitive market context co-operative banks face a need to follow their competitors' growth. Yet co-operative banks are geographically bounded due to user ownership. Thereby they need to grow within a given geographic area. If there are no growth opportunities in the given area, co-operative banks need to diversify. This type of growth strategy is particularly important for co-operative banks in order for them to grow and add value for their members and customers. In sum, if there is an opportunity to diversify through acquisition within the given geographic area, the acquisition is a viable option for a co-operative bank.

The publication suggests that some of the mainstream strategic management doctrine can be integrated into co-operative management theory. Thus, according to this study, a safe way to do this is to investigate (with sufficient criticism) how the mainstream ideas are linked to co-operative purpose in practice.

Further, this publication suggests that geographic boundedness and competition must be acknowledged when developing theories of co-operative organization and management. That is, in competitive contexts co-operatives may appear as more dynamic actors than they are typically seen to be.

Finally, acquiring another organization, an IOF, is likely to include substantial risks. The publication suggests that such risks can be moderated by staying close to “home base” in terms of both service and geographic reach.

### 3.3 Leading together for mutual benefit: Shared leadership in the context of co-operative banking

#### 3.3.1 The overall objective

Publication 3 (Rosas, Jussila & Tuominen, 2012) builds on the literature on shared leadership and traditional leadership. The publication assists in addressing the sub-question: *What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?*

Extant literature identifies the concepts of leadership strategies in listed firms but there is lack of research on the collectivity of leadership processes in the co-operative context. Despite a multitude of research on co-operative management, while it has been maintained that managing a consumer co-operative differs from managing an IOF, very little research has followed these claims. What seems to be missing is research of the collectivity of leadership processes that are actually ongoing in a co-operative context. In order to fully describe and explain leadership in co-operatives, it is necessary to discover the relevant phenomenon for the purpose of theory building that can also guide the creation and validation of constructs. Therefore, in this publication, empirical investigation is engaged concerning the leadership mechanisms through which co-operative banking promotes the decision-making process. Consequently, the main purpose of this publication is to identify leadership processes as seen from the top management positions of a consumer co-operative, to understand the leadership construct in a co-operative, thereby adding clarity to the definition of shared leadership in co-operative banking, and, further, to investigate the relevance of shared leadership

construct in co-operative context. The findings can also be useful in appraising and developing co-operative management. Further, the findings assist and deepen the findings of Publication 4.

### 3.3.2 The main findings

While the traditional conceptions of leadership (typical of IOFs) highlight the role of the individual leader in many ways, this publication indicates that co-operative leadership seeks for mutual benefit via open and honest participatory communication. This means that all the participants in leadership contribute to questioning and careful observation in order to create the best knowledge of complex realities together. In the data leadership is made sense of in terms of frequent interaction between the participants of the leadership process, which is important for successful leadership. Further, leadership is seen as a process – the joint effort of dynamically interdependent individuals acting together and using time to interact, which is essential in securing high-quality decisions.

This analysis provides evidence that leadership manifests itself in the case organization in ways that can be (on the level of concepts) communicated in terms of shared leadership. Leadership in the form of the collective and participatory nature of decision-making can be seen to be realized in co-operative banking. The findings on shared leadership help us think of and articulate leadership in the co-operative context.

Finally, this study suggests that the co-operative context is particularly suitable for shared leadership, which opens up several avenues for future research.

### 3.4 How different can an organizational bedfellow be? When a ballerina acquires a beast.

#### 3.4.1 The overall objective

Publication 4 (Rosas, Jussila & Tuominen, 2012) addresses the sub-question: *What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?*

Extant literature identifies strategic management strategies concerning M&As and the integration processes. Similar research in co-operative contexts also exists. Thus, in these studies M&As have been taking place between companies of the same form. However, there are no studies where a co-operative organization and an IOF are combined into one. Thus, the objectives of this publication are: to outline the differences in organizational forms that challenge the acquisition and post-acquisition integration processes; to identify existing literature on the use of acquisitions in a co-operative context; and to provide conceptual clarification to the challenges in post-acquisition integration. In addition, the publication addresses the limitations and research gaps that are missing from previous studies when trying to look at the explanatory factors for the integration process, for different forms.

#### 3.4.2 The main findings

This publication identifies strategic, organizational and cultural differences between the acquirer and the acquiree of different organizational forms. The findings indicate that many of these differences may be somewhat systematically connected to each other, as well as indicating that ownership is the original source of difference.

### 3.5 Answers to the research questions

This chapter presents more detailed answers to the research questions of this dissertation. The main research question of the study was “*Why do co-operative organizations use acquisition as a strategic option and, if the acquiree is an IOF, do the differences between the model become somehow apparent in the acquisition context?*” This main research question will be answered at the end of this chapter, after answers are found to the research sub-questions.

The first research sub-question was “*How does acquisition fit into the toolbox of the strategic management of co-operative organizations and on what grounds?*”

The findings from Publication 1 indicate that the rapid change of the Finnish financial structure, from a closed financial market to the neoliberal economic regime, is reflected in the behaviour of co-operative banks. The contextual factors identified behind the reflection were the political, economic and social conditions, technological changes and environmental forces but also the financial crisis, technological development and legal changes, together with the influence of the European Union that formulated Finnish banks to rapidly become effective and rational organizations. Furthermore, European Union projects, as well as international banking mergers, opened up the way to international operations and competition. Therefore, for co-operatives, the contextual factors of financial markets cause a twofold identity – a “double identity” – as they identify themselves as co-operatives but must compete as an IOF in the financial world. Moreover, for co-operative banks, strong local identity and, to a certain extent, limited territory (geographic-boundedness) limits their size and ability to grow, compete and defend themselves against competitors. In situations, where a variety of opportunities and threats are seen as emerging with an upward frequency, an acquisition of another organizational form – taken to diversify in order to provide the owners and customers better benefits, services and products – may be the response for co-operatives dealing

with increasing globalization, and dynamic and complex business markets. The findings of our review show that scholars have mainly used acquisition theory that involves the same organizational form as a theoretical basis for their studies, whereas the potential for acquisition by another organizational form has not been utilized in previous empirical studies. Therefore, we conclude that this theory could be utilized in future studies. Our study has strong practical implications; by understanding global financial capitalism and its contextual factors, the managers of co-operatives are able to improve their organizational performance and unique sources of competitive advantage through the acquisition of another organizational form.

Similarly, Publication 2 addresses the sub-question *“How does acquisition fit into the toolbox of the strategic management of co-operative organizations, and on what grounds?”* The findings from Publication 2 suggest that competition (a competitive environment, restructuring the field) provides the impetus, and the co-operative philosophy and the different aspects of the purpose of co-operative banks (to serve their members in operating business; to create both economic and social-psychological value for their members; to promote economic and non-economic interests) provide the foundation for the acquisition decision. Further, the dilemmas of the limitations of growth and competitive conditions – the pressure of geographic-bounds and the lack of growth opportunities in the existing markets, without the option of relocating to another environment – push co-operatives towards diversification. In that regard, the ideas indicate that this affective push can be solved by diversifying through the acquisition of firms with other organizational forms and similar geographic reach but with a different (but close enough) service portfolio. Hence, this can also be seen as a safer way to grow than investing abroad. Finally, the “unity of fate” between the co-operative and its territory motivates co-operative strategists to monitor the territory in the long run and to be equipped with the quality information needed for good decisions. Thereby, the contribution of this publication is that it illustrates the essential concepts of diversification that are relevant for the strategic management of co-operatives that result in positive performance, success and competitive advantage. This process is presented

in Figure 3 below.

Publications 3 and 4 answer the second sub-question: *What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?* The deep differences between co-operatives and IOFs as organizational forms need to be understood to answer the research sub-question. The findings from Publication 3 confirm that there is a collective leadership tradition in co-operatives, which partly explains the enormous strategic and cultural differences in the post-acquisition integration process between the two different organizational forms that Publication 4 reveals. The dilemma of knowledge sharing and the decision-making process has been gaining interest with regards to organizational arrangements. Yet not that many studies have examined shared leadership in a co-operative context. This publication takes the qualitative study approach to examine the utilization of shared leadership in the co-operative leadership processes. Due to that co-operatives are purpose-build in order to satisfy common needs of owners and customers, high quality decisions that are the result of high-quality interactions are needed. The publication suggests that the traditional notions of leadership have been challenged by the information age, more organic social structures and complex networks, as they all emphasize the role of knowledge that is on the move all the time. Moreover, leadership is seen as a process in which doing and acting together is essential. The results also indicate that a knowledge and understanding of shared leadership, as well as the skills of shared leadership, are (to a great extent) acquired through practice; therefore the training and mentoring of co-operative bank administrators should focus on the knowledge and skills required in shared leadership processes.

Publication 4 suggests that the differences between co-operative organizations and IOFs are not only principled but that they live on strongly in discourses mobilized in daily life. Based on our empirical data, we were able to categorize six distinguishable and dominant factors that have the background of the ownership, purpose and strategy of a firm. In more detail, the ownership of an organization seems to be the fundamental

basis of its core values, beliefs and ideologies defining the cultures of the acquirer and the acquiree. The findings of this publication show that the ownership-based organizational differences provide additional challenges to integration, caused partly by the cultural misfit and partly by the strategic misfit. The findings of our review show that scholars have mainly used the IOF model in macro-level business discourses and co-operative theory has not been utilized in previous empirical studies. Therefore, we draw several conclusions about how these theories could be utilized in future research. Our study also has strong practical implications: by understanding the differences of organizational forms in a post-acquisition integration context, managers are able to capitalize on this in strategic management, improving organizational performance and success, and in creating competitive advantage.

Above, I have answered the two specific research sub-questions presented in this doctoral dissertation. By answering these research sub-questions, it is possible to answer the main research question of this study: *Why do co-operative organizations use acquisition as a strategic option and, if the acquiree is an IOF, do the differences between the organizational models somehow become apparent in the acquisition context?*

First, Publication 1 shows that neoliberal economic global competition has become a part of daily life for all organizations in Finland, regardless of organizational form. Instead of staying out of the competition to retain the same market position or to preparing for a downturn in the economics of the organization, there is a strategic option for co-operatives to diversify through acquisition. Thereby, the findings from Publication 1 address how the competition caused by neoliberal financial capitalism can create co-operatives' dual nature (balancing between market operations and the financial world of its IOF-based peers creates a "double identity" – a hybrid of elements from co-operatives and financial capitalism), depending on the actions a co-operative makes.

Second, Publication 2 sheds light on the justification of acquisition from the perspective

of the roles of co-operative purpose, competition, geographic-boundedness and growth opportunities. Further, it can be argued that these perspectives must be acknowledged when developing theories of co-operative organizations and management. Thereby, the findings from Publications 1 and 2 address why diversification through the acquisition of an IOF is a solution that is able to influence co-operatives' ability to compete, grow and create their firm's performance. Finally, diversification through acquisition is a strategic solution for the management of co-operative banks wanting to achieve a sustained competitive advantage in turbulent global markets, however this option may cause significant challenges in the integration process.

Third, based on the findings of Publication 3, it can be argued that the shared leadership phenomenon explains its tradition and the participatory nature of decision-making in co-operatives, which in turn reciprocate with the high quality of the best knowledge of complex realities. Thereby, the findings from publications 3 and 4 address the differences between the cultural forms of different organizational forms apparent in the acquisition context.

Fourth, Publication 4 offers a comprehensive framework of the strategic, organizational and cultural differences of organizational forms in an acquisition context and gives support to the notion that there is something special in the acquisition of two different organizational forms. Further, it is worth pointing out that our research can also inform research on co-operatives and co-operative management. The literature on co-operatives typically deals with the differences between company forms theoretically or as dependent on the voice of co-operative managers. In this study a voice is also given also to interviewees whose background is not in co-operatives but in IOFs. It is interesting to see how the interviewees construct the differences between the acquirer and the acquiree by strongly mobilizing discourses on the differences between company forms and ownership. Our work thereby shows that the differences are not merely theoretical and a resource to co-operative managers – instead, the differences are “alive and well” in the sense-making of both the co-operative and IOF parties.

The summary of the results of this dissertation is presented in Table 4.

**Table 3. The results of the publications.**

Publication	Main research question	Sub-question	Results
	<p><b>Why do co-operative organizations use acquisition as a strategic option and, if the acquiree is an IOF, do the differences between the organizational models somehow become apparent in the acquisition context?"</b></p>		
Publication 1	<p>The flow of financial capitalism, in the form of globalization, challenges co-operatives.</p> <p>The purpose, principles and identity differ significantly from those of the IOFs.</p> <p>Co-operatives operate in the same markets as IOFs. In marketing operations a co-operative has to identify itself as a co-operative but in the financial world it must compete as an IOF, which it is not.</p>	<p><b>How does acquisition fit into the toolbox of the strategic management of co-operative organizations and on what grounds?</b></p>	<p>Gathers together findings from previous empirical studies; specifies and clarifies historical backgrounds.</p> <p>Empirical evidence on the options that co-operatives have in global competition.</p> <p>Offers a theoretical explanation of how co-operatives can integrate themselves with changes in markets.</p> <p>Introduces and defines "<i>double identity</i>"</p>
Publication 2	<p>The purpose of co-operative banks: to create economical and social-psychological value for its members by operating businesses that have relevance and are economically beneficial to the members.</p> <p>Co-operative banks need to grow within a geographically-bounded area. If there are no growth opportunities, there is a need to diversify.</p>	<p><b>How does acquisition fit into the toolbox of the strategic management of co-operative organizations and on what grounds?</b></p>	<p>Empirical evidence on how the mechanisms of developments in the competitive financial service industry serve as the impetus for acquisition development, through which co-operative banks promote performance.</p> <p>Gathers together findings from previous empirical studies; clarifies and specifies the research gap.</p>

Publication 3	Shared values, history, tradition and culture in a co-operative banking group.	What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?	<p>Empirical evidence on the form of leadership in the co-operative banking group.</p> <p>Offers a theoretical explanation for the collective and participatory decision-making culture in the co-operative banking group.</p> <p>Explains the strategic and cultural differences found in Publication 4.</p>
Publication 4	<p>The differences associated with company form – in the acquisition and integration context – cause strategic and cultural fit/misfit.</p> <p>The challenges for a co-operative due to the acquisition</p> <p>Strategic and cultural fit/misfit.</p>	What are the differences between a co-operative and an IOF and how do they appear in an acquisition process?	<p>Empirical evidence of the post-acquisition integration process wherein a co-operative bank is the acquirer and an IOF is the acquiree.</p> <p>Offers a theoretical explanation (a framework) for integration in the acquisition context of a co-operative firm acquiring an IOF.</p>

## 4 Discussion and conclusions

This chapter presents a summary of the findings, and the theoretical and practical contributions of the study. It also discusses the limitations of the study and gives some guidelines and suggestions for future research.

The target discussions of this dissertation attend to the strategic management of co-operative enterprises. This doctoral dissertation argues that acquisitions are possible strategic moves for co-operatives. In other words, co-operatives may use acquisitions to fulfil their purpose. Via acquisitions co-operatives may diversify in order to compete and create competitive advantage – and to prevent competitive threats. They may grow within a limited market area and, thereby, increase member benefits.

In sum, given that research on co-operative acquisitions is still in the early stages of development, this study has provided an important contribution. Integrating the observations from various streams of extant literature under the concept of co-operative acquisitions as strategic options and examining these issues further, it provides clarity and coherence in this particular area of research. Given that the acquired organization is in this case an IOF, the study also serves to highlight in an in-depth manner a variety of differences between the co-operative model and the IOF model that have already gained substantial attention in previous literature on the strategic management of co-operatives. Secondly, the study can be seen as also contributing to acquisition research by shedding light on a less traditional M&A case wherein the acquirer and the acquiree represent different enterprise models.

Further, alongside originality and scientific utility, this dissertation has practical utility as well, which the next sections will focus on in more detail. The summary of the contribution of the study is presented in Table 5.

**Table 4. The summary of the findings**

<i>Why do co-operative organizations use an acquisition as a strategic option and, as the acquiree is an IOF, how do the differences between the models come somehow apparent in the acquisition context?</i>			
<i>Factors that fit acquisition into the toolbox of strategic management of co-operative organizations</i>		<b>Contribution</b>	<b>Publication</b>
Global competition	Co-operatives compete in global markets. Acquisition is needed for competitiveness and growth (which is in accordance with the co-operative principles).	Using acquisition to accumulate growth in order to achieve sustained competitive advantage	Publications 1 and 2
Co-operative purpose	Acquisition is needed in order to create additional service benefits for members.	Using acquisition to secure the execution of the geographically-bounded purpose of co-operative banks.	Publications 1 and 2
<i>How do the differences of co-operative organizations and IOFs escalate in an integration process?</i>	<p>The limitations of co-operative organizations</p> <p>Strategic fit/misfit</p> <p>Cultural fit/misfit</p> <p>Double identity</p>	Company form does make a difference. Piecing together two different organization forms in order to achieve sustained competitive advantage challenges the co-operative acquirer with strategic and cultural differences.	Publications 3 and 4
<p>In sum:  A co-operative, if it is not able to compete in the market, will not be able to grow, to develop its activities or fulfill its purpose of delivering benefits and services for the member-owners and customers in the long-run.</p> <p>In the search for the continuing growth and member benefits, co-operatives need to expand in different sectors in the form of effective business operations by acquiring different organization forms.</p> <p>The acquisition of different organization form causes challenges when integrating an IOF to a co-operative acquirer.</p>			

## 4.1 Theoretical contributions

The aim of scientific research is to generate new theoretical insights that advance our understanding of the phenomenon of interest, in this case the strategic management of co-operatives. The findings in this doctoral dissertation contribute to the research on co-operative organizations and their strategic management in many ways.

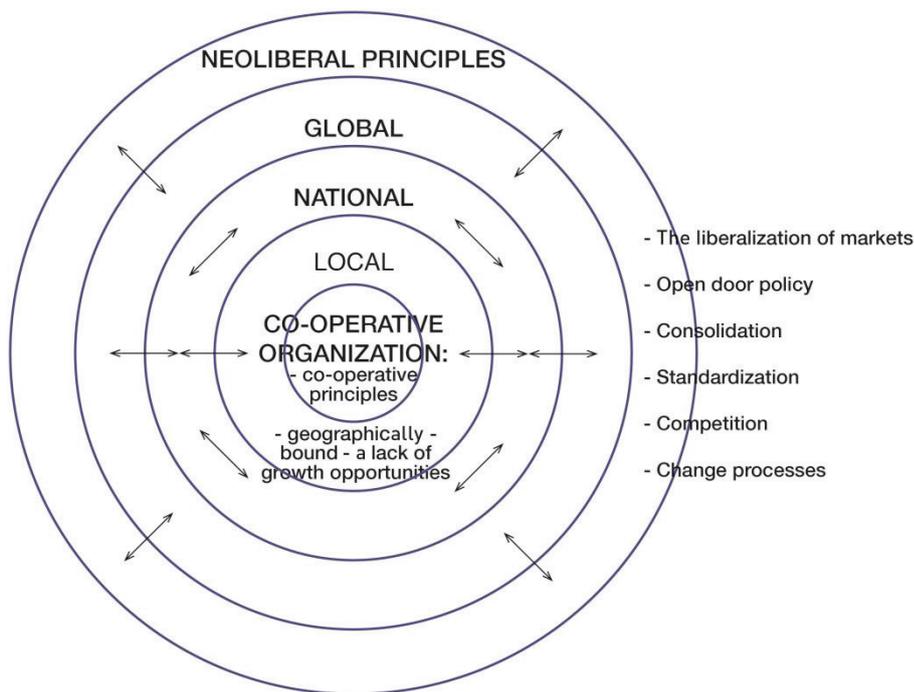
Although previous studies have provided us with valuable evidence on performance in co-operatives, something that hinders our ability to deepen our knowledge is the lack of understanding of how co-operatives can grow and create competitive advantage. Therefore, in order to capture the contextual factors behind acquisition, I have provided more empirical evidence by giving the top managers the possibility to share their views. In other words, a voice is given to the “insiders”. That is, by applying qualitative research methods, I have been able to (or at least have begun to) fill the research gaps arising from the relevant prior literature. As stated earlier, the case co-operative acquisition of an IOF was an example of an acquisition that is rather complex and so has to be viewed from multiple perspectives, instead of focusing deeply on one theme.

Overall, the findings from this study contribute to academic discussion in several ways. To start with, this dissertation contributes with co-operative literature’s suggestion that deep changes in European banking systems (Stefanelli, 2009), competitive pressures (such as networks, federations or commercial agreements) (Boscia, Carretta & Schwizer, 2009; Boscia & DiSalvo, 2009), the economies of scale (Mayer & Schiereck, 1999) and globalization by economy internalization and the increasing competence in financial markets (Carrasco, 2004) have had an effect on all economic and financial

activity. However, while the co-operative literature mainly examines each of these factors separately, the findings from this study are novel in that they provide both revelatory and incremental insight (Corley & Gioia, 2011) regarding the background powers affecting the strategic decisions of a co-operative and reverses the viewpoint, suggesting that instead of studying single factors that are unrelated to each other, the restructuring forces identified by using a transnational history framework can be seen as contextual factors of the flow of the neoliberal global financial capitalism that forms financial markets.

Based on the publications of this dissertation, it can be suggested that there are three environmental systems, local, national and global, with which a co-operative organization interacts. The local system refers to the challenges that most immediately and directly impact the co-operative organizations' development, as they cannot relocate their activities to more attractive environments (Tuominen, P., 2012). The national system is the interconnection between national laws, orders, cultural contexts and social settings in which a co-operative organization has an active role through the whole co-operative group. Finally, the global system includes economic development and industrialization in countries. Per this theoretical construction, each system level contains roles, norms and rules that may shape the development of a co-operative organization under the pressure of neoliberal principles (the liberalization of markets, open door policies, consolidation, standardization, competition, change processing), as presented in Figure 4 .

**Figure 4.** Co-operative organization: the three environmental systems and neoliberal principles



Further, the consumer co-operative literature has highlighted that the purpose of co-operatives differs from that of IOFs (Puusa, Mönkkönen & Varis, 2013; Tuominen, P., 2012; Jussila, Tuominen & Saksa, 2008; Normark, 1996), but it has not paid much attention to advising us on the interplay of co-operative purpose and global neoliberal markets. This study has taken steps in this direction by offering the insight that most of the co-operative principles may (to some extent) be seen as conflicting with the principles of neoliberalism.

Co-operative organizations are geographically bound to their market area, democratically controlled by their members, focused on creating member well-being through products and services in local markets; neoliberalism pledges for global competition, growth, evolution and constant change in standardized, deregulated open markets. The conflicts between the co-operative and neoliberal principles are described in Figure 5.

Figure 5. The conflicting principles of co-operatives and neoliberalism.

<b>Co-operative principles</b>	<b>Neoliberal principles</b>
Democratic control by members	The deregulation of financial markets
Autonomy and independence	Standardization
Education, training & information for members	Open door policies, liberalization
Serving members through local, national, regional and international structures	Open door policies, the liberalization of markets
Concern for the community	Global competition, the healthy growth of constant evolution & change processes

Extant literature on consumer co-operatives has mainly focused on pointing out that co-operative organizations need to offer something different (Mills, 2008), need to trade in a distinct way and for a different purpose (Tuominen, P., 2012) because “the most powerful way to challenge investor-owned businesses is by reference to their very nature, the way they operate and trade, the impact of what they do, the reason for their existence” (Mills, 2008, p. 25–26). This study contributes to literature on the strategic management of consumer co-operatives indicating that – despite the antithesis of co-operative and neoliberal principles, purpose and identity – global financial capitalism can be seen as an aggregate indicator that influences the strategic planning of co-operatives (aimed at defending the competitive acts of competitors, growth and creating benefits and services for its members while in turbulent financial markets), as they operate in the same markets as their investor-owned peers. That is, to compete and to achieve competitive advantage in a turbulent world of changes is as important for co-operatives as it is for IOFs. The strategic management of co-operatives should not

underestimate the power of competition. Together with technical development and digitalization it changes the ways to compete in a constantly changing competitive environment.

However, operating as a co-operative in competitive markets is dilemmatic. The company form makes a difference: the purpose of a co-operative is different to the purpose of an IOF. This dissertation suggests that the dilemma is solved through the use of a “double identity”. In consumer co-operative literature there are notions of its dual nature (Puusa, Mönkkönen & Varis, 2013) and dual organizational form (Michelsen, 1994). Based on the findings from empirical data, this study develops these findings further and indicates that, depending on business operations, co-operative banks may reorganize their business operations and adopt a “double identity” – a hybrid that contains elements from both co-operatives (used in marketing operations) and IOFs (used in the financial world). That is, a co-operative acts as a co-operative in marketing operations; in the competitive world it acts as an IOF. At the same time, the “double identity” is the glue that makes it possible for the co-operatives to compete with a broader scale of instruments (to use the benefits of the co-operation and IOF assets) in competitive markets. These findings extend and clarify the ideas of Tuominen (2012) regarding the managerial competencies of the consumer co-operatives.

Waves of institutional change are usual in a market economy (Normark, 1996). This development depends on the business operations of co-operatives. It is evident, however, that some co-operatives reorganize in order to have a double identity or even to become an IOF. While the notions about this double identity may only offer an incremental change (Corley & Gioia, 2011) to those familiar with consumer co-operatives, it is likely to offer a more revelatory insight (Corley & Gioia, 2011) to mainstream strategic management literature (e.g. Grant, 2008; Porter, 1985) that generally does not acknowledge these hybrid elements of organizational forms. In other words, valuable extensions to the literature on the interplay of global financial capitalism in the context of co-operative banks have been made in this publication. In order to compete and search for new ways to compete, it is important to see the

development of competition in the big picture. When one sees more broadly, one understands better.

However, even if neoliberal financial capitalism challenges co-operatives, it may also provide new instruments, such as acquisitions, with which co-operatives can compete. The findings of this dissertation are in line with the mainstream literature's suggestions that through acquisition a firm can grow (e.g. it can diversify) (Bauer & Matzler, 2014), it can gain access to new resources and markets (Teerikangas & Very, 2006) and it can increase efficiency (Sarala, 2009; Schraeder & Self, 2003). Further, this dissertation contributes to the research on the strategic management of consumer co-operatives (e.g. Tuominen, T., 2013; Tuominen, P., 2012; Syrjä Sjögren & Tuominen, 2012; Jussila, Tuominen & Saksa, 2008) both by arguing that co-operative banks can use acquisition as a way to diversification and sustained competitive advantage, and by providing in-depth evidence on the grounds and dynamics of an acquisition.

While extant literature mainly focuses on acquisitions between the same organizational forms, this doctoral dissertation argues that co-operative banks are able to create competitive advantage, prevent competitive threats, achieve growth and create better benefits for members and customers via diversification through the acquisition of an IOF. In more detail, behind such a strategic decision there are contextual factors of co-operative purpose, geographical bounds and different aspects to growth opportunities in a limited area. As the operating territory of a co-operative is limited, for the same reason accumulating financial and social capital is mainly limited to that territory. In fact, in such circumstances (a high market share, a limited and geographically-bound market area, global or international competitors) the acquisition of an IOF may be the only viable instrument for growth and competitiveness. Further, this solution serves geographically-bound co-operatives as it enables them to maintain local presence. That is, placed against global and perhaps digital competitors, co-operatives can create a concentration of services with local presence (for example banking, insurance, health, utility, security) that are difficult to produce in any other way than through being there. In sum, this study is the first attempt to empirically present new instruments – such as

an acquisition (when it crosses over organizational-form borders) – and investigate how they can be used as strategic options for co-operatives to gain sustainable competitive advantage. Moreover, this dissertation presents a peculiar way of strategically managing co-operatives alongside traditional acquisitions. The work at hand advances our theoretical understanding by providing additional insight to extant research on consumer co-operatives.

The findings of this dissertation contribute to M&A literature (e.g. Teerikangas & Very, 2006; Datta, 1991), highlighting ownership as an important source of strategic, organizational and cultural differences. The findings support earlier research on M&A literature (e.g. Weber & Drori, 2011; Björkman, Stahl & Vaara, 2007; DeNisi & Shin, 2004; Ullrich, Wieseke & Van Dick, 2005; Weber & Tarba, 2010) that looks at organizational purpose and identity – the causes of disruption and conflict in post-acquisition integration (Vaara, 2003). Further, the findings are consistent with extant literature of M&As highlighting strategic fit in post-acquisition integration (Chatterjee, 2009; Cartwright & Schoenberg, 2006; Schraeder & Self, 2003; Haspeslag & Jemison, 1991; Lubatkin, 1983; Lubatkin & Chung, 1985) and cultural fit in post-acquisition integration (Bauer & Manzler, 2013). However, the extant literature is concerned with differences in M&As between the same organizational forms and there is very little literature concerning the process of merging firms when they are of different organizational forms and the effects it may bring about in the integration process. In this study, a rich set of differences, contextual factors and challenges is discovered in the move towards examining the features of the integration process of a co-operative and an IOF, following the differences in the ownership, purpose and strategy of the firms that escalate in the integration process. However, this study is the first attempt to empirically investigate how acquisition (when it crosses over organizational-form borders) can be used as a strategic option for co-operatives to gain sustainable competitive advantage. Therefore, this study has scientific utility (Corley & Gioia, 2011) as it advances our theoretical understanding by providing both revelatory and incremental insight (Corley & Gioia, 2011) to extant research on consumer co-operatives.

The findings of this thesis contribute to literature on consumer co-operatives highlighting the differences between co-operatives and IOFs (Hansmann, 1999; Holmström, 1999), and the purpose of co-operatives (Tuominen, P., 2012; Borgen, 2004). Further, the findings of this dissertation are consistent with mainstream literature highlighting that acquisition strategy includes substantial risks (cf. Porter, 1987) in the integration process the more the two organizations differ. However, the findings in extant literature concerning differences are highlighted in comparing organizational forms and the risks in acquisitions between the same organizational forms. This study presents the viewpoint that company form makes a difference that may underline organizational differences and increase the substantial risks in acquisitions between different organizational forms. In sum, the differences concerning the ownership of the merging firms are not only principled but they strongly live on in the daily strategic management of the integration process. Therefore, this dissertation suggests that strategic, organizational and cultural challenges should be taken into account seriously in the pre-acquisition planning process. However, these risks can be moderated by using a home base in both local service and geographical reach.

The nature of leadership in the integration process (Vaara, 2003) within the context of different organizational forms has not yet been investigated through literature reviews of empirical studies. Co-operative management research has mainly emphasized co-operative managers as “stand-alone heroes” (Davis, 2001), but it has not offered advice on shared leadership for the managers of co-operatives, even though there is a notion that managing a co-operative organization differs from managing an IOF (Tuominen, P., 2012; Tuominen, Jussila & Rantanen, 2010; Peterson & Anderson, 1996). This study contributes to literature on co-operative management by pointing out that the shared leadership construct of the collective and participatory nature of decision-making is emphasized. Thus the work at hand advances our theoretical understanding of leadership in the context of consumer co-operatives. This study has scientific utility (Corley & Gioia, 2011) as it provides evidence of the use of shared leadership by the co-operative acquirer instead of the traditional notions of co-operative literature. This is

essential in the context of gathering social capital in organizations challenged by the information age. Further, the thesis strengthens the notions of traditional leadership in the acquiree of an IOF form. The findings of shared leadership are used with the aim of understanding the premises of strategic, organizational and cultural differences in the integration of organizations after an acquisition. Finally, by offering insights into the shared leadership phenomenon, this thesis helps us to explain the background of the differences the integration process faces when connecting a co-operative firm with an IOF.

Further, this study fills a gap by offering insights into the competence demands that the collectivism of leadership processes poses for co-operative management. It can be stated that this publication extends the ideas of Tuominen (2012) regarding managerial competence in the context of co-operatives, as these served as a starting point for the empirical examination of managerial shared leadership competences in consumer co-operatives. Furthermore, even though the target discussion was literature on management of co-operatives, this study also contributes to mainstream literature on leadership skills and managerial competence (Vakola, Soderquist & Prastacos, 2007), which has not paid much attention to how managerial competence is perceived in different organizational forms. However, it should also be noted that even though the main purpose of this study was to generate theory on co-operative management, it offers new insights for mainstream literature as well.

When comparing information from Publication 1 and Publication 3 one might wonder why there seems to be a conflict of information between publications. In Publication 1 there is the notion of a small group of decision makers concerned with the decision-making process of an acquisition in the case organization, while there is the notion of shared leadership in the same organization in Publication 3. To explain this it is important to distinguish between the general approaches of the group in everyday decision-making processes and the group's approach in specific situations, such as planning and making decisions concerning an acquisition. That is, shared leadership is a useful tool in everyday leadership processes but some boundary conditions have to be

borne in mind when the question is about acquiring publicly listed companies. While open discussion is typical of shared leadership, one has to honour the regulations of the stock exchange because any kind of leak or information disclosure concerning such an acquisition or its preparations would affect the share prices of the acquirer and the acquiree. Further, such leaks might have prevented the entire acquisition. However, even though the decision-making process was unusual in the group, it was still made using the internal rules of the group. These informed the decisions made by those democratically selected to make such decisions.

Whilst moving forward in the advancement of scientific knowledge in the area of co-operative banks and consumer-owned co-operation, it is notable that some of the mainstream strategic management literature (e.g. Grant, 2008; Porter, 1987, 1985a, 1985b), which is created primarily with profit-maximizing organizations in mind, can be integrated into co-operative management theory. This can be done if the purpose of co-operation is taken as a starting point and if its role as the definer of certain boundary conditions for strategic management is acknowledged. In this thesis the basic view is that a safe way to adopt ideas from mainstream strategic management literature is to investigate (with sufficient criticism) how mainstream ideas are linked to the execution of the co-operative purpose (the maximization of member satisfaction derived from the use of the co-operative's services) in practice (cf. Peterson & Andersson, 1996; Jussila, Tuominen & Saksa, 2008) and under what circumstances they are applied and why.

Thus, the theories have been built from an IOF perspective, with the starting point being that the primary purpose of a business is to maximize profit. The purpose of co-operatives is different. This study extends and further clarifies the ideas of Jussila, Tuominen and Saksa (2008), demonstrating new empirical data on the theoretical study and indicating how a co-operative can grow and compete despite its co-operative purpose and geographical boundedness. This dissertation suggests that making an acquisition (of an IOF) in order to diversify may create such possibilities for co-operatives.

Further, while the extant literature has mainly examined these solutions as seen from a co-operative perspective, this study reverses the viewpoint, suggesting that there are options for strategic management to expand to solutions crossing over the traditional definitions and the boundaries of organizational forms. Therefore, based on the findings from the publications, this doctoral dissertation contributes to previous research on consumer co-operatives by arguing that co-operatives are able to achieve sustained competitive advantage through the acquisition of other organizational forms, made in order to diversify.

Finally, this study makes valuable contributions to the co-operative business literature and the strategic management literature stream. The study opens up the black box on the factors that explain the driving forces behind the acquisition decision, business integration and the performance of co-operative banks. The study also provides additional insight into the challenges of the post-acquisition integration of different organizational forms. Taken together, the contributions thus add to our general understanding of what elements affect co-operative banks' success and competitive advantage. In addition, given that research on co-operative banks has struggled with competing theories and definitions of M&As between co-operatives, this study has provided an important contribution to theory elaboration in this field. In this way I hope I have opened a hermeneutic circle that may deepen the theoretical understanding of acquisitions (especially those between different organizational forms) by bringing new information both to the academic literature of co-operatives and to mainstream literature. In competitive circumstances it is important to understand that taking the traditional co-operative approach in order to compete (e.g. organic growth) is not enough. New ways of thinking and acting are needed.

## 4.2 Practical contributions

According to Corley and Gioia (2011, p. 18) a study has practical utility if “it can be directly applied to the problems practicing managers and other organizational practitioners face”. In the world of management most academic research strives to develop new techniques for IOFs; however, the new knowledge considering the management of consumer co-operatives emerging from this study has value to practitioners interested in understanding the implications that purpose and mission have on the strategic management of co-operatives.

When it comes to the lack of a well-established co-operative management doctrine, co-operatives are always at risk of their management losing sight of their purpose. This study suggests that it is critical for co-operative (bank) managers to have the purpose and mission of their organizations crystal clear when thinking of alternative courses of strategic action. However, what is useful for co-operative (bank) managers to realize is that they can adopt mainstream doctrine in their practice if they are (like researchers) critical in their use of ideas and lessons taken from the investor-owned context. Based on the findings of this study it is safe to say that acquisition is one of the corporate-level strategic actions that can be applied to the co-operative context for the members’ benefit. Since these actions challenge the managers and directors, training on these issues should be provided (cf. Worthington, 2001; Shaffer, 1993; Rhoades, 1993; Berger, Hunter & Timme, 1993). Furthermore, while the notion of the differences between IOFs and co-operatives may be obvious to those familiar with the latter, these differences are not recognized in the mainstream strategic management literature that future managers are typically socialized to. Thereby, co-operative management training must guarantee the recognition of the differences.

To co-operative management, a broad vision of neoliberal effects on local, national and global development may result in better, more conscientious management. Hence, this means being on the cutting edge in a competitive world where both the ability to make

quick reactions and the accuracy of vision concerning the future developments of the competitive environment are of the essence. Put simply, when you see more broadly, you understand better – that is, the better the managers understand the competition and competitive circumstances, the better they can build competitive advantage for the co-operative organization.

Furthermore, the co-operative movement may sometimes become too preoccupied with its internal matters and lack sufficient focus on the competitive environment. A useful lesson from this is that it is important for co-operative (bank) managers to carefully analyse the competition and acknowledge that the realization of the mission of co-operatives (and thus co-operative banks) is always relative to what the competitors do and deliver. In the example of Pohjola's acquisition, the competitors already had a lead in the market before the OP Bank Group managers realized there was a need to move. It was competition, and more precisely the decisions of the competitors, that provided the impetus for the acquisition decision. To be safe, co-operative (bank) managers must be active in developing their organization's competitive power, products and services and be proactive in reorganizing their structure. Otherwise they may not attain superiority over the competitors and their members may not choose to maintain an active customer relationship with the co-operative.

The future of consumer-co-operative societies (to which co-operative banks can be seen to belong) and their members might benefit from the use of diversification strategy, if co-operatives are (as is consistent with co-operative philosophy) hesitant to share profits (as patronage refunds) and still want to search for additional service benefits instead. This study suggests that co-operative (bank) managers should look into the geographic area they are bound to for opportunities to deliver additional value to their members. As they enter new product or service markets, but remain close enough to their extant operations, there may be synergies to gain from without too large a risk.

Thus, this study suggests that as a practical implication, the training and mentoring of co-operative bank administrators should focus on the knowledge and skills required for

shared leadership. This is especially important to keep in mind when the main job of an administrator in shared leadership is to promote the development of the skills and knowledge of the people involved, in order to create joint results (Elmore, 2000). Even in the context in which shared leadership is considered one's "own way" to lead, it will not serve the common good in the best possible way unless it is systematically promoted. However, before this can be properly done, researchers should investigate what shared leadership skills actually are and how they can be measured, evaluated and developed (thereby helping both research and practice).

Finally, during the research process we have identified beliefs (put forward, for example, in the media and public discussion) that co-operative banks should remain small and restrain themselves from growth. This dissertation may serve as a starting point for co-operative managers to justify growth when in communication with different stakeholders. Even if co-operatives exist for different purposes than IOFs, similar strategic moves may be expected from them as they execute their purpose in a free and competitive market. But, it is worth noting that it is important to understand how to run a business in a profitable way without weakening the customer services.

### **4.3 Limitations**

This study has some limitations that need to be addressed, as is the case with all studies. First, there are methodological limitations. The use of the qualitative approach within the whole study has offered the possibility of exploring and identifying the phenomenon with in-depth qualitative data and allowed analytical generalization to the theoretical level, but not statistical generalization.

Furthermore, the data is collected from a single case. Thus the case has been chosen conscientiously; the case served as a unique context, taking the form of an extraordinary

acquisition process. Furthermore, the qualitative data sets could always be wider, including more industries, firms and interviewees. Such qualitative research should be generalized carefully and mainly analytically. However, the in-depth nature and careful collection and analysis of the qualitative data have enabled a thorough understanding of the phenomenon under scrutiny. This is considered to compensate for the amount of data. Furthermore, the data is seen to improve the strength of the findings related to the phenomenon.

The qualitative data was gathered by the writer of this dissertation, which is a benefit to the study for its part. As all of the data in the study has been gathered from a single country (Finland) it poses some limitations to the generalizability of the results. The legal system in Finland is known for its relative efficiency, which in part is a guarantee that both organizations and individuals can place more trust in it than can organizations and individuals in some other countries. More specifically, the legal system sets the ground rules (for example, for different organizational forms and acquisitions) and ensures that each party fulfils its obligations. Thus, the Finnish context enables a solid basis for co-operative studies. As a relatively small market area, Finland also poses some limitations to studying competition. However, the findings in these terms are somewhat transferable to other Western countries. The next section will present suggestions for future research.

#### 4.4 Suggestions for future research

First, future research should be conducted and comparison made in relation to how co-operative organizations in other countries have reacted to competition. Thus, competition should not be ignored and future research would benefit from longitudinal studies and a more processual view of competition, and the execution of the co-operative mission under competitive conditions. In the competitive context the

realization of the co-operative purpose and the purpose-based justifications of strategic moves may become visible. It is also in the competitive context that co-operatives may appear as more dynamic actors than they are typically seen to be. Why co-operatives are typically seen as slow and stable is in itself a question worth answering.

Furthermore, it would be useful to come up with a definition of member value that covers its different aspects (facets) that prior research, as well as the study at hand, give lead to.

This study suggests that, in the competitive context, co-operatives may appear as more dynamic actors than they are typically seen to be. In other words, their previously depicted “nature” may be better associated with typical environments rather than with the co-operatives themselves.

Another useful avenue for the advancement of knowledge of co-operative organization and management that can be identified is “geographical boundedness”. Are there, as our data seems to suggest, some positive effects for co-operatives of this “live or die together” relationship with the operating area, as compared to competitors that do not have such a relationship with it?

Finally, while acquiring another organization, an IOF, and integrating with it, a co-operative organization is likely to be subject to substantial risks (cf. Porter, 1987). In our case study, what was the impact of the integration to the newborn group? Were co-operative banks able to maintain their philosophy or was there perhaps a movement towards the philosophy of profit-seeking companies (cf. Richards & Manfredi, 2003), leading to a conflict between the operation of the group and member interests (cf. Kammlott & Schiereck, 2001)? What about the current development of the co-operative group – the name of the IOF (Pohjola) has now faded away, likewise the listed company Pohjola Bank PLC was withdrawn from the stock markets when the co-operative group bought the majority of the shares of Pohjola Bank PLC. All this, as they announce, is “the way to get back to its roots”.

From a broader viewpoint, but closely related to the context of financial institutions, the possible connections between shared leadership and sustainability (social and economic) should be studied. Taking time to jointly discuss and reflect the complexities of the market and the general environment seems to have not been in the core of the financial sector's decision-making. A question this study raised was: Can shared leadership in part explain the fact that co-operative financial institutions have been the rock on which the entire sector has (to some extent) relied on? Another important question for the future is: Can shared leadership help prevent financial crises? Overall, there is a need to study what kind of consequences shared leadership has (good or bad) in the contexts in which it manifests itself.

As it seems that the co-operative context is particularly suitable for shared leadership, it would be interesting to study what are in fact the antecedents of shared leadership and how they relate to the principles of co-operation. This study opens up some leads but comprehensive modelling is needed. As a related issue, to proceed with theory elaboration, it also serves to ask: What are the boundary conditions of shared leadership?

Future research could lead to different variables and leadership challenges when examining mergers in co-operative organizations or acquisitions in different co-operative contexts. As the present framework is flexible it accepts including (or easily adding) different variables. These new insights would lead to a deeper and better comprehension of cultural dissonance in co-operative organizations. The reason for this may be education. Retired managers will be replaced with young leaders who have studied leadership at business schools. Unfortunately the education is mostly related to IOF culture and style without providing education on co-operative action or leadership processes. The study shows that the shared leadership construct helps us think of and articulate leadership in co-operative contexts. A simple implication is that future co-operative management studies should incorporate the shared leadership construct into the frameworks used to study leadership in this context. For example, future research should incorporate knowledge and understanding of shared leadership, as well as shared

leadership skills, into the list of key competences. The construct utilized in this study might actually help take the work of Tuominen, Jussila and Rantanen (2010) towards a more detailed understanding of the managerial competences required in consumer co-operatives.

Acknowledging that an acquisition is always the result of a strategic plan that challenges management is central here. Professional management is needed in planning, doing and integrating, with the aim of upholding and increasing the company's competitiveness. A successful acquisition needs long-lasting, determined orderliness and a clear vision of where the company is going from the beginning to the end.

During the time spent developing this dissertation, strategic changes in the OP Financial Group are still going on. In February 2014, OP Group Central Cooperative Consolidated executed a public voluntary bid for Pohjola Bank PLC shares. After the end of the extra offer period, OP Group Central Cooperative's ownership increased to approximately 98.41% of the shares and to approximately 99.14% of the votes conferred by the shares. Then, on 11 April 2014, OP Group Central Cooperative initiated a squeeze-out procedure under the Limited Liability Companies Act for the remaining shares in Pohjola. This operation is being accomplished in order to recall Pohjola from stock markets. In the autumn of 2014 the group published the new line organization that is planned to go through whole organization. At the beginning of the year 2015 the group changed its name from the OP Pohjola Group to the OP Financial Group. The co-operative side has been victorious. In spring 2015 the OP Financial Group announced it will "go back to its roots" and stay as a co-operative constellation. For now, there is no need to talk about the lack of dynamics. Thus, the external pressure of competitiveness remains. However, these changes open up new, interesting objects for future research.





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## Appendix A: Interview structure

### THE INTEGRATION OF ORGANIZATIONAL CULTURES IN OP GROUP'S MERGER WITH POHJOLA

The interview will be recorded for analysis later. I will use the information obtained for my Ph.D. Thesis, as well as for eventual other university research projects. The material will be discussed without identifiers, unless a respondent specifically wants me to use their name. I will also ask for permission to list the respondents by name at the end of my thesis.

#### INTERVIEW STRUCTURE

The respondent's background

1. What is your background? Your career and tasks in the organization?
2. How did you end up in this task?
3. The respondent's story – how were they involved, and in which events, in the OP–Pohjola acquisition?

The merger process

Tell me from your own perspective, providing examples:

1. How did you become aware of OP Group's acquisition of Pohjola?
2. What did you think about the acquisition then? How about today?
3. How do you think the acquisition began?
4. How did the acquisition proceed?
5. Were you involved in planning the merger, or something else related to it, before or after the acquisition?

Challenges and solutions, from your own perspective with examples:

1. In your opinion, how has the integration of OP's co-operative banking and Pohjola's insurance operations been executed as a management process?
2. How has the merger manifested itself in your domain and your own work?
3. What have been the benefits of the merger? How about the drawbacks?
4. What kinds of changes has the integration caused in your own organization and your own task?
5. What kinds of strategic challenges have you faced?

### Combining the functions

1. What are your experiences and views on the integration process?
2. How do you think the takeover has been realized?
3. How has the integration been executed? How well do you think it has succeeded?
4. In your opinion, what kinds of differences have there been in the operations of Osuuspankki and Pohjola? How about currently?
5. How would you define co-operative systems, and how are they related to the basic function of co-operative banks?
6. How do you think insurance operations are related to the basic mission of co-operative banks?
7. Has the integration of operations had an impact on traditional bank operations, such as finance services, saving and investment services, or daily bank services?

### Corporate cultures

1. How do you think a co-operative company differs from a joint-stock company? Or does it?
2. What have been the modes of operation in Osuuspankki Group compared to Pohjola?
3. What kinds of corporate cultural differences can you find between Osuuspankki and Pohjola?
4. Is there something unique to combining co-operative and joint stock companies? If so, what?

### Strategy

1. What kinds of strategic challenges have you encountered as a result of the acquisition?

### Management

1. Describe the management methods and practices in your organization.
2. What have been the modes of operation in Osuuspankki Group compared to Pohjola? (or in Pohjola compared to OP)
3. What kinds of management differences can you find between Osuuspankki and Pohjola?

### Further development

1. I'm asking you to envision: how could the fusion have been executed better?

2. How about now, development activity at the present moment?
3. What concrete things have you done in the past week, related to OP-Pohjola?
4. Have I asked you all the essential questions?
5. Who else should I interview?



## **Publication I**

Rosas, Saila, Michelsen, Karl-Erik

**The effects of global financial capitalism to the co-operative banking. The case of  
OKO in Finland.**

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**THE EFFECTS OF GLOBAL FINANCIAL CAPITALISM ON CO-OPERATIVE BANKING.  
THE CASE OF OKO IN FINLAND.**

Saila Rosas  
Department of Management and International Business  
School of Business and Management, Lappeenranta University of Technology  
P.O. Box 20, FI-53851, Finland.  
E-mail: [saila.rosas@op.fi](mailto:saila.rosas@op.fi)

Karl-Erik Michelsen  
Department of Management and International Business  
School of Business and Management, Lappeenranta University of Technology  
P.O. Box 20, FI-53851, Finland.  
E-mail: [karl-erik.michelsen@lut.fi](mailto:karl-erik.michelsen@lut.fi)

What are the effects of the interplay between global financial capitalism and co-operative banking in a modern capitalistic economy? Although financial capitalism has been studied intensively during the past two decades, this particular angle has so far been neglected. Perhaps one obvious reason can be found in the history of the co-operative movement. It has been understood as a collective economic activity that finds its home rather in developing, capital-short economies than in modern industrial and post-industrial capitalism. This complex relationship between co-operative banking and financial capitalism encouraged us to investigate the issue. This article considers the example of co-operative banking in Finland, which started over hundred years ago in a form imitating Reiffeisenism, and later accepted the form of a strong centre from Rabobank. Today, this co-operative banking and insurance group is the market leader in Finland. During the last decade it has continually been in the headlines because of its radical rearrangements, such as the acquisition of an IOF. This case study focuses on the acquisition moment when the co-operative banks that operate locally, regionally and nationally have to make a critical decision of whether to stay inside traditional boundaries or to link to the financial capitalism that recognizes neither local nor national borders. This decision affects not only the structure and strategy of the co-operative bank but also its values and principles. We regard this decision-making process as “critical”, because once the decision is made it becomes irreversible. Cases from other European countries show that once co-operative banks have linked to financial capitalism, their strategies and structures change permanently. We argue that although neo-liberal financial capitalism challenges co-operative banks, it can also provide new instruments for competitiveness. Instead of losing identity and values, co-operative banks can adopt a “double identity” that contains elements from both co-operative and financial capitalism.

**Keywords: co-operatives, acquisition, transnational history, financial capitalism**

## Introduction

The co-operative OP Group exploded a media bomb on Monday 12 September 2005 when it announced the acquisition of Pohjola, an IOF-based insurance company, with the stock exchange release: *“OKO Bank has today concluded a transaction whereby it acquires approx. 58.5 per cent of the outstanding shares and voting rights in Pohjola Group plc (hereinafter Pohjola) from Suomi Mutual Life Assurance Company (Suomi Mutual) and Ilmarinen Mutual Pension Insurance Company (Ilmarinen) for approx. EUR 1.2 billion in cash or EUR 13.35 per Pohjola share ... When Pohjola becomes a part of OP Bank Group, this will mark the creation of a powerful Finnish financial services group with good development prospects. With this transaction, OKO Bank and OP Bank Group will be well placed to face the challenges and opportunities of the growing and developing Finnish financial services industry and to achieve OP Bank Group's strategic objective of becoming the market leader in all its core business areas,”* observes CEO Antti Tanskanen. (OKO stock exchange release, 12.9.2005 at 1:10 p.m.).

The acquisition of an IOF (as a target) by a co-operative group (as the acquirer) presents an exceptional co-operative acquisition. When examining the existing research in the area of co-operative acquisitions, we noticed that the academic interest has mostly been focused on organizations with an investor-owned background, with co-operatives standing in the background. Mergers and acquisitions in the context of co-operative banks have mostly been mergers between other co-operatives, such as the merger wave of East German co-operative banks (Mayer & Schiereck, 1999) or the acquisition activity in Australian cooperative deposit-taking institutions (Worthington, 2004).

So far, economists and business historians have paid little attention to co-operative banking. Instead, research focuses on commercial and investment banks that have, without doubt, played a major role in the neoliberal economic regime. But what about the role of co-operative banks? We know that there are still many small co-operative banks that operate locally and serve local customers and members. The small scale of their operations gives credit unions a competitive advantage in customer/member services (Ralston, 2001). However, there are also giant co-operatives that compete successfully with commercial and financial banks. Credit Agricola in France is the largest retail banking group in the country, the second largest in Europe and the eighth largest in the world. DZ Bank in Germany is the fourth-largest bank in the country by its assets and is the central organization for more than 900 co-operative banks. These giant co-operatives have a double role. They support local and regional business, but they also

operate in global financial markets. When the financial markets collapsed in 2008, major co-operative banks in Europe suffered losses in subprime adventures.

Thus, globalization has affected all the fields of economic and financial activities, intensifying competition among companies (Carrasco, 2004) including the banking sector. The constant evolution in the press of increasing competition in the financial markets has accelerated change processes in recent decades. In the banking sector the financial products have spread out and become more balanced, new physical and virtual distribution channels have arisen (Carrasco, 2004) with the help of technological development and new services have opened up access to new activities. This development, together with the following deregulation, has caused mergers and acquisition activity in the banking sector (Worthington, 2004) and even takeover activity among financial mutuals (Thompson, 1997) as they have been seen as an important strategy through which firms can grow and gain access to new resources (Sarala, 2010) and market shares (Öberg & Holmström, 2006). This increasing global competition due to the economies of scale (Mayer & Schiereck, 1999) has forced co-operative banks to face the world of global financial capitalism.

In this article we use this acquisition case to help us to explain how a co-operative bank with a strong local identity responds to the challenges of global capitalism. It is our assumption that if the bank decides to link to global capitalism, its competitiveness improves and the bank becomes compatible with the global flows of capital that we view through the transnational history lens.

There seems to be a connection between the changes of economic regimes and changes in the identity and governance of co-operative organizations (Carrasco, 2004). Our work is motivated by the notion that many co-operative organizations have adopted capitalist operating principles at the expense of the original co-operative ones and are becoming more and more similar to other forms of business (Puusa, Mönkkönen & Varis, 2013; Cornforth, Thomas, Lewis & Spear, 1988).

Co-operatives around the world share seven principles, guidelines by which co-operatives put their values into practice (ICA, 1995), frame their purpose and shape their identity (Novkovic, 2008; Jussila, 2013; Oczkowski, Krivokapic-Skoko & Plummer, 2013). Identity, a visible and public dimension of an organization, defines what is "central, enduring and distinctive about an organization's character" (Albert & Whetten, 1985 in Gioia, Schultz & Corley, 2000, p. 63) and answers the central questions of "Who are

we?” and “What is our role in this world?” (Puusa, 2006, p. 24; Whetten, 2006; Albert, Ashforth & Dutton, 2000, p. 13).

Further, the purpose of co-operatives is to create benefits for their owner-members and customers in product and services markets (P. Tuominen, 2012; Tuominen, Jussila & Saksa, 2006). They focus on the maximization of member needs and services (Worthington, 2004; Jussila, Goel & Tuominen, 2012; P. Tuominen, 2012), not on aiming at the main mission of IOFs: the maximization of both short-term financial returns (Veblen, 1904) and the market valuation of the firm (T. Tuominen, P. Tuominen & Jussila, 2013). Instead, co-operatives work for the sustainable development of communities through policies and programmes accepted by the members (T. Tuominen, P. Tuominen, H. Tuominen & Jussila, 2013). Typically in co-operatives, the operating territory is limited to a certain extent (P. Tuominen, 2012), which limits the size and ability of a particular organization to develop its social and financial capital (T. Tuominen, 2013) in the selected markets that co-operative organizations compete in (Tuominen et al., 2006). Therefore, the objective of co-operative organizations is the improvement of not only the economic but also the social and psychological conditions of the members and customers of the co-operatives (Laurinkari, 2004; Jussila, Byrne & Tuominen, 2012).

However, even if co-operative banks' values and finalities are not identical to those of capitalist banks (Bachet, 2012), they are similar actors in the market economy to their IOF-based peers. There is no reason to expect that co-operatives are peripheral (Hansmann, 1999) or any less successful organizations (Anderson & Henehan, 2005). Instead, producing benefits for the members always takes place in relation to the competitors. This concept of a dual nature, first introduced by Draheim (1952), means that co-operatives have to be two things in one: (1) a business enterprise and (2) a social group of members or, according Skurnik (2002), they have to include the business role as well as the member-community role. The dual nature of the co-operative company form is based on the idea that “while aiming at economic member promotion and sufficient profit, they simultaneously place emphasis on more humanistic aspects as the key to operations” (Puusa, Mönkkönen & Varis, 2013, p. 6). Perhaps there have therefore been “either/or” discussions in the markets wherein co-operatives have been seen as “softer” alternative forms of business (Puusa et al., 2013). Co-operative business has been understood as a collective economic activity that finds its home rather in developing, capital-short economies than in modern industrial and post-industrial capitalism (Patibandla & Sastry, 2004).

Thus, co-operative principles are hardly compatible with the fundamental principles of the neoliberal economic regime. Instead, they may be seen as its complete antithesis. Neoliberals pledge the deregulation of financial markets and opening of international capital markets that provide a platform for global competition and the “healthy” growth of economy (Palley, 2004). So far, the ongoing globalization phenomenon has affected all the fields of economic and financial activities, intensifying constant evolution and change processes in the press of increasing competition among companies (Carrasco, 2004; Hansen, 2012). Further, it has challenged finance and banking by the liberalization of markets, an open door policy, consolidation, and the standardization of banking operational forms and courses in favour of the large entities that commercial banks are. Together with promoting deregulation and efforts to integrate regulation across European borders (Schrieves, Dahl & Spivey, 2010), globalization has caused mergers and acquisition activity in the banking sector (Worthington, 2004) and takeover activity among financial mutuals (Thompson, 1997). Acquisitions are used in order to benefit the positive effects of growth (Kammlott & Schiereck, 2001), to achieve important scale economies, to create additional market shares (Öberg & Holmström, 2006) and/or synergies (Ansoff, 1984; Öberg & Holmström, 2006), or to improve efficiency in order to boost market power or to satisfy the personal goals of managers (Berger, 2003; Berger, Hunter & Timme, 1993).

Increasing global competition due to the economies of scale (Mayer & Schiereck, 1999) has forced co-operative banks to face the world of global financial capitalism and, as an actor in such turbulent markets, find ways to compete and survive. There are a few case studies that demonstrate the difficulties co-operatives face at the moment of truth of competition. One example is the Spanish co-operative Mondragón that, by the early 1990s, could no longer stay in the local markets and expect to grow. To reach the global markets, Mondragón had to reorganize itself and adopt new business models and strategies. Mondragón Cooperative Corporation was established to centralize and enhance decision making. Dramatic changes helped Mondragón to boost its competitiveness, but the price was high. The co-operative was no longer able to maintain its original identity and co-operative principles. Instead, the centralization of decision making demolished democratic and equal participation (Huet, 1997, p. 19).

Further, some of those co-operatives that have stayed out of global competition have ended up in downturn spirals. Their business volumes and profitability have diminished and the capacity to provide useful services to their members has deteriorated (Birgegaard & Genberg, 1994). Many credit co-operatives have even been heading towards demutualization – in general terms, a perversion or trivialization of the co-operative form (Carrasco, 2004). They have responded to challenges presented by

economic internationalization and the increasing competence in financial markets with the abandonment of mutuality and the co-operative model. Further, they have had to introduce important changes in their banking operative and their strategies (Carrasco, 2004).

In this paper we study the options a Finnish co-operative bank had in the dilemmatic pressure of competition in turbulent financial markets and how it has solved the dilemma. The solution was a co-operative strategic acquisition of an IOF, a sign of the fresh new-thinking of the strategic management of co-operative organizations (Rosas, Jussila & Tuominen, 2012). Acquisition has been seen as a typical strategic decision for IOFs, with co-operatives standing in the background. M&As in the context of co-operative banks have mostly been mergers with other co-operatives (Richards & Manfredo, 2003; Mayer & Schiereck, 1999; Worthington, 2004).

The aim of this article is to investigate the interplay between global financial capitalism and co-operative banking in modern capitalistic economy and further, the influence of this interplay on the strategic management of co-operatives.

Thereby, in this paper, in our data analysis we focus on the following questions: 1. *What are the options for a co-operative bank (group) that has a strong local identity to respond to the challenges of global capitalism?*; and 2. *How does globalization affect the nature of co-operative banks?*

The article proceeds as follows. First, we start with the background of the pivotal relationships by providing an overview of the history of the Finnish co-operative banking group. Then we discuss how the market economy gradually reached Finnish banking business and how the business changed due to those effects. Then, the negotiation process of the acquisition of an IOF by the co-operative is presented. The empirical evidence of the causal relationships of financial capitalism and co-operative organizations are presented and discussed in the conclusions.

## **Data and Methods**

The goal of this article is to complement conventional historical work on the wreck of global financial capitalism and co-operative regimes. Historicism is a term of ideology with various and contradictory meanings (Dewar, 1995) seen from local, national or global perspectives. We use relatively new

transnational history concept framing. The term “flow” has its background in transnational history, which is relatively new as a concept. Concerning the movement of peoples, ideas, technologies and institutions across national borders, it is related to, but a broader term than either, globalization, world history or comparative history. It focus on the relationship between a nation and factors beyond the nation (Tyrrell, 2007) and is described as “the study of the way in which past lives and events have been shaped by processes and relationships that have transcended the borders of nation states” (Curthoys & Lake, 2005, p. 5). The concept enables the recognition of the importance of the nation, while at the same time contextualising its growth, aiming to put national development in context and explaining the nation in terms of its cross-national influences (Tyrrell, 2007).

This study is a longitudinal survey, a correlational research study that involves repeated observations of the same variables, such as change and development, over long periods of time. Following a careful survey of historical events, we show the development from global, national and organizational perspectives. The benefit of this type of research is that it allows looking at changes over time. Because of this, longitudinal methods are particularly useful when studying development and lifespan issues. Further, in this paper our research project was consistent with the description of the process of theory elaboration (Lee, Mitchell & Sablynski, 1999) that “occurs via recursive cycling among the data, emerging theory and later, the extant literature” (Eisenhardt & Grabner, 2007, p. 25).

Thus, our study offers even perspectives on the consequences of leadership for one of the biggest acquisitions ever made in Finland when OKO Bank (owned by a group of co-operative banks: OP Group), acquired a majority stake in Pohjola (a listed insurance company) in September 2005 and integrated it with the co-operative group to form the newborn OP Group. We chose this particular example, because of its unusual revelatory qualities (Eisenhardt & Graebner, 2007; Yin, 1994). Randomization was not a necessity when selecting this case (Eisenhardt, 1989) as the goal of the research was to choose a case that is likely to replicate or extend the theory.

The primary data of this theory elaboration paper is qualitative (Denzin & Lincoln, 1994). More precisely, interviews and archival materials were used to generate a model that helps to explain why and how an acquisition becomes a relevant strategy for a co-operative bank. Therefore, to this article authors have collected and analysed an extensive amount of literature, including books on world history, European history, business and monetary history, the history and evolution of the European Union and on co-operation, as well as unpublished non-scientific studies, personnel magazines and annual reports

(containing data of several thousands of pages). From this material the first writer created a time-line series, running from the 1900 to 2005. These timelines were made in categories *worldwide*, *Europe* and *Finland* and concerned events that had an affect on financial markets worldwide, in Europe and in Finland respectively, in order to examine how one co-operative bank in Finland tried to fit itself in the neoliberal economic regime before and after it penetrated through the national borders. The categories describe, among other things, particular organizational changes in the case co-operative banking group, strategic management and leadership as they relate to the changes and the operations of the group.

The interviews were gathered by the first writer in 2009. She interviewed thirty-six decision-makers of the OP-Pohjola Group (a Finnish co-operative financial services constellation providing banking, investment and insurance services) – CEOs, managing directors and managers both in central units and local banks – of which six interviews are extremely important in this study as they are with “highly knowledgeable informants who view the focal phenomena from diverse perspectives” (Eisenhardt & Graebner, 2007, p. 28) to explain the backgrounds and the acquisition process.

The interviews had an important role because, despite several requests, access to the protocols concerning the acquisition moment was denied and they were declared confidential. Therefore, the interviews of top-managers working in the organization under investigation provided us with valuable information and deeper understanding of the acquisition and the context in which it took place. Moreover, Lee, Mitchell and Sablynski (1999) maintain that “although archival records may not be a study’s main source of data, they can effectively confirm, supplement, or elaborate upon one’s more primary information” (p. 178). Therefore, the quotes from the empirical evidence (the interview data) are presented in order to establish a chain of evidence and to allow the evaluation of consistency between the theoretical concepts and the interview data. Further, they also enable representation of the authentic voice of the study participants, which is at the heart of qualitative research (Lee, Mitchell & Sablynski, 1999).

The thematic interviews lasted from one to even three hours as the reasons and background to the acquisition, acquisition process, decision and integration, as well as other aspects related to the strategic management of the constellation, were thoroughly covered. In order for open, broad and informative discussions on each theme, the interviewees were given the subject and main themes beforehand, but specific questions were not revealed to the informants before the interviews. During the interviews, a list of questions was used to confirm that all essential themes were covered. The interviews were recorded by the interviewer and later transcribed carefully by a professional typist.

To compose a valid and reliable study, the recorded and transcribed (Denzin and Lincoln, 1994) empirical material from the interviews was first studied systematically in order to understand the context of our study. Then we started conducting thematic analysis (see Braun & Clarke, 2006; Gioia, Corley & Hamilton, 2012). In contrast to coding for any themes related to acquisition, we were interested in the way the acquisition and other options to respond to competition were reasoned across the data and coded accordingly (Braun & Clarke, 2006). The research questions guiding our coding process were: 1. *What are the options for a co-operative bank (group) that has a strong local identity to respond to the challenges of the global capitalism?* and 2. *How does globalization affect the nature of co-operative banks?*

The first author studied the data several times and identified all the interview accounts that seemed to relate to the questions (Braun & Clarke, 2006). After the coding process, we analyzed codes found and considered how different codes may combine to form an overarching theme (cf. Braun & Clarke, 2006). We noted that the options to respond the global challenges were to either defend the group in turbulent competition or do nothing. As the strategy chosen was to defend itself, the solution chosen was an acquisition that was reasoned to partly be a defensive act against competition and partly an attempt to utilize opportunities in the market and to execute the purpose of the co-operative bank group: to create benefits for the member-owners. During the process we organized the data under these themes and analyzed in detail, associated and reduced it in order to reach the objectives of the study. The following sections present the outcomes of our use of these techniques.

### **The breakthrough of the neoliberal economic regime**

Rondo Cameron, Larry Neal and Ann M. Carlos have traced the origins of financial capitalism back to the late 17<sup>th</sup> and early 18<sup>th</sup> century (Cameron & Neal, 2002; Carlos & Neal, 2006). Financial capitalism, characterized by a predominance of the pursuit of profit (Scott & Marshall, 2005), grew robust during the latter half of the 20<sup>th</sup> century.

Capital concentrated in the hands of large banks that financed massive industrialization and infrastructure projects. The transition from family owned corporations into large-scale non-family owned corporations was rapid and profound. Veblen (1904) identified a new phase of capitalism in which supreme powers and profit were passed from the owners of the material forms of capital to the owners of finance. This

seemed the natural and inevitable result of an economy in which the market was the central feature and where money alone was the measuring rod of value.

Veblen's arguments were echoed by Hilfreding, whose book *Das Finanzkapital* (1910) first coined the term finance capital in mainstream economic jargon. As had Veblen, Hilfreding witnessed the transition in which finance capital replaced production capital. Financial markets were transnational and they grew fast as companies searched for new business opportunities around the world.

As Richard Peet (2011) has pointed out, the capitalist world has seen two main political-economic policy regimes since the end of World War I. The Keynesian policy regime dominated the decades after the Great Depression and after World War II. By the early 1970s the regime had run out of fuel and western economies suffered from high inflation, high interest rates, slow growth and persistent unemployment. Two oil crises put an end to the Keynesian economic regime and western economies entered an era of instability and unpredictability.

This lasted until the early years of the 1980s, when the breakthrough of neoliberalism (Larner, 2000; Crotty, Epstein & Kelly, 1998) – including privatization, the liberalization of world trade and reduction in state welfare benefits – gained ground in the United States and Great Britain (Jones, Parker & ten Bos, 2005; Duménil & Lévy, 2004), expressing the power of finance in the world economy (Duménil & Lévy, 2004). The efficient allocation of resources was the most important function of an economic system, and the best way to organize resource allocation was through market mechanisms (Palley, 2004).

Despite free market platitudes, neoliberalism was a planned effort by financial interests against the postwar Keynesian compromise (Duménil & Lévy, 2004). The neoliberal economic regime coincided with the collapse of the Soviet Union that ended the Cold War and opened the doors for liberal democracy in Russia and Eastern Europe. Simultaneously, the information revolution changed the patterns of communications and provided almost unlimited opportunities for new businesses to operate globally. These three revolutionary changes boosted globalization, which spread quickly from the western world to Asia, South-America and Asia. According to Bremmer (2014): “Western markets were extremely competitive, population expansion had slowed and incomes had flattened, and corporate operating costs were rising. Developing nations, by contrast, boasted population growth, rising salaries, relatively low wages, and a welcoming climate for foreign investment. As distances shrank because of

modern transportation and communication technologies, chasing growth globally became universally logical, and trade and capital flows surged” (p. 103).

Many scholars and policy makers have predicted that the financial crises in 2008 ended the neoliberal economic regime. The final outcome is perhaps yet to be seen, but the neoliberal economic regime seems to resist the change. Different countries and different national economies respond to the “flow of global capitalism” differently. Soros (1998) describes the phenomenon as follows: “That the global capitalist system is an abstract concept does not make it any less significant. It rules our lives in the way that any regime rules people’s lives. The capitalist system can be compared to an empire that is more global in its coverage than any previous empires. It rules an entire civilization and, as in other empires, those who are outside its walls are considered barbarians. It is not a territorial empire because it lacks sovereignty and the trappings of sovereignty; indeed, the sovereignty of states that belong to it is the main limitation on its power and influence. It is almost invisible because it does not have any formal structure. Most of its subjects do not even know that they are subjected to it or, more correct, they recognize that they are subjected to impersonal and sometimes disruptive force but they do not understand what those forces are” (pp. 103–104).

The history of the financial sector has followed episodes happening around the world, since the world is in a constant state of change (Hansen, 2012). If the history of the financial sector is viewed through the lens of transnational history, it is safe to say that financial capitalism is a flow. It is an abstract and invisible economic regime that recognizes neither local nor national borders. However, having said that, financial capitalism also has effects on local and regional levels.

The interest in transnational history has grown intensively since the 1990s because it builds a theory with which to understand ideas, things, people and practices across national boundaries in a complex relation with national history (Curthoys & Lake, 2005), which, in a globalizing culture, makes unique localizations and developments possible everywhere (Van Elteren, 2011). Leading cultural theorists on globalization emphasize “deterritorialization” as one of the major driving forces in the modern world (Appadurai, 1996). According to Van Elteren (2011) it is not a new process because local cultures have long been influenced – and even shaped – by outside forces and, historically, have become detached from their local anchoring under capitalism. Today “the current phase of globalization differs from the past because of the dramatically increased transnational movement of material goods, images, and people, which leads to new mixtures of culture or hybridization” (Van Elteren, 2011). This causes transnational

capitalism's division of labour and free trade produce variegated fusions, blurred borders and cultural "homelessness", as well as cosmopolitanism (Van Elteren, 2011). Worldwide infrastructure (for example airports, malls, computer terminals, chain restaurants etc.) erases distinct space and history, and the Internet, the basic global information channel, is even more radically deterritorialized (Tomlinson, 1999, pp. 108–120; Van Elteren, 2011).

A transnational history framework, historical flow, and the linking and delinking of global, European and national circumstances and activities helps us to build a frame with which to understand the background of the strategic choices that the co-operative OP Group made, leading to the acquisition of an investor-owned insurance company: Pohjola.

### **The case: A brief history of OP Group and OKO in Finland**

At the beginning of the nineteenth century Finland was in many ways an undeveloped society (Vattula, 1983; Hjerpe, 1996; Jalava, 2006), just moving from a barter economy to monetary economy (Hjerpe, 1996; Jalava, 2006). There was an urgent need for comprehensive social reforms in the rural sectors, and the cooperative movement was seen to be a useful tool in this project (Kuusterä, 1999; 2002; Seppelin, 2000; Saksa, 2007). The Reiffeisen model of a co-operative bank was adopted to Finland from Germany (Skurnik, 2002; 2005) where banks provided small-scale financial services to customers in rural areas (Guinnane, 2001; 1997) as a means of empowering and improving the lives of farmers (Colvin & Laughlin, 2014). Thus, Finland was a much poorer country than Germany, just moving from a barter economy to monetary economy, so, unlike many other countries, Finland the first move was to set up a central institution (the central bank, Okobank) to help in setting up local banks and financing them. The OP Group was born. The membership in the OP banking group exceeded 140 000 rapidly and the number of banks and branches climbed up to 1079 by the end of the 1930s (Hyvönen, 1945; 1953; Kuusterä, 2002; Saksa, 2007).

In November 1939 Finland was drawn into World War II when the Red Army tried to invade the country. After the war the government launched a land reform to solve the refugee problem of about 400 000 Karelians evacuated from the war territory (Hyvönen, 1953; Kuusterä, 1999; 2002; Saksa, 2007). OP Group became the main credit institution to channel government loans to refugee families (Hyvönen, 1953, p. 343). As a result, OP Group's market share increased rapidly and in 1949 it was 15% higher than at the end of the war (Hyvönen, 1953; Kuusterä 2002), but it also anchored the bank deeper in rural Finland. The government launched several massive projects that aimed at turning Finland from an agrarian society into a modern industrial society (Skurnik, 2002; Saksa, 2007).

Industrialization, urbanization and modernization put the future of OP Group in jeopardy (Skurnik, 2005). Although OP Group made a successful transition from rural Finland to urban Finland during the 1950s and 1960s (Skurnik, 2002; Saksa, 2007), the transformation changed the fundamental structures of the co-operative bank. The membership had climbed steadily from the 1920s; by the early 1960s there were about 300 000 members. The co-operative idea that had carried the bank for more than 50 years lost its appeal and for most customers it was no longer the central argument for customer loyalty.

The banking group operated in relatively safe domestic markets until the mid 1980s, when the neo-liberal economy pushed aside the Keynesian regime. In order to respond to the competition and adapt in the new business environment, OP Group had to make a decision about whether to link to global capitalism or stay in the domestic markets. This decision affected the identity, organization and governing principles of the OP Group.

### **The lure of the flow: What to do? Where to go?**

Until the late 1970s Finland did not have a genuine domestic money market. The Bank of Finland controlled financial policy while the government was in charge of economic policy (Kuusterä & Tarkka, 2012). The financial markets in Finland were closed and no foreign banks were allowed to operate in the country. Due to low interest rates, ongoing over-demand for credit prevailed, and since this made it impossible to compete by using interest rates, competition between banks mainly focused on market share. The financial sphere had become organised into "camps" (commercial, savings and co-operative banks) that were controlled by the Bank of Finland (Kuusterä & Tarkka, 2012).

This economic regime came to an end in the early years of the 1980s. The government was unable to harness the inflation and unemployment that ran into double digits. Economic problems resulted from the slowing of its bilateral trade with the Soviet Union (Oblath & Pete, 1985; Sutela, 1992; 2005). This is where Finnish companies came into contact with the neoliberal economic regime. In order to be competitive in Western Europe and the United States, the Finnish government had to deregulate financial markets and ease the flow of currency across national borders (Kuusterä & Tarkka, 2012).

The Bank of Finland used all legal methods to guarantee Finnish companies compensation, but by the mid 1980s the bank gave up the fight. The Soviet economy was collapsing and the Finnish government could no longer rely on long-term economic co-operation with its neighbour. Economic policy had to alter dramatically and Finland was heading full speed into the western markets. In order to be competitive in Western Europe and the United States, the Finnish government had to deregulate financial markets and ease the flow of currency across national borders (Kuusterä & Tarkka, 2012). The Bank of Finland approached western markets cautiously. The cornerstone of fiscal policy, the strong currency, could not be compromised. Hence, deregulation happened in stages. First foreign banks and financial institutions were granted the right to operate in Finland. The next stage gave companies the right to apply for foreign loans and, finally, this same right was granted to private households.

Thus, closed and regulated economic and fiscal policies had created structures and patterns that were difficult to change, therefore the rapid liberation of practices created excessive financial risks (Korhonen, 2011). At the end of the 1980s the financial markets in Finland, as in other Nordic countries, drifted into imbalances that had serious implications for the economy, and they plunged into a deep recession (Honkapohja, 2009). The Finnish mark was devalued in November 1991 and then floated in September 1992 (Kuusterä & Tarkka, 2012).

Major restructurings took place in the Finnish banking sector during the crisis when, in 1992, most of the 250 savings banks were first combined to become the Savings Bank of Finland and then split, and the pieces merged with the commercial, co-operative and government-owned banks (Postal Savings Bank) (Kuusterä & Tarkka, 2012). Structural changes continued, even when several other banking groups merged, forming big commercial banks. For example STS Bank merged first with KOP and later the new unit in turn merged with SYP to form Merita Bank, which also in turn merged with Nordbanken of Sweden in 1997, which, more recently, merged with a Danish and Norwegian bank to form Nordea, a

pan-Nordic Bank. In 1998 Postal Savings Bank merged with Vientiluotto (the Finnish Export Credit ) to build Leonia Bank, which in turn merged with Sampo Insurance Corporation to build Sampo, which was sold in 2007 to Danske Bank.

And what had happened to the OP Group during these decades? In 1969 the new bank law intended to put emphasis on the demand for effectivity. In a short period of time the whole of the OP Group had to be capable to substantially boost their operational activities, final results and ratings. In 1971, only 100 co-operative banks had the legally-prescribed rating (2.0%) of the banks' depositions. Almost 77% of co-operative banks remained under the statutory perscriptions. Thus, continuous investments into new information technology gave visible signs of more effective activities.

Until 1970s, the OP Group had been concentrated in rural areas. Even though it had established itself in towns, the general public opinion deemed it slower and more old-fashioned than its competitors. There was a need for the cooperative bank group to change this image as it desired to compete nationally and equally with the investor-owned peers. Now the allowance of money turned to the marketing of money, and independent member banks of the OP Group carefully followed their competitors actions and market rates. Access to the free markets of money led to a situation whereby the possibilities for OKO to intervene in co-operative banks' activities had remarkably decreased. In a way the co-operative banks had got stuck between co-operative traditions and modern competition. The bigger the co-operative bank from the bigger cities, the harder the pressures and demands against the co-operative banking central unit being able to lure in financial flow, to "sell" money and compete for market shares.

The political, economic and social conditions, technological changes, environmental forces and legal factors – in the form of the financial crisis, technological development and legal changes – rapidly formulated Finnish banks into effective and rational organizations. The European Union, as well as international banking mergers, opened up the way for international operations and competition. The whole banking sector had swallowed the bait of flow.

### **What are the options?**

The banking business restructuring process – undertaken in order to adapt to the pressures of financial market globalization, European integration (Kamlott & Schiereck, 2001; Worthington, 2001; Björkman,

Tienari & Vaara, 2003; Boscia & Di Salvo, 2009; Stefanelli, 2009), technological development and the overall restructuring in financial services sector (Björkman, Tienari & Vaara, 2003; Boscia & Di Salvo, 2009) – was an ongoing process (Normark, 1996). The top management in OP-Pohjola was fully aware of the situation: it had a serious challenge to answer.

In order to be competitive in a neoliberal economic regime, co-operative banks had to follow competitors (Carrasco, 2004). The cornerstone to the acquisition was actually set decades before as a result of a long-term ongoing dialogue between the competitors' competitive actors and co-operative organizations' desire for big business. The OP Group's strategic objectives and goals concerned operations in Finland, where two other big banking groups, Nordea and Sampo, internationalised and built financial department stores offering banking, insurance and other financial services group in the Nordic countries and Baltic Sea region.

Basing the decision on competitive reasons, it was decided that the OKO central bank, still mainly owned by co-operative banks, would go public on the stock market in 1989 and make the central bank a full-blooded commercial bank (Saksa, 2007). This strategically significant procedure was justified by normal commercial bank development, group solvency and improvements in creditworthiness, as well as by the internationalization of monetary and capital markets (Saksa, 2007). Further, image transformation from that of an old-fashioned banking group to a modern one was seen as necessary.

Ever since, the strategists of co-operative banks closely followed the competitors' (Saksa, 2007) steps towards building financial empires (cf. Stefanelli, 2009; Carrasco, 2004). By around the year 2000, OP Group had already engaged in “a defensive operation together with insurance companies Suomi and Ilmarinen to prevent Nordea, Sampo and/or Tapiola to takeover Pohjola”. Our interviewee stated that if it had succeeded, “it would have left the OP Group in a very difficult position” within the entire Finnish financial field (see also Rosas et al., 2012).

Our interviewee highlighted, that “the period of earlier co-operation was later described as the actual starting point of the Pohjola acquisition” as it had taken “the idea further on an emotional level and had resulted in readiness to try again”. Further, “as a result of the previous period of co-operation it was possible to evaluate the risks relating to the corporate acquisition and establish that it could be a viable opportunity to combine business operations”, as our interviewee put it.

OP Group saw, however, that the corporate acquisition on offer was an opportunity and possibility, as our interviewee stated it, “the kind of which occurs only once every hundred years”. The opportunity for growth as a purely co-operative bank began to reach its apex. Of this opportunity the ownership of an insurance company through an acquisition was seen as the final solution in an atypical acquisition (wherein a co-operative banking group acquires an IOF). However, our interviewees told us that “this was connected to company reorganisation in the national financing industry and, especially to competitor activities”. Further, our interviewees pointed out that if they had not done so “there would soon have been a situation where the possibilities to grow in Finnish markets would come to an end”. Without growth, OP Group could no longer defend the interests of their members in the changing competitive environment (Rosas et al., 2012).

Further, our interviewees summarized, that “the co-operative organization has had discussions of defending the OP Group in turbulent competition”, “the expansion of areas of operation, methods of growth aided by good group solvency”, “to preserve the OP Group’s ability to compete”, to create customer benefits and “to raise the OP Group’s profile in the national field [...] by breaking out of its old-fashioned and slow image”, which was unsuitable for the banking field of competition. Further, our interviewees stated, that “to do nothing was an alternative solution in discussions, but discarded as it did not match to the group strategy goal of becoming the leading retail bank in Finland”.

In autumn 2004, our interviewee highlighted, that “the aim of preliminary calculations was to investigate whether the acquisition was feasible, financially viable and whether or not it could be afforded”. Further, our interviewees told us that under consideration was “the amount of true interest and the willingness and ability of the OP Group to engage in non-life insurance activities”. The co-operative group had to consider “what would be gained for the acquisition price”.

The acquisition was planned, negotiated and carried out in a small ring, only individuals in key positions to the execution of the acquisition, with “the help of a sanctioned non-disclosure agreement right up to the moment of publication”, as our interviewees told us. They participated in the planning of the acquisition process, as our interviewees highlighted, “in working groups which prepared judicial proceedings such as a public purchase offer, OKO share issue and the transfer of various assets through sales and from the entire group to OPK and OKO, and certain assets from OKO”. Further, our interviewees highlighted that “external expertise was utilised during the acquisition negotiation phase, including an American

investment bank and Finnish law firms who worked as additional advisers”. The sanction, highlighted by our informants, “for breaching confidentiality was probably several million euros for every leaked piece of information”. The strategy of secrecy chosen was revolutionary and exceptional, as democratic decision making is a co-operative principle. Thus, according our interviewees, it was necessary for “the fear that competitors might take action to prevent the acquisition” as the acquisition would be one of the most important events in the history of OP Group (OKO Bank annual report, 2005).

Instead, to build unique characteristics of its own, the cooperative bank group followed its competitors' actions carefully in rapidly changing banking markets. The competitors were IOFs, so the co-operative principles may have felt like a ball and chain limiting possibilities to answer to the competition. Due to the different organizational forms the OP Group had to compromise with pure competition and co-operative principles. In marketing operations a co-operative needed to act as a co-operative. To fit itself to the neoliberal economic regime the co-operative had to transform their organization profile one way or another. To compete by following others a co-operative needed to be (or at least act as) one of them; in this case, to be an IOF. This dilemmatic competitive situation gave birth to concept of a “*double identity*” wherein an organization does not only have a single role but adopts the elements of two different organizational forms. In fact, it transforms them into a hybrid organization that acts in the competitive markets as an IOF and in marketing as a co-operative

Similarly, our interviewees stated, that “there were no external pressures on the acquisition since the field, the co-operative member banks, were unaware of the acquisition”. If the buyer had been OPK, the decision-making process would have been slower and heavier, and information to the member banks might have caused problems. Choosing OKO to be the buyer facilitated the process, as the final decision was made by the Supervisory Board of OKO. In an IOF a quick confidential decision process was possible. The OPK's supervisory board was informed of the matter and later of the successful negotiations on Sunday 11 September 2005; the acquisition was made public on Monday 12 September 2005.

Our interviewees highlighted that the ratio of benefits from the corporate acquisition “was weighed up against the cooperative identity and its values”. According our interviewees, particularly troublesome “were the structure of OP-Group, how to adapt the co-operative group structure to the new area of operations and company and who in the OP-Group would ultimately become the buyer. Also to be considered were the ramifications which would occur if the buyer were only co-operative banks or OPK,

whereupon insurance operations would have had a cooperative society background, OPK without OKO, OKO by itself or a combination of these. Serious thought was given to a situation wherein OPK would have been sole purchaser”. The co-operative mission, the identity of co-operative organization and the culture in OP Group were themes, among others, when the benefits and challenges were mapped by the negotiators. Due to the different organizational forms, OP Group had to compromise pure competition and co-operative principles. To fit themselves to the neoliberal economic regime co-operatives have to transform their organizational profiles one way or another. OP Group found its solution by using its central bank, an IOF – OKO Bank.

OKO was a listed company just like Pohjola. It was “one of the key reasons why precisely OKO was chosen as purchaser within the OP-Group” because “probably OKO would have an understanding of how to manage another listed company”. In this way, “attempts were made to ensure the emotional compatibility of the acquisition with the otherwise co-operative OP-Group through the structure of the purchase, as the interface in relation to co-operative banks would not change significantly”. Further, “to choose OKO as a purchaser strengthened OKO remarkably. It became bigger and stronger which was important in competition in financial markets”.

This was needed, as the co-operative organization has had discussions of: defending the OP Group in turbulent competition, the expansion of areas of operation, methods of growth aided by good group solvency (in order to preserve the OP Group’s ability to compete), customer benefits and raising the OP Group’s profile in the national field by breaking out of its old-fashioned and slow image (which was unsuitable for the banking field of competition). To do nothing was an alternative solution in discussions, but discarded as it did not match the group strategy with the goal of becoming the leading retail bank in Finland.

The process was revolutionary and exceptional, as democracy in decision making is a co-operative principle. If the buyer would have been OPK, the decision-making process would have been slower and heavier. It is possible that of such a project there would have been need to inform the member banks which might have caused problems. Choosing OKO as the buyer the decision making was easier as the acquisition decision was made by the Supervisory Board of OKO. In an IOF the decision could be made quickly, without the need to inform anyone. The power was concentrated in the Board of OKO, not the OP Group, even though it was the most important event for the OP Group (OKO Bank annual report,

2005). The OPK's Supervisory Board was informed of the matter on Sunday 11 September 2005, and the acquisition was made public on Monday 12 September 2005.

### **What can be accomplished?**

The presented time series helped us to understand the development of transnational economic flow that affected the development of Finnish financial economics. Further, the presented time series explained the development of the co-operative banking group in Finnish society. These perspectives enable us to gauge the national development behind the acquisition.

In this article we have expressed how the OP Group decided to take the lead and manifested public the strategy with the goal of becoming the leading retail bank in Finland by the end of the next decade, by the end of the 1990s (Saksa, 2007). The group's actions and strategy had a model of the world's then most profitable bank, Banco Popular Espanol, since its financial performance, structure, customer base and method of operation were very similar to those of the OP Group (Saksa, 2007).

The acquisition of Pohjola marked a step towards achieving OP Group's strategic objective of becoming the leading financial services group in Finland. It expanded the group's activities into the non-life insurance markets and reinforced its position in asset management, mutual funds and life insurance. After the acquisition OP Group was estimated to have market shares of over 30 per cent in banking, approximately 27 per cent in life insurance premium income, approximately 26 per cent in non-life insurance and approximately 21 per cent in mutual funds. Assets under management by OKO Bank's subsidiary, Opstock, were estimated to increase from approximately EUR 13 billion to approximately EUR 26 billion ([www.op.fi](http://www.op.fi), intranet, 2012–2014).

The enlarged customer base consisted of 3.1 million OP Group customers and 1.7 million Pohjola customers. At the time of acquisition OP Financial Group had 693 branches and Pohjola had over 80 branches, forming the most extensive distribution network in Finland for serving customers.

The acquisition expected to generate significant synergies for both OKO Bank and OP Bank Group. Revenue synergies for OP Bank Group were estimated at approximately EUR 45 million per annum pre-tax with full effect achieved in five years. OKO Bank's share of the revenue synergies was estimated at

EUR 17 million, cost synergies at approximately EUR 46 million per annum pre-tax with full effect in 2–4 years and OKO Bank’s share of the cost synergies at EUR 35 million. OP Bank Group and Pohjola were estimated to have shared customers of only around 30 per cent (in relation to Pohjola’s customer base). It was notable that the reorganization costs were estimated to be approximately EUR 40 million and OKO Bank’s share of the reorganization costs were estimated to be around EUR 30 million. Of these, the majority were incurred between 2006 and 2007.

The corporate acquisition was seen to have great importance, since one interviewee highlighted that “it was through the acquisition that OP Group rose to a whole new level”, with many changes in its sphere of influence. As our interviewees told us, OP Group had gone into the acquisition “as a banking group and came out as a financing group [OP Group]”. With regard to capital markets, OKO – now Pohjola Bank – “rose to become ranked amongst the fifteen largest Finnish exchange-listed companies”.

To the public, the acquisition was presented as generating better customer benefits, which was of social benefit and a national feat of valour (to ensure that Pohjola, with its long Finnish history, would remain under Finnish ownership). To cooperative banks, the acquisition was depicted as producing growth through new customers and committing to its current customers through new products and concentration benefits. For OKO the acquisition allowed for competition over the status of a commercial bank for large companies, access to becoming a respected market actor and the opportunity of market share growth, in addition to synergic benefits.

The OP Group turned the prevailing economic uncertainty into an opportunity from which customers could also benefit, since the integration of insurance operations into a customer-ownership based group would also bring additional benefit to the customers. Similar products and services were seen as protection against competitors’ comparable services and to protect the group in competition but also seen to be helpful when defending and hunting market shares. This development did not happen in one night, but during ongoing discussions and after following competitors’ actions over a long period of time. It was not painless either. In a rapidly changing financial world change is turbulent and need quick changes that may be painful to get through in an organization like a co-operative as the co-operative principles and identity have to be taken into account and compromised with. In such circumstances co-operatives have to move on and change.

## Conclusions

In this article, the co-operative form of business was analyzed in relation to global financial capitalism. The findings of this article lead to some new and important insights into co-operatives economic policy. As we move forward in the advancement of scientific knowledge in the area of co-operative banks and consumer-owned co-operation, it is notable that some of the mainstream strategic management studies can be integrated into co-operative management theory. In line with Hansmann (1999), a co-operative is generally dependent on economies of scale. We point out, that competition should not be ignored (cf. Grant, 2008; Porter, 1987) but it is an extremely important point of view when developing theories of co-operative organization and management in modern business world.

Through the transnational history conception, the flow of globalization is identified and the effects of the interplay between global financial capitalism and co-operative banking are recognized. Although this brief account of the history of financial capitalism does not bring many nuances to the understanding of this complex phenomenon, it supports the argument we are about to make in this paper. We argue that financial capitalism cannot be limited to a certain historical period (for instance the post-Cold War period or the neo-liberal era), nor can it be limited to a certain geographic area. Instead, financial capitalism is a long and slow process that began in the late 17<sup>th</sup> century and has flowed through centuries to be with us today. The scale and scope of the phenomenon has changed over time, but the fundamentals of the process are still in place.

The set of values, co-operative principles, purpose and identity differ significantly from the principles of IOFs and neoliberal global competition causing difficulties for co-operatives to try to fit in with the neoliberal economic regime. Thus, co-operatives face the global challenges as any other organization in action in the same turbulent markets of increasing competition. Neoliberalism affects the nature of co-operative banks in many ways. It standardizes organizations and whole lines of activities, products and services. Organizations have to concentrate in order to be more and more effective and enlarge their economic markets. The basic business concept takes the back seat when business ideas from a totally different organizational form push through. The result is consistent with the findings of Cornforth, Thomas, Lewis and Spear (1988) who conclude that co-operatives are becoming more and more similar to other forms of businesses.

Further, our findings support the notion, that “in the prevailing situation many co-operative enterprises have adopted capitalist operating principles at the expense of original co-operative principles” (Puusa, Mönkkänen & Varis, 2013, p. 6). In co-operative circles there have for long been discussions of the strategies and patterns similar to the ones used in IOFs, that have been accepted in co-operatives in order to create competitiveness and cost efficiency, when the final aim is to create value for members. Sooner or later the co-operative organization has to make a decision about whether they are a co-operative or not. This also supports the findings of Carrasco (2004), who, using the Spanish Cooperative Credit as an example, argues that the trivializing of co-operative principles is the true challenge when environments are changing and efficiency and competitiveness earnings are favoured. Another example of the effects of globalization is the story of the Mondragón Cooperative Corporation in which there is the fundamental loss of the co-operative identity. To reach global markets, Mondregón had to reorganize itself and adopt new business models and strategies; however, the centralization of decision making demolished democratic and equal participation (Huet, 1997).

In this study we point out that neoliberalism causes dilemmas in the form of twofold identity problems for co-operatives. In marketing operations a co-operative has to identify itself as a co-operative. But, in financial world it must compete as an IOF, which it is not. For the co-operatives there may be difficulties in trying to fit into the neoliberal economic regime; this culminates in the dual nature of co-operatives (see Puusa, Mönkkönen & Varis, 2013; Skurnik, 2002; Draheim, 1952). Thus, in the financial, capitalistic world it is not surprising that co-operatives have adapted the changes in the competitive environment. We argue that although neo-liberal financial capitalism challenges co-operative banks, it can also provide new instruments for competitiveness. Instead of losing identity and values, co-operative banks can adopt a double identity that contains elements from both co-operative and financial capitalism. A co-operative organization may interpret it as pragmatic to use the IOF format to prevent threats and, at the same time, to capitalize on potential options. In defence of dual nature (see. Draheim, 1952; Skurnik, 2002), the co-operative organization is in a way assimilating the combat between different business models as a hybrid organization with a double identity (those of both an IOF and a co-operative). That is, producing benefits for members always takes place in the relation to the competitors. As highlighted in our empirical data, the case co-operative of this article is a brilliant example of how flexible a co-operative organization can integrate itself to the changes of markets and competitive environments, respond to the competition but also create and increase value to the customers and owner-members by using a double identity.

This is the opposite to the attitude of doubt about whether the co-operative form of business can be competitive in markets due to its alleged inflexibility (Mooney & Grey, 2002). Instead, this strengthens the belief that there are no reasons to expect that co-operatives are any less successful organizations than their IOF-based competitors. Further, cooperatives are not a peripheral, old-fashioned or culturally limited form of organization but competitive organizations wherein strategic planning may force to fall the serious challenge of globalization procedures and the norms of standardized banking operations. The findings of our empirical evidence support the matter: the case organization, the co-operative OP Financial Group, today under name the OP Financial Group, has a strong local identity that is born through the local, independent member banks. During over one-hundred-year long history, the OP Financial Group has gone through massive changes from small local rural units to being the leading banking group in Finland. The banking crises starting at the end on 1980s formulated Finnish banking field radically. After several M&As the result was effective, international banks which competed with the OP FinancialGroup. The IOF-based competitors of the OP FinancialGroup developed their portfolio of products and services. The OP FinancialGroup adopted a careful role of following the manoeuvres of the competitors carefully in the beginning of 1990s. The more the competitors went to the flow of global capitalism, the more the group wanted to respond to the competition. The bank group had a thirst for success, it had decided to aim for market leadership and challenge its international competitors' financial conglomerate concepts by procuring an operating model to suit its own concept. At the same time, the group would also receive financial benefit: it could utilise its strong solvency, receive synergic benefits and opportunities for growth in the Finnish financing field, since it did not intend to follow its competitors onto the international markets. The solution was finally realised in 2005 in the form of the acquisition of Pohjola. We point out, that in situations wherein a variety of opportunities and threats are seen as emerging in upward frequency, an acquisition may be the best response to increasing globalization in dynamic and complex business markets.

Further, in this article we investigate how a co-operative bank that has a strong local identity responds to the challenges of global capitalism. According our data, the options for a co-operative bank to respond to the challenges of global capitalism are strategic choices: to defend, to follow competitors or to do nothing. To do nothing may be a sign of weakness but in highly competitive markets, such as finance and banking are today, it may cause downturn negative growth and a loss of market shares. To follow and imitate competitors is a clever leadership model, such as the case co-operative organization has operated for decades. Thus, the threats of imperfect information on competitors are always a risk. To defend an organization requires strong strategic moves, typical of investor-owned organizations, such as mergers

and acquisitions. Growth via acquisition enables co-operatives to build bigger units and to get better functionality and efficiency but also to protect the functionality of local co-operatives. In situations where a variety of opportunities and threats are seen as emerging in upward frequency, an acquisition may be the best defensive response to increasing globalization in dynamic and complex business markets. This supports Birgegaard and Genbergs' (1994) conclusions about organizations ending up in down-turn spirals if they stay out of global competition.

According to our data, an acquisition of another organizational form, taken to diversify through acquisition, is a way for a co-operative bank to respond to the challenge of global capitalism. Diversification gives possibilities for synergies and the possibility to grow and develop new services and products to the customer. Such an acquisition is an answer for a co-operative in order to build a unique and original business model. The evidence of the data concerning diversification must be seen as a successful business strategy, as it made possible the growth and competition in new markets. The earlier close co-operative forms, involving several insurance companies, taken before the acquisition enabled the group to evaluate the synergies that could possibly be reached through the insurance business.

The answer, an acquisition of an IOF is in line with the findings of Carrasco (2004), that transformation of a mutual or cooperative society in capitalist society or business and uses of mutual or cooperative society transformation towards its clients portfolio transfer to subsidiary share societies. The dilemmatic challenge of globalization that occur for the strategic management of co-operatives meant that the managers should find a balance with the double identity, the co-operative identity and the challenges of the global business atmosphere. How to think global, but act local – that is the dilemma.

Our findings express how the change of economic regime will be irreversible. The acquisition and post-acquisition integration caused massive, irreversible changes through the whole organization. It is impossible to return to the OP Group as the neoliberal transnational flow destroys the old basic structures and rationalizes the whole organization in the new neoliberal mood. In the case organization democratic principles have been highly valued. Still, a small group could make such a decision that permanent changed the whole group. This proves that to be competitive in the neoliberal regime, co-operative banks and organizations may have to partly sacrifice their co-operative identity and democratic principles.

Our study has managerial implications too. Our work may serve as a starting point for co-operative managers in their communication in order to justify the option of the acquisition of another organizational

form. Our research gathered together many of the essential (sometimes dilemmatic) themes through which the familiarity toward co-operative ideology could begin. Overall, we hope that a lot of research on the topic will follow.

*During the time spent developing this article, the strategic changes in the OP Group are still going on. In February 2014, OP-Pohjola Group Central Cooperative Consolidated executed a public voluntary bid for Pohjola Bank plc shares. After the end of the extra offer period, OP Group Central Cooperative's ownership increased to approximately 98.41% of the shares and to approximately 99.14 % of the votes conferred by the shares. On 11 April 2014, OP Group Central Cooperative initiated a squeeze-out procedure under the Limited Liability Companies Act for the remaining shares in Pohjola. The operation is accomplished in order to recall Pohjola from stock markets. In the autumn of 2014 the group published the new line organization that is planned to go through the whole organization. In the beginning of the year 2015 the group changed its name from the OP Pohjola Group to OP Group. At least temporarily, the co-operative side has been victorious. For now, there is no need to talk about lack of dynamics. Thus, the external pressure of competitiveness remains.*

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## **Publication II**

Rosas, Saila, Jussila, Iiro and Tuominen, Pasi

**Diversification through Acquisition: Co-Operative Banks as Dynamic Players in Competitive Markets.**

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## **Diversification through Acquisition: Co-Operative Banks as Dynamic Players in Competitive Markets**

Rosas Saila\*, Jussila Iiro and Tuominen Pasi

*School of Business, Lappeenranta University of Technology, Finland*

Mainstream strategic management literature has for long considered acquisition as one of investor-owned firms' options when pursuing growth – to survive competition and gain greater profits. Relatively little attention has been given to this option in literature on co-operative enterprises. Therefore, the main purpose of the qualitative study at hand is to advance knowledge on strategic management of consumer co-operatives with a focus on acquisitions. Our interview data concerns one of the biggest corporate acquisitions in Finland, which served to give birth to the country's leading financial services constellation: OP-Pohjola Group. Analysing the data we depict the context of the acquisition decision, identifying particular themes (forces and boundary conditions) seen as setting the stage for the strategic move and generate a model that helps explain when and why acquisition becomes a relevant strategy for a consumer co-operative (bank). Our study shows that mainstream strategic management doctrine can be integrated into co-operative management theory to the extent it fits the purpose of co-operative organizations.

Keywords: co-operative, bank, competition, growth, diversification, acquisition

### **Introduction**

Acquisition (industrial restructuring) is a popular strategic decision in companies responding to increasingly intensive competition in globalizing markets, in which a variety of opportunities and threats are seen as emerging in upward frequency. Acquisition research has raised questions such as which choices made in acquisitions are likely to lead to success (Fowler & Schmidt, 1989; Kitching, 1967; Kusewitt, 1985; Salter & Weinhold, 1979; Söderberg & Vaara, 2003), what types of acquisitions lead to better results in terms of financial or synergy performance (Chatterjee, 1986; Chatterjee & Lubatkin, 1990; Lubatkin, 1987; Porter, 1987; Söderberg & Vaara, 2003), and how performance is connected to resource development (Capron, Dussauge & Mitchell, 1998; Capron, Mitchell & Swaminathan, 2001) or acculturation (Larsson & Lubatkin, 2000). Scholars have also been interested in how management can bring about the potential synergistic benefits (Chatterjee, 1986; Larsson, 1990; Shrivastava, 1986; Söderberg & Vaara, 2003), create value (Haspeslagh & Jemison, 1991), transfer knowledge or capabilities from one organization to another (Bresman, Birkinshaw & Nobel, 1999) or organizational learning (Leroy & Ramanantsoa, 1997).

Even if acquisitions are typically associated with listed firms (profit-maximizing, investor-owned firms), there are also other institutional forms of business that participate competition in different

markets, thereby facing similar needs to grow and respond in order to survive competition. A form of business that has received less attention in acquisitions discussion is the co-operative. While the development and evolution of co-operative enterprises is typically depicted as organic: slow and stable (Tainio, 1999), it has been proposed that also co-operatives may use acquisitions as part of their strategy (e.g., Boscia, Carretta, & Schwizer, 2009; Boscia & Di Salvo, 2009; Jussila, Tuominen, & Saksa, 2008).

So far research on acquisitions (and mergers) in the context of co-operatives (and financial mutuals) has been directed at market position (Hingley, 2010), structural change (Liebrandt, 2001; Thompson, 1997), size and profitability (Kammlott & Schiereck, 2001), the influence of capital constraints (Richards & Manfredo 2003) or financial, managerial and regulatory influences on merger and acquisition (M&A) activity (Worthington, 2004). However, there is lack of detailed analyses of acquisitions by co-operatives in general (Richards & Manfredo, 2003) and co-operative banks in particular (Worthington, 2001, 2004). In this paper we start filling the gap by investigating how strategic decisions concerning acquisitions are reasoned in the context of co-operative banks. More specifically, we analyse data on one particular acquisition to generate new insights on the topic. While the additional insight created in this paper advances primarily research on the management of consumer-owned financial co-operative institutions, we believe that on the analytical level it is valuable for researchers and

\*Corresponding author. Email: saila.rosas@op.fi

practitioners in other consumer-owned co-operatives as well.

The paper is structured as follows. We start with a description of the data and methods of our study. Next, we analyse data from the financial services constellation laying out major themes on the reasoning of OP Bank Group's acquisition of Pohjola. First, the acquisition is linked to and grounded on the purpose of co-operative banks: the creation of user-owner-value. Second, it is associated with growth demands arising from competitive interplay between the co-operative bank group and other major players in the Finnish financial services markets – an interplay that co-operative banks are seen as required participating in order to follow their mission. Third, the acquisition is connected with particular kind of diversification demands arising from limitations in options of a region-bound organization that does not have growth opportunities in its existing markets. Finally, we follow the evidence to put forward suggestions for future conceptual and empirical work as well as practice on the topic.

#### Data and Methods

The study at hand offers perspectives on one of the biggest acquisitions ever done in Finland as OKO Bank, owned by a group of co-operative banks (OP Bank Group), acquired in September 2005 a majority stake in Pohjola (a listed insurance company) and integrated it with the co-operative group to form the OP-Pohjola Group.<sup>1</sup> We chose this particular example, because of its unusual revelatory and an opportunity for unusual research access (Eisenhardt & Graebner, 2007; Yin, 1994). The access was allowed as the first author works as a bank manager in a local co-operative that it is part of the financial services constellation. Besides access, there are also other benefits to this engaged scholarship (i.e., “method in which in which researchers and practitioners coproduce knowledge that can advance theory and practice in a given domain” (Van de Ven & Johnson, 2006, p. 803). We believe that having one of us working in the organization under investigation provides us with deeper understanding of the acquisition and the context in which it took place. This should enhance the reliability of our study, as our interpretations are contrasted over a longer period of continuous observation.

The primary data of this theory elaboration paper (Lee, Mitchell & Sablinski, 1999) is qualitative (Denzin & Lincoln, 1994). More precisely, we use interviews and archival materials (e.g. annual reports of OP-Pohjola, Nordea and Sampo) to generate a model that helps to explain when and why an acquisition becomes a relevant strategy for a consumer co-operative (bank). The material was gathered by the first author. In order to

mitigate challenges related to interview data (bias), the first author used “numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives” (p. 28). In year 2009 she interviewed 36 decision-makers of the OP-Pohjola Group: CEOs, managing directors and managers both in central units and local banks. The interviews lasted from one to even three hours as the acquisition process, decision and integration as well as other aspects related to the strategic management of the constellation were thoroughly covered.

In the attempt to compose a valid and reliable study, the recorded and transcribed material from the interviews was first studied systematically in order to understand the context of our study. After that we started conducting thematic analysis. Our approach was theoretical, which means that in contrast to coding for any themes related to acquisition (inductive thematic analysis), we were interested in the way the acquisition was reasoned across the data and coded accordingly (Braun & Clarke, 2006). The research question guiding our coding process was “*What are the main reasons to the acquisition and the formation of OP-Pohjola Group?*” After the coding process we started to analyse our codes and considered how different codes may combine to form an overarching theme (cf. Braun & Clarke, 2006). To give an example of the formulation of one of our three main themes, we noted that the acquisition was reasoned with creation of economic and social-psychological value to the user-owners, promotion of the economic and non-economic interests of the membership within the society, and representation of the national interests on the international level. Thus, it seemed that the co-operative purpose would be a unifying theme for these codes and the first of our three main themes was formulated (the other two being competition and geographic-boundness & lack of growth opportunities in existing markets). During the process we organized the data under these themes, analysed in detail, associated, and reduced it in order to reach the objectives of the study with the given foci. The following sections present the outcomes of our joint use of these techniques.

#### The Context of and Reasons for the Acquisition

In this section we describe the context of the acquisition of Pohjola by OP Bank Group. In addition, we examine reasons given to the acquisition in our data. In other words, we interpret how organizational actors talk about the acquisition and provide accounts of why OP-Pohjola Group was formed. The co-operative purpose is the first overarching theme.

#### *The co-operative purpose provides the foundation for acquisition decision*

The purpose of a firm is stated in its mission. According to Hill and Jones (2008), mission provides “the framework or context within which the company’s strategies are formulated” (p. 1). In our data, the purpose and stated mission of co-operative banks provide the frame for their strategic management and OP Bank Group’s acquisition of Pohjola makes no exception. As will be seen in the following, the acquisition finds its foundation in the complex purpose of co-operative banking.

First, in line with consumer co-operative literature (e.g., Jussila et al., 2008; Mills, 2001; Normark, 1996; Tuominen, Jussila, & Saksa, 2006), it is put forward in the data that the purpose of co-operative banks (owned by financial service consumers) is to serve their members by operating in businesses that have relevance to the members and are economically beneficial to them. Further, consistent with the ideas set forth by Jussila and colleagues (2008), it is maintained that Pohjola acquisition is central to realizing this purpose (of creating economic value to the user-owners). In more concrete terms, and in line with Fried, Lowell, and Yaisawarng’s (1999) study from credit union context, it is explained that via the acquisition it is possible to create additional service benefits to the members. As our interviewees put it:

“I think that here is the answer to why this was worth doing; through the acquisition it came possible for us to provide the member-customers with concrete benefits for concentrating (their transactions with the co-operative bank) and not just some nominal rewards.. in other words the acquisition was not a smart business move for making money to the OP Group.. or how should I put it.. rather it served the realization of the co-operative purpose..”

Second, consistent with existing literature on consumer co-operatives (e.g., Jussila & Tuominen, 2010; Tuominen et al., 2006), our interviewees consider that the purpose of co-operative banks is to create not only economical, but social-psychological value to the members (see also Jussila, Goel, & Tuominen, 2012). This non-economic side of the purpose is referred to as another justification to the acquisition. In fact, it is maintained in our data that the mission statement of the group (cf. Hill & Jones, 2008) was modified to highlight this side of the co-operative purpose. As some of the interviewees state:

“We are for real in the promotion of member welfare and security and without this acquisition we would not have this opportunity.”

“One of the premises of co-operative philosophy is the improvement of different sectors of life including economic prosperity and security.. thereby I think there is actually quite a strong ideological link between insurance business and co-operative philosophy.”

“The mission (statement) was modified after the acquisition.. it is to offer our customers and the locality not only economic success, but also security... I think this fits our purpose very well..”

Third, it is seen that the co-operative banking group exists in part to promote the economic and non-economic interests of the entire membership within the Finnish society. Pohjola acquisition is argued to substantially contribute to the realization of this purpose. As one of the interviewees says:

“Pohjola indemnity insurance, as an actor on its own, was a very influential actor in Finnish business life.. its integration to a major banking actor created an entity with significant power...thereby we were lifted to a totally different league resulting in many new opportunities in the circles of power...”

Fourth, it is maintained that representation of national interests on the international level is part of the multifaceted co-operative purpose. According to our data, also this aspect of the co-operative purpose could be realized through the acquisition. As our interviewees highlight:

“There was a lot of social demand for the acquisition, because at the time we did it there was a lot of talk about Finland turning into subsidiary economy leading to a loss of competence and capital as the ownership of companies are increasingly being transferred abroad..”

“It was well known that Pohjola is for sale... on the market and in business magazines it was printed several times that there is such a change that.. it was discussed whether Pohjola’s ownership will go abroad or remain in Finland..”

“Pohjola was for sale and a buyer was sought for.. it was really good that the one found was a domestic company.. it was a union of blue and white capital..” [i.e., as the colours of the flag of Finland]

In sum, in a variety of ways, the co-operative philosophy and the different aspects of the purpose of co-operative banks are associated with the acquisition to provide reasons for the substantial strategic decision. Another major theme in our data on the rationale for the acquisition is competition. It is suggested that developments in the competitive financial services industry served as the impetus for the acquisition decision. We will turn our attention to this reason in the following.

#### ***Competition provides the impetus for acquisition decision***

It is highlighted in our data that co-operative banks compete in an open market with other service providers. In other words, the strategists of co-operative banks do not see their organizations as existing in a closed system with their members. On the contrary, consistent with literature on utilitarian member commitment (Jussila, Goel & H. Tuominen, 2012), membership and patronage in the co-operative are voluntary and the members are seen as

having the possibility to exit and take their customership elsewhere. In other words, the mission of the banks can be seen as defined relative to other service providers. In these relative terms, and consistent with the work of Boscia et al., (2009), Boscia & Di Salvo (2009) and Jussila et al. (2008), among others, our data suggests that the fundamental objective of the co-operative bank is to operate in a manner that members choose to maintain an active customer relationships with the co-operative as opposed to establishing one with a competitor (cf. Jussila, et al., 2012). In this context, as previous work maintains (e.g., Boscia & Di Salvo 2009), in order to secure the realization of their user-value-creating mission in the long-run, co-operative banks have to be active in developing their competitive power and in reorganizing their structure, when challenged by specific market, technological, and regulatory trends.

Prior to the acquisition, the banking industry had been in a restructuring process in order to adapt to the pressures of financial market globalization, European integration (Björkman et al., 2003; Boscia & Di Salvo, 2009; Kamlott & Schiereck, 2001; Stefanelli, 2009; Worthington, 2001), technological development, and the overall restructuring in financial services sector (Björkman, et al., 2003; Boscia & Di Salvo, 2009). Around year 2000 OP Bank Group had already engaged in a defensive operation together with insurance companies Suomi and Ilmarinen to prevent its competitors, Nordea, Sampo and/or Tapiola to conquer Pohjola. Ever since, the strategists of co-operative banks followed closely as the competitors built financial empires of their own by internationalising and merging (cf. Stefanelli, 2009).

Around the time of the acquisition, there were three leading bank groups in Finland: OP Bank Group (30, 5% share of all Euro-dominated loans in year 2004) and its investor-owned competitors Nordea (52%) and Sampo (14%) (“Federation of Finnish Financial Services”, 2011; *OKO annual report*, 2004; *Nordea annual report*, 2004; *Sampo annual report*, 2004). In early 2005, Nordea Bank Finland Plc, a part of The Nordea Group (established in the middle of 1990s through a series of cross-border mergers and acquisitions in the Nordic countries; see Björkman et al., 2003), announced it was the leading financial corporation services group in the Nordic and Baltic Sea region (operating in three business areas; retail banking, corporate and institutional banking and asset management and life insurance and pensions). Sampo, on the other hand, announced it was a financial services group (comprising of the leading P&C insurance company in Nordic countries; Sampo Bank, an expert in retail and corporate banking services for customers in Finland and the Baltic countries; and Sampo Life, an expert in life and pension insurance products for customers in

Finland and the Baltic countries). Also Tapiola (a Finnish insurance company) was starting its own banking business. S Group, a consumers’ co-operative retailer, was also entering banking services.

According to our data, consistent with observations from other markets (Boscia et al., 2009), competition faced by the co-operative banks was extremely hard and the increasing pressure was not unnoticed by strategists of OP Bank Group. In year 2005 it was evident to them that without a bold strategic move, the group would be in a disadvantaged position as compared to their growing competitors. As one of our interviewees describes:

“There was quite much pressure to do something.. the competitors were starting their financial department stores.. some establishing their own bank (Tapiola & Sampo) and some buying insurance businesses (Nordea & Sampo) etc.. we were moving back to the traditional idea of financial department stores..” (brackets added)

By the disadvantaged position, the interviewees referred to the fact that both Nordea and Sampo offered better benefits to customers (as compared to OP Bank Group) in the form of discounts of their services as both their bank- and insurance services were “wrapped in one packet”. Both financial groups build new image of financial ‘department store’ announcing this combination of products (i.e., “all services under one roof”) means better customer service and better benefits: customers do not need to go elsewhere. The target was to drop out competitors from financial markets and to strengthen the positions both Nordea and Sampo already had (*Nordea annual report*, 2004; *Sampo annual report*, 2004). As Nordea announced:

“Competition in the financial services industry is gaining intensity, leaving less room for the average players. In this highly competitive environment the key is to leverage on one’s strengths, to master transformation and maintain focus and speed”.

In line with the purpose and strategy of their co-operative constellation, the OP Bank Group top-managers decided to acquire Pohjola to strengthen the group’s competitive position. As one of our interviewees puts forward:

“The fact that we proceeded with the acquisition in the first place was justified by our strategy.. we wanted to strengthen our position in this Finnish playground..”

According to our data, three questions were asked before the decision was made: (1) “are we ready to go into insurance business?”, (2) “do we afford it?”, and (3) “can we successfully integrate the new line of business into our structure?”. After thorough consideration, each of the questions was given a positive answer. First, there was competitive pressure to go on the one hand and attraction to the move on the other hand. Thereby, the decision-

makers saw ‘green light’. Consistent with extant literature from investor-owned contexts, it was believed that the positive effects of growth (Kammlott and Schiereck, 2001) in size via acquisition enables the co-operative bank to achieve important scale economies, additional market shares (Sevenius, 2003; Öberg & Holmström, 2006) and/or synergies (Ansoff, 1984; Porter, 1998; Schmitz & Sliwka, 2001; Walter & Barney, 1990; Öberg & Holmström, 2006) – even if the realization of these is not always verified in empirical studies (Stefanelli, 2009). In retrospect, the readiness to go is what kept the group in the game and evolving (i.e., avoiding the risk of regression). As our interviewees stated:

“..we realized that by integrating indemnity insurance and banking we get insurance customers from Pohjola to use our banking services and vice versa..”

“if we did not have indemnity insurance business today, I believe we would feel lonely and stagnant.. the acquisition has been extremely important factor considering the renewal and dynamism of the group..”

Second, it was calculated that the group as a whole does afford the acquisition. The background to this relates to a traditional debate in the co-operative movement. It is sometimes argued that co-operatives have a mandate to return all profits to their owner-members (Richards & Manfredo, 2003). However, it is also argued that co-operatives need to make some profit in order to invest in whatever is needed to survive competition (cf. Jussila et al., 2008). The member banks of the group had made profits and retained them as reserves to promote economic sustainability and strategic flexibility. As one of the interviewee says:

“we were able to do it as we had and still have strong solvency buffers so that the acquisition did not shake our basic operations..”

Finally, integration of the new line of business into the group’s portfolio was believed to be a success and lead to substantially stronger competitive position. It was believed that “we can increase the efficiency of our operation as we integrate our systems”. Further, one of the projected, realized, and still most potential synergies is the members’ use of their bonuses (gained from the use of banking services) to pay for insurance services. As our interviewees put forward:

“..we have an overwhelming opportunity as compared to the competitors to distribute profits to the customers in terms of lower prices and bonuses.. another co-operative group (S Group) has distinctively done it for a long time so why could we not do the same also here on the financial sector..” (brackets added)

“the promise we make to our customers.. as the use of bonuses is clearly understood, it will support

this and make it overwhelmingly most important benefit of the acquisition..”

Linking back to extant mainstream literature, it seems that Porter’s (1980) and Ansoff’s (1957) lessons from diversification as common reason for acquiring other companies (Weston & Weaver, 2001; Öberg & Holmström, 2006) apply in the co-operative context, but for a different purpose. The co-operative group is not after increase of shareholder-value through greater sales volume obtained from new products or new markets or both (Ansoff, 1957). Instead, it aims at increasing value to the user-owner (i.e., member) by creating an opportunity for the member to increase the total sum of transactions with the co-operative group and, thereby, materialize additional value through use – contributing to the competitive position of the co-operative bank (cf. Jussila et al., 2008). As a top executive states based on his analysis of competition:

“I saw that we need another service that is valued by the customers and is closely associated with our financial services entity and this is precisely what indemnity insurance offers..”

Noteworthy, to moderate the risks of acquisition (cf. Grant, 2008; Porter, 1987), the chief strategists of the group considered it important that they do not step too far from their current activity – which might necessitate significant expanding of human and financial resources and detract focus, commitment, and sustained investments in the core businesses (Porter, 1987). Instead, as the above quotation indicates, they wanted to embrace the co-operative mission and ensure a long-term consistency in their strategy (Grant, 2008).

In sum, the co-operative bank group had monitored the competitive environment for closely for a longer time with a specific focus on the restructuring of the field. It had also actively taken part in the game before the acquisition – a move consistent with the co-operative purpose and strategy, and motivated by competitive dynamics and the better position that would be achieved through it. There was readiness to go through such a bold operation, financial reserves to do it, and a strong belief in successful integration – partly due to the fact that insurance business is close enough to the group’s original operation to include fewer risks and to provide strategic consistency.

In the following section we provide additional understanding to the question – why the co-operative banking group chose to diversify through acquisition. Here our data touches an evident but sometimes ignored limitation to co-operative bank strategy: geographic-boundness.

***Geographic-boundness and lack of growth opportunities in existing markets push towards diversification***

According to Grant (2008) diversification makes sense when a company has exhausted growth opportunities in its existing market (i.e., the context of competition for the provision of particular service or product) and can match its existing capabilities to emerging external opportunities (Grant, 2008; Harper & Vigurie, 2002). Further, Porter (1987) points out that a firm should choose this option only when the current product or market orientation does not offer further opportunities for growth. According to our data, the co-operative banks had arrived in such a situation prior to the acquisition and Pohjola offered a great opportunity. As our interviewees state:

“..we should grow somehow.. as our market share (in the existing market) is about 80 per cent ... so where do we get the growth from” (brackets added)

“..the co-operative bank group stepped into something totally new.. we opened a door for an opportunity which I think was the key issue here.. it gave us a basis and potential for substantial growth..”

Even if co-operative banks compete in the same open market as commercial banks and, thereby, have to react to restructuring of their field and to the moves of their competitors (Boscia and Di Salvo 2009), something is different. Whereas investor-owned banks have the option of growing through acquisitions of banks with a similar service portfolio in other regions or countries, such option is not viable to co-operative banks since they are tied to serving a particular geographic area: the area inhabited by the user-owners (Boscia & Di Salvo, 2009; Jussila, Kotonen, and Tuominen, 2007; Tuominen et al., 2006). Thereby, a co-operative bank (or group) is more likely to acquire a firm with a similar geographic reach, but with a different business portfolio. Partly due to the geographic-boundness, successful co-operation in the financial industry requires activity and proactivity in industry restructuring games. As our interviewees note:

“..our position as a domestic actor was quite strong in some areas of business.. we could see a situation in which growth would not be possible and foreign establishment was not a strategic goal and still is not.. so diversification to another industry is a natural way for us to grow..”

“I believe it is our strength which this (co-operative banking) has always build on and most likely should be build on.. that we are part of and entirely locked in our surrounding environment, this operation area and these people.. we live or die together with them..” (brackets added)

“We have to change according to the needs of time and be active in our operating area.. to see forward and seize opportunities right away if there

are no obstacles...it describes our way of operation that we do not want to look ahead just three months but 25 years..”

While geographic-boundness is a limitation, it is also seen as one of the strengths of co-operative banking. For example, acquisition within the same geographic area the acquirer already operates contributes to risk management. As an interviewee acknowledges: “..growth is more secure when pursued at homeland rather than abroad”. Another related point is that the long-time horizon also moderates the risks as trends are carefully monitored over a longer period of time and decisions are not rushed: even if they sometimes seem to be made fast, they are actually end-products of longer strategic processes with a lot of high quality information involved.

In sum, the co-operative banks' typical role is to serve markets with clear geographic boundaries (the area inhabited by the user-owners) without the option of relocating to another environment. With this limitation, co-operative bank and constellation managers face in competitive conditions a dilemma of growth, which can be solved by diversifying through acquisition of firms with similar geographic reach, but different (and close enough) service portfolio. This can also be seen a safer way to grow than going abroad as the ‘unity of fate’ between the co-operative and territory it is bound to motivates co-operative strategists to monitor the territory in the long-run and have them equipped with quality information needed for good decisions.

## Discussion and Conclusions

As depicted in Figure 1. our study shows that strategic management of co-operative banks is based on their purpose (mission) to create member value (cf. Jussila, et al., 2008). In a competitive (free market) context, co-operative banks face a need to follow when their competitors grow. However, co-operative banks are geographic-bound due to user-ownership and, thereby, they need to grow within a given geographic area (i.e., that inhabited by the user-owners). If there are no growth opportunities in the existing markets, co-operative banks need to diversify. As member benefits are always relative to alternative service providers, this type of growth strategy is particularly important for co-operative banks when competitors diversify to add value to their customers. In this context, if there is an opportunity to diversify through acquisition within the given geographic area, then acquisition is a viable option for a co-operative bank (group).

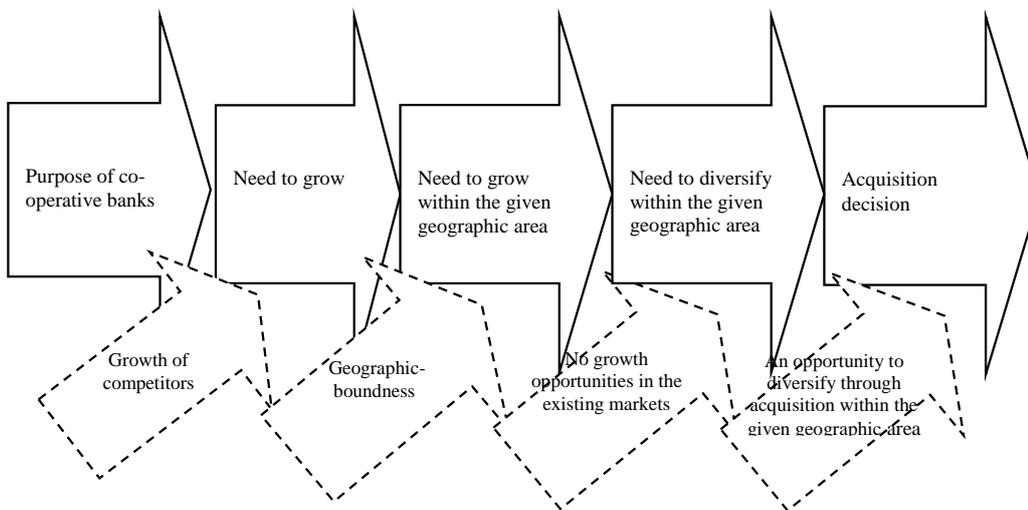


Figure 1. Diversification through acquisition: Executing co-operative purpose in the context of competition and geographic-boundness.

Our findings are consistent with prior literature on co-operative financial institutions and consumer co-operation (e.g., Boscia, et al., 2009; Boscia & Di Salvo, 2009; Jussila, et al., 2008), but does not fit the typical view of co-operatives as slow and stable organizations (Tainio, 1999). Further, our study extends knowledge on the role of acquisitions in co-operative organization and management (e.g., Richards & Manfredo, 2003; Worthington, 2001, 2004) as it sheds light on the reasons to (justification of) acquisition and helps us to understand the roles of co-operative purpose, competition, geographic-boundness, and growth opportunities in a decision to diversify through acquisition.

#### *The utility of our findings for future research*

As we move forward in the advancement of scientific knowledge in the area of co-operative banks and consumer co-operation, it is useful to realize that some of the mainstream strategic management doctrine (e.g., Grant, 2008; Porter, 1987) can be integrated into co-operative management theory. However, as the mainstream doctrine is created primarily with profit-maximizing entities in mind, scholars must be cautious in the adoption of these ideas. In our view, a safe way to do this is to investigate (with sufficient criticism) how the mainstream ideas are in practice linked to the execution of co-operative purpose - maximization of member satisfaction (cf. Jussila et al., 2008; Peterson & Andersson, 1996) - and under what circumstances are they to be applied and why. Thereby, we believe that an inductive approach is appropriate to elaborate theories of co-operative organization and management.

It is also useful to realize that the purpose of co-operative banks and consumer co-operation (that provides the frame for strategic management of these organizations) needs additional scholarly attention. In line with extant literature (e.g., Fried et al., 1999; Jussila et al, 2008; Mills, 2001; Normark, 1996; Tuominen et al, 2006) economic aspects (benefits) are central in our study. However, consistent with the lessons of Jussila, Goel and, Tuominen (2012), our study suggests that the purpose of co-operative banks is also to create social-psychological value to the members. In other words, value of co-operation and the co-operative to the members not easy to grasp. We believe it would be useful to come up with a definition of member-value that covers the different aspects (facets) that prior research and the study at hand give leads to.

Further, our work suggests that competition (cf. Grant, 2008; Porter, 1987) must be acknowledged when developing theories of co-operative organization and management. Participation in the interplay and reciprocal decision-making between different actors in a market-place does not seem like a topic that has received much attention in co-operative literature. In our view, competition should not be ignored. We believe that future research would benefit of longitudinal studies and a more processual view of competition and the execution of the co-operative mission under competitive conditions. In the competitive context the realization of the co-operative purpose and purpose based reasons to (justifications of) strategic moves may become visible. It is also in the competitive context that co-operatives may appear as more dynamic actors than they are typically seen. Why co-operatives are typically seen as slow and stable

is itself a question worth answering. We believe that the view has to do with the fact that co-operatives typically counteract market failures and, thereby, are more likely to appear in less competitive environments. In other words, their previously depicted 'nature' may be more associated with typical environments than the co-operatives themselves.

Another useful avenue for advancement of knowledge on co-operative organization and management that can be identified based on our research relates to 'geographic-boundness.' There are several references to this condition of consumers' co-operative societies in existing literature, but none seem to go deep into the issue. In other words, it would be worth advancing the knowledge of the ways in which co-operatives are bound to their operating areas and what consequences this boundness has on co-operative organization and management. More specifically: how do co-operatives deal with the boundness? Are there, as our data seems to suggest, some positive effects on co-operatives of this 'live or die together' relationship with the operating area as compared to competitors that do not have such relationship with it?

Finally, while acquiring another organization, an IOF, and integrating it in a co-operative organization is likely to include substantial risks (cf. Porter, 1987), we found strong belief in success and in that risks can be moderated by staying close to 'home-base' in terms of both service and geographic reach. In our view, it would be interesting to study the integration from resources and capabilities –perspective as well as a cultural perspective. The co-operative bank group did have the financial resources to acquire the insurance company, but what were other critical resources and their role in the acquisition and integration? Further, what was the impact of the integration to the new born group? Were co-operative banks able to maintain their philosophy or was there perhaps movement towards philosophy of profit-seeking companies (cf. Richards & Manfredi, 2003) leading into a conflict between the operation of the group and member interests (cf. Kammlott & Schiereck, 2001)?

#### *The utility of our findings for co-operative management practice*

In the lack of well established co-operative management doctrine, co-operatives are always at risk of their management losing sight of their purpose. Our study suggests that it is critical for co-operative (bank) managers to have the purpose and mission of their organizations crystal clear as they think of alternative courses of strategic action. However, what is useful for co-operative (bank) managers to realize is that they can adopt

mainstream doctrine in their practice if they are (like researchers) critical in their use of ideas and lessons from investor-owned context. Based on what we found in this paper, it is safe to say that acquisition is one of the corporate-level strategic actions that can be applied to co-operative context for the members' benefit. Since these actions challenge the managers and directors, training on these issues should be provided (cf. Berger, Hunter & Timme, 1993; Rhoades, 1993; Shaffer, 1993; Worthington, 2001). Further, while the notion of the differences between IOFs and co-operatives may be obvious to those familiar with the latter, these differences are not recognized in mainstream strategic management literature that future managers are typically socialized to. Thereby, co-operative management training must guarantee the recognition of the differences.

Second, the co-operative movement may sometimes become too preoccupied with its internal matters without sufficient focus on the competitive environment. A useful lesson from our study is that it is important for co-operative (bank) managers to carefully analyze competition and acknowledge that the realization of the mission of co-operative (banks) is always relative to what the competitors do and deliver. In the Pohjola acquisition example the competitors had already got some lead in the market before the OP Bank Group managers realized there was need to move. It was competition and more precisely the decisions of the competitors that provided the impetus for the acquisition decision. To be safe, co-operative (bank) managers must be active in developing their organization's competitive power, products and services and proactive in reorganizing their structure. Otherwise they may not reach superiority over the competitors and their members may not choose to maintain an active customer relationship with the co-operative.

Third, it seems to us that consumers' co-operative societies (to which co-operative banks can be seen as belonging to) and their members might benefit of the use of diversification strategy. Our study leads us to suggest that co-operative (bank) managers should be looking in the geographic area they are bound to opportunities for delivering additional value to their members. As they enter new product or service markets, but remain close enough to their extant operations, there may be synergies to gain without too big a risk. If the co-operatives are (consistent with co-operative philosophy) hesitant to share profits (as patronage refunds), and want to search for additional service benefits instead, it is useful for co-operative managers to know that diversification is a viable option.

Finally, during the research process we have identified beliefs (put forward for example in media and public discussion) that co-operative

banks should remain small and restrain themselves from growth. Our work may serve as a starting point for co-operative managers in their communication with different stakeholders to justify growth. Even if co-operative exist for different purpose than IOFs, similar strategic moves may be expected from them as they execute their purpose in a free and competitive market.

## Note

1. Today the group provides banking, investment and insurance services as the biggest financial group in Finland, is made up of 205 independent, local member co-operative banks, central bank Pohjola Inc, (former OKO Inc) and OP-Pohjola Group Central Cooperative (OPK), including its subsidiaries and closely related companies. Pohjola Bank (former OKO Bank), founded in 1902, is a Finnish bank listed on the Helsinki Stock Exchange since 1989, with a market capitalisation (A and K shares) of approximately EUR 1,300 million as of September 9, 2005. Pohjola Bank is the most significant subsidiary of the Central Co-operative. OP-Pohjola Central Co-operative is the central institution of the amalgamation of the co-operative banks, tasked with supervising and controlling the Group's business in line with the jointly agreed strategy, profitably and through effective risk management, as well as in compliance with the shared rules and legal requirements. It also analyses the operating environment, collects information about financial sector changes and markets and answers for the Group's corporate image, reputation, identity and brand while building the Group's shared trustworthiness (OP-Pohjola Group annual report 2009). OPK is owned and governed by local regional banks, which in turn are owned and governed by their approximately 1.1 million local members. Co-operative banks in OP-Pohjola Group provide banking and financial services to private customers, firms and communities ("OP", intranet, accessed frequently in 2011).

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## **Publication III**

Rosas, Saila, Jussila, Iiro and Tuominen, Pasi

**Leading Together for Mutual Benefit: Shared Leadership in the Context of Co-operative Banking.**

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## Leading Together for Mutual Benefit: Shared Leadership in the Context of Co-operative Banking

Rosas Saila (Corresponding author)

Department of management and International Business  
School of Business, Lappeenranta University of Technology  
P.O. Box 20, FI-53851, Finland  
E-mail: saila.rosas@op.fi

Jussila Iiro

Department of management and International Business  
School of Business, Lappeenranta University of Technology  
P.O. Box 20, FI-53851, Finland  
E-mail: iiro.jussila@lut.fi

Tuominen Pasi

Department of management and International Business  
School of Business, Lappeenranta University of Technology  
P.O. Box 20, FI-53851, Finland  
E-mail: pasi.tuominen@lut.fi

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### Abstract

While also opposing views have been presented, reaching decisions in co-operatives has primarily been considered to be a collective process. Despite this longstanding belief, there is lack of research on the collectivity of leadership processes actually ongoing in co-operative context(s). The paper at hand makes use of shared leadership construct showing that it helps us think of and articulate how leadership manifests in co-operative banks and their co-operative arrangements. The utility of this idea for future research and practice of co-operation is discussed.

**Keywords:** Shared leadership, Co-operation, Co-operative bank, Constellation

### 1. Introduction

Thousands of years ago, Plato proposed that leadership is a very rare skill of a single, exceptional individual who has the unique wisdom and relationship with the universal truth. Aristotle, on the other hand, pointed out that the best leaders know not only how to command but also how to obey others and are able to grasp complex realities through questioning and careful observation of particularities. According to O'Toole, Galbraith and Lawler (2003, 251), it was Plato's idea that emerged dominant in (western) leadership discourses. It follows that leadership in business and industrial organizations (typically characterized as capitalistic, mechanistic, and bureaucratic) has traditionally been seen as a symbol of power and taken a top-down approach according to which the execution of organizational activities is seen as influenced primarily by the chief executive (Pearce & Conger, 2003; Kearins, 1996). In other words, individual leadership has had a central position in the modern organization. As it has thousands of years of cultural background, it has been difficult to propose alternative aspects or views.

The information age (post-industrialism) and the introduction of more organic social structures (Burns & Stalker, 1961) and complex networks did, however, challenged the traditional notions (and ideologically laden discourses;

van Dijk, 1998) of leadership (Moxley, 2000). The new era emphasized the role of knowledge (and learning) as a source of power (something that is in motion all the time) and as a “vehicle” of particular interests (Foucault, 2001; 1998). As put forward by Spears and Lawrence (2002), it also moved us away from the belief that strong hierarchy works for our organizations. In this process view, leadership (power) is shared and the leading individual in any given situation is the person that has the desired knowledge and skills (i.e., those effective in that specific context). In other words, a variety of people are interactively involved instead of a single individual holding the leadership role – giving rise to a new construct: shared leadership (for the historical bases of shared leadership, see Pearce & Conger, 2003, 4-5). From the shared leadership perspective, the main job of an administrator is to promote the development of the skills and knowledge of the people combined to create a mutual result (Elmore, 2000).

In the new era, there has been growing interest towards organizational arrangements that fit the timely demands. One of such arrangements is the co-operative: a previously marginalized, but widely and increasingly used form of organization (e.g., Jussila, Byrne, & Tuominen, 2012). It did not smoothly fit the centralized and individualistic notions of leadership in the first place. This is because co-operatives are built on the idea of association: joining together, coalescing, combining, integrating and remaining united in order to satisfy common needs, achieve common ends, or derive mutual advantage (Jussila, Goel, & Tuominen, 2012; Watkins, 1986). Consistently, co-operative studies describe co-operatives as democratically controlled network organizations (e.g., Uski, Jussila & Saksä, 2007; Spear, 2004) in which collective decision-making skills are an essential part of managerial competence both on the level of co-operatives and their multiparty alliances (Tuominen, Jussila, & Rantanen, 2010). In other words, it is seen that reaching decisions in co-operatives is to great extent a collective process (Birchall & Simmons, 2004). However, there are those, who argue that collective decision-making (in which uniformity is a key value) can harm the co-operative and its membership. Notably, the criticism seems to relate to the competencies of the decision-makers (as collective decisions easily reflect average competence in the group). Thereby, Davis (2001) emphasizes co-operative manager’s important and powerful position as an authorized leader. According to him, a manager of a co-operative is a “stand-alone-hero” of the membership who should be “capable of seeing farther and in seeing be capable of communicating and motivating to turn the vision into reality” (p. 38) – through words and action (cf. Westley & Mintzberg, 1989). This view does not, however, necessarily assume dictatorship (for the best of the society). It accepts the idea of a participatory style, which is also seen as one of co-operative managers’ key competencies (Tuominen et al., 2010). However, it does highlight the single individual’s authority and right to make decisions.

The paper at hand starts from the insight that shared leadership construct (e.g., Pearce & Conger, 2003) has potential to provide additional rigor to theorizing of leadership in the co-operative context. We first came to think of the potential of the construct based on our observations in co-operative contexts and through our debates with fellow academics. Our view was that traditional leadership discourses should not constrain our attempts to enrich the field. Since the first author had generated extensive amount of qualitative data in Finnish co-operative financial institutions with lots of accounts on leadership, we decided to study the data carefully to see if the accounts fit the landscape of the shared leadership construct. To our knowledge, the construct has not been used to carefully analyze leadership in the context of co-operative organizations. This is actually somewhat surprising, since shared leadership construct has been employed to study leadership, for example, in team settings (e.g., Carson, Tesluk & Marrone, 2007; Mehra, Smith, Dixon & Robertson, 2006; Mayo, Meindl, & Pastor, 2003), boardroom settings (e.g., Vandewaerde, Voordeckers, Lambrechts & Bammens, 2011), groups (e.g., Seibert, Sparrowe & Liden, 2003; Shamir & Lapidot, 2003) and wider collaborative settings (e.g., Lambrechts, Bouwen, Grieten, Huybrechts & Schein, 2011; Huxham & Vangen, 2000). Nevertheless, the following sections are dedicated to filling this gap.

We start by describing the context(s) of our study, our methods and the data generated. Next we analyse accounts of leadership in the co-operative banking context(s) using shared leadership as a lens. To avoid repetition, the paper does not have a separate ‘theory’ section. Instead, the definition and essential aspects of shared leadership are introduced in the empirical section when they are found consistent with the accounts of leadership in our data. After summarizing our findings, we specify how our work complements existing research and how it should be elaborated in future research. We also put forward some implications to co-operative leadership education and discuss the reach of these implications.

## 2. Context, data and methods

OP-Pohjola Group is the leading financial group in Finland. It is made up of 198 local member co-operative banks, central bank Pohjola Bank PLC (formerly OKO Inc), and OP-Pohjola Group Central Cooperative (OPK), including subsidiaries and closely related companies as OP-Services Ltd. Pohjola Bank PLC, founded in 1902, is a Finnish

bank listed in the Helsinki Stock Exchange since 1989, with a market capitalization (A and K shares) of approx. EUR 1,300 million as of September 9, 2005. It is the most significant subsidiary of the OP-Pohjola Central Cooperative that is the central institution of the multiparty alliance of the co-operative banks. (OP-Pohjola Group Annual Review, 2009)

Co-operative banks in OP-Pohjola Group provide banking and financial services to private customers, firms and communities (OP-Pohjola Group, 2011). The 198 member banks are rather different in size and can be categorized in three groups: about 15 biggest banks comprise 50 % of the volume of the group, about 40 middle-size banks 25 % and the rest, 155 small banks 25 %. The biggest bank is Helsingin Op –pankki with 320.000 customers, 36 offices, 811 workers, operating profit 36,2 million euros (31.12.2010) and balance of 4,555 million euros, when the same statistics to one of the smallest, Uukuniemen Osuuspankki are 1.000 customers, 1 office, 4 workers, operating profit 92.000 euros (31.12.2010) and balance of 11.120.000 euros.

### 2.1 Data generation

The corresponding author works in one of the member banks as a bank manager and, thereby, has ‘hands on’ experience of leadership processes in the banking group. As part of her studies on co-operative management and organization (aiming at Doctor’s degree), she gathered and generated extensive sets of highly descriptive qualitative (Gephart, 2004; Denzin & Lincoln, 1994). Archival materials are from 2005 to 2012 in form of annual reports, protocols, press releases, information sheets and magazines to customers and personnel consisting several thousand pages. They describe, among other things, particular organizational changes in the banking group, strategic management as it relates to those changes and leadership as it relates to those changes and more ordinary operations of the group. Interviews on the other hand were organized in year 2009 with thirty-six decision-makers of the OP-Pohjola Group: CEOs, managing directors and managers both in central units and local banks. Decision-making processes as well as different aspects of strategic management and leadership of the banks and the constellation were thoroughly covered as “starters” to a larger set of themes. The interviewer sought for open, broad and informative discussions on each theme. A list of questions was used during the interviews to make sure all essential themes are thoroughly covered. However, specific questions were not revealed to the informants before the interviews. Instead, the interviewees were given the subject and main themes beforehand. These thematic interviews lasted from one to three hours. The interviews were recorded by the interviewer and later transcribed carefully by a professional typist.

### 2.2 Method justification

As the corresponding author gathered and generated the data (together with the interviewees) for purposes that go beyond this single paper, also the justifications for the selected methods lie in part outside the scope of this particular paper. It is worth acknowledging though that overall the data was gathered and generated for theory elaboration purposes (Lee, Mitchell, & Sablinski, 1999). It was in connection to a co-operative research conference in year 2011 and discussions with fellow academics that the authors of the paper came to ask if the data could serve a study like the one at hand. It followed that the corresponding author picked up the data to see if it reveals shared leadership operating in particular co-operative examples (Gephart 2004, 454-455; Eisenhardt & Graebner, 2007). The use of the previously gathered and generated qualitative data is justified (Edmondson, 2002), as it includes accounts of leadership and in this study we are set to investigate if the observed operational details of leadership in this particular context (co-operative banking) match what leadership scholars discuss in general terms with the label ‘shared leadership’ (e.g., Pearce & Conger, 2003). As will be shown below, a match is found.

### 2.3 Data analysis

To compose a valid and reliable study, the material from the interviews was first studied systematically to develop an overall understanding of essential meanings. Next, as shared leadership was found as a construct that captures well the leadership processes depicted in the data, features of shared leadership (see Table 1.) were adopted as a more structured theoretical basis for coding.

Insert Table 1 here

Thereby, we focused our interest on the way shared leadership is expressed across the data and coded accordingly (cf. Braun & Clarke, 2006). The outcomes of our analyses are reported in the following.

## 3. Shared leadership in the context(s) of co-operative banking

According to Moxley (2000), shared leadership is the basic model of two or more people sharing power and joining forces to move toward accomplishment of a shared goal. In OP-Pohjola, leadership seems to operate according to this definition both on the level of individual banks and the group. This is in line with the work of Tuominen and

colleagues (2010), who identify collective and participative decision-making skills as essential part of competence for co-operative managers.

The group level. OP-Pohjola Group Central Cooperative– tasked with supporting (e.g., analysing the operating environment, collecting information about financial sector changes and markets, developing international connections, taking care of market capitalization), supervising and controlling the group’s business – is owned and governed by local and provincial co-operative banks. In other words, the central organization is required to operate in line with a jointly agreed strategy and in compliance with the shared rules (and, of course, legal requirements). The central co-operative is also responsible for the overall corporate image, reputation, identity and brand, while enhancing the group’s pooled trustworthiness (OP-Pohjola Group annual report 2009). Noteworthy, the member banks are not only framing the operation of the central organization through governance, but contributing to it through different kind of task forces. In thematic task forces managers (and employees) of the central co-operative join their forces with representatives of the member banks to accomplish shared goals (e.g., define protocols and practices for the group relating their different business).

The member bank level. The member banks are owned and governed by their local members (approximately 1.1 million altogether) following the principle of democracy. Difference to the group level is that the content of shared leadership emphasizes issues relevant to the particular member community (and local market) – not necessarily the entire group. In other words, specialization to some extent defines the contents of shared leadership in the two different, but related contexts.

In the following sections we illustrate manifestations of shared leadership in these two contexts, following the features presented in Table 1. We do point out the organizational context of the data samples (bank or group), but our focus is not on the differences the phenomenon of shared leadership might have comparing the two levels. While paying attention to the potential differences is likely to be important to explaining the extent to which leadership is shared in particular contexts, such an objective is beyond the scope of this paper.

### *3.1 Leadership displayed by the quality of people’s interactions*

According to Pearce and Conger (2003), shared leadership is “a dynamic, interactive influence process among individuals in groups” (p. 1). It offers a conceptualization of leadership practice as a social (inter-subjective) process (Fletcher & Käufer, 2003). This idea of leadership is clearly manifest in our data:

*“we reflect, get to the bottom of the issue in question and prepare...and negotiate” (group level)*

*“if we can discuss together.. know how increases every day.. so we discuss a lot..” (bank level)*

It is noteworthy that person’s positions or hierarchies are not referred to as the interviewees make sense of leadership practices in the group. Instead, the data is rich of descriptions about leadership as interactive processes in which both the amount and quality of interaction are essential. They are needed in order to create the best possible understanding of the complex realities at hand before selecting the course of action. As our interviewees put it:

*“one that takes a bit longer to prepare, but once made it is better informed” (group level)*

*“in OPK we were used to ... thinking, finding out, and preparing..” (group level)*

In other words, our interviewees do not value fast decisions (by a single individual), but high quality decisions that are a result of high quality interactions. As leadership is displayed by the quality of people’s interaction, shared leadership can be seen as being practiced.

### *3.2 Leadership evaluated by how well problems are solved together*

In our data, as setting objectives, solving problems and making decisions are concerned, the word ‘together’ is frequently used both in connection to the banks and the financial group. This can be seen as an indication of a deep rooted decision-making process (Vroom & Yetton, 1973) that fulfils the definition of shared leadership (Nemerowicz & Rosi, 1997). In fact, it is argued that the core of shared leadership in the group is to do and think together (Ruderman, Ohlott, Panzer & King, 2002). Also the word ‘we’ is used a lot in connection to leadership, pointing to a group-level phenomenon that shared leadership is (Pearce & Conger, 2003; Pearce & Sims, 2000). As some of our interviewees put it:

*“what we start with is that objectives are negotiated and set together” (group level)*

*“meetings are organized in order to discuss a topic together and to decide what to do” (bank level)*

Cox, Pearce & Perry (2003) point out that shared leadership relies on a dynamic exchange of lateral influence among peers. Our data shows that in OP-Pohjola Group lateral influence among peers is at the heart of running the group.

Leadership is not in this context evaluated by how well for example the CEO of the central organization solves problems, but how well the group does it together. As put forward in our data:

*"we are a co-operational organization to the full, not a centrally run group, but a collaborative entity in which doing together, acting together and mutual respect are extremely important"* (group level)

*"for sure as there are an enormous number of views it is difficult and challenging, but one must face the challenges.. not start by discarding some (views) to make it easier to act...one must make it work as one's own practice is.."*(group level)

As ideals are often that against which results are evaluated, it serves to note that there seems to be some pride associated with what our interviewees call "a co-operational decision-making process". Overall, these findings suggest that shared leadership characterizes what is seen in OP-Pohjola Group as 'their own way to lead'.

### 3.3 All individuals contribute to the process of leadership

One of the key distinctions between shared leadership and traditional models of leadership is that the influence process involves more than just downward influence on subordinates by an appointed or elected leader (e.g., Coxet al., 2003). According to our data, in OP-Pohjola Group the view of and expectations for the so called quiet members are consistent with the idea of shared leadership. The quiet members do and are expected to assume specialist roles and participate in the leadership processes despite the extent to which questions at hand are strategic (cf. Pearce, Manz, & Sims Jr, 2009; Senge, 1990). In other words, in the co-operative financial group and the individual banks people do not simply rely on vertical, downward influence by an appointed leader (i.e., answers are not provided top-down) (cf. Cox, et al., 2003). As our interviewees put it:

*"..people have had a say, they have been involved in the process"* (bank level)

*"strategy process is a very illustrative example of this.. everybody comprehensively contributes to it and becomes united around it and committed to it through extensive discussions.."*(group and bank level)

*"creating strategy.. through a procedure everyone is part of it in one way or the other.. this is how we get the group's units along to bring a positive spirit to this (group and bank level)"*

The accounts are in line with the notion that certain ideas of participative decision-making (e.g., Vroom & Jago, 1988) define also important aspect of shared leadership (Shamir & Lapidot, 2003). They are also consistent with prior co-operative research (Birchall & Simmons, 2004) suggesting that shared goals and values uplift peoples' aspirations (Senge, 1990), connect people and motivate them to participate in co-operation in which leadership is broadly distributed among individuals (Yukl, 1998) instead of a single individual acting in the leading role (Ropo & Sauer, 2008; Pearce & Conger, 2003; Senge, 1990). In other words, all work to enhance the process and to make it more fulfilling and, thereby, shared leadership manifests in the co-operative banking context(s).

### 3.4 Leadership is a joint effort of interdependent individuals

When leadership is shared, "important decisions about what to do and how to do it are made through the use of an interactive process that involves many different people who influence each other" (Yukl, 1998, p.3). Further, Pearce and Conger (2003) point out that in shared leadership individuals in groups "lead one another to the achievement of group or organization goals or both" (p. 1). In our data, this feature of shared leadership is well manifest. Some of the interviewees even go as far as describing OP-Pohjola Group as the "world of multi-headed leadership". The multiple heads lead each other towards achieving the group's goals by interdependent efforts. Interdependence of those sharing leadership seems to be, in fact, another key feature of the leadership practice in the group. As our interviewees state:

*"we are like Siamese... the more we grow together... the more dependent we are of each other"* (group level)

*"people are crisscross wearing different hats in different meetings.. sometimes one forgets one's role and task and has to pinch oneself asking who am I when sitting in an OPK task force or committee.."* (group level)

The data suggest that there is not only active participation in various leadership processes, but a variety of roles in which the organizational members participate. As the above quotations indicate, the interdependence and reciprocal contributions to the leadership processes are associated with a sense of 'us' even to the extent that the participants become confused about their individual selves, thereby manifesting leadership as a group level phenomenon (Pearce & Conger, 2003; cf. Senge, 1990; Senge et al., 1994; Fletcher & Käufer, 2003). It seems that in this context the classical idea of differences (and the distinction) between 'leaders' and 'followers' becomes out-dated as the roles of participants constantly change.

### 3.5 Conversation is stressed in leadership associated communication

In extant literature (e.g., Ruderman et al., 2002; Erkut, 2001; Fletcher & Jacques, 2000; Held, 1990; Ruddick, 1989), shared leadership is also referred to as ‘conversational decision-making.’ It helps create a shared vision, which is vital for organizations as it provides the focus and energy for learning (cf. Senge, 1990). In our data, consistent with the above findings, the role of conversation in leadership communication is highlighted:

*“I claim that our leadership culture has been extremely conversational.. I would say sometimes even overly conversational..” (bank level)*

*“a conversational culture...is good.. first we discuss, discuss, and discuss and reach an agreement” (group level)*

*“our way to carry out things is conversational” (bank and group level)*

*“the way things are carried on is very conversational, very much a Swedish style to search for mutual solutions”..(bank and group level)*

Interestingly, this leadership style is referred to by the interviewees (as a quotation above shows) as a consensus-driven ‘Swedish way’ to lead (see e.g., Vaara, Risberg, Soderberg & Tienari, 2003). The on-going informal communication provides the participants to the leadership processes not only a shared vision, but a shared sense of purpose (cf. Senge, 1990). Thereby, this intensive multi-way communication is seen as crucial for successful leadership in OP-Pohjola Group, providing additional evidence of shared leadership operating in the co-operative banking group.

### 3.6 Leadership seeks for mutual benefit via open and honest communication

While traditional conceptions of leadership highlight the role of an individual leader in many ways, it also highlights individual value (and opportunism), thereby creating incentives to rely on secrecy and even deception (to maintain one’s power or illusion of it and to gain personal benefits). Co-operatives seek individual benefits via mutual value and, thereby, the traditional notions are not necessarily the best fit to this context. According to our data, a more democratic, honest, and open way is valued and aimed at, as shown in the following quotations (S Group that is referred to is a co-operative group operating primarily in retail business):

*“as we talk about our banking group or S Group just as well.. transparency is in order” (group level)*

*“we are dealing with an enormously important issue here.. we can only operate like this based on mutual in-group trust..” (group level)*

*“we are like an ameba that searches solutions beyond boundaries (of individual banks).. but this of course is based on.. there must be total trust..”(group level)*

Our data indicates that the joint search for solutions and the joint search for better knowledge to base decisions on as well as co-operation in general would not be successful without open and honest communication between participating entities and individuals. Thereby, shared leadership is the way the banks and the group are run.

### 3.7 Summary of the findings

The above analysis shows that leadership manifests itself in the operations of OP-Pohjola Group and its member banks in ways that can be at the level of concepts communicated as shared leadership. The evidence is strong in the sense that there is consistency between various aspects of leadership covered by the interviewee accounts and the features included in shared leadership at the conceptual level (Nemerowicz & Rosi, 1997). In other words, in the data leadership is made sense in terms of frequent interaction between individuals participating to the leadership process in which high quality of the interaction is important for successful leadership. It is also highlighted that those sharing leadership prefer using time for the interaction to secure high quality decisions. Consistently, leadership is seen as a process in which doing and acting together is essential. ‘We lead together’ can be identified as a more or less explicit motto. As working together, solving problems together, deciding together are the starting point, goal and ideal in co-operative banks, it is evident that they also set the criteria for evaluating leadership in the group, thereby manifesting shared leadership. Maintaining the consistency is the finding that in the context(s) of our research each person is expected to comprehensively contribute to the process of leadership and everyone is also offered the possibility to do this. What further highlights this feature is that leadership is a joint effort of dynamically interdependent individuals, who see themselves as becoming united in the process. Communication, in such a form of leadership, is not (only) vertical and formal, but (also) horizontal and informal. Conversation is stressed to degrees that even evoke amusement amongst participants. Overall, the process of leadership takes place in a context of trust and mutual respect with the aim of mutual benefits via open and honest communication (transparency).

#### 4. Discussion and conclusion

In co-operative banks and the group the form leadership is shared (Pearce & Conger, 2003). This means that all the participants to leadership contribute to the questioning and careful observation of particularities. Together they create the best knowledge of complex realities. On the other hand, ideas of how to deal with these complexities are the aim and core of leadership processes, thereby echoing the voices of Foucault (1999) and Aristotle – the information age providing the sounding board.

As it comes to co-operative management research that is the target of contribution, the above findings are more in line with the works of Tuominen and colleagues (2010), Birchall and Simmons (2004), and Spear (2004) than they are with the ideas set forth by Davis (2001). In other words, collective and participatory nature of decision-making is emphasized and leadership is not seen an act of a stand-alone hero. On the other hand, the sequential and reciprocal contributions of individuals to the multi-headed processes of leadership are emphasized along with the roles of competence and vision that seem to be the primary concern for Davis (2001). The difference is that in the context(s) of our study, the competences and visions are seen as a result of joint efforts.

The study shows that shared leadership construct helps us think of and articulate leadership in the co-operative banking context(s). A simple implication is that future co-operative management research should incorporate the shared leadership construct into the frameworks used to study leadership in co-operatives and co-operative groups. For example, future research should incorporate knowledge and understanding of shared leadership as well as shared leadership skills into the list of key competences. The construct utilized in this study might actually help take the work of Tuominen et al. (2010) towards a more detailed understanding of managerial competences required in consumer co-operatives.

As a practical implication, the training and mentoring of co-operative bank administrators should focus on knowledge and skills required in shared leadership. Especially important it is to keep in mind that in shared leadership the main job of an administrator is to promote the development of the skills and knowledge of the people combined to create the joint results (Elmore, 2000). Even in contexts in which it is considered as the 'own way' to lead, shared leadership will not serve mutual benefits in the best possible way unless it is systematically promoted. However, before this can be properly done, researchers should investigate what shared leadership skills actually are and how they can be measured, evaluated and developed (thereby helping both research and practice).

On a broader landscape, but closely related to the context of financial institutions, the possible connections between shared leadership and sustainability (social and economic) should be studied. Taking time to do jointly discuss and reflect the complexities of market and general environment have not been (it seems) in the core of decision-making in the financial sector. A question raised by our study is: Can shared leadership in part explain the fact that co-operative financial institutions have been the rock on which the entire sector has to some extent relied on? Another important question for the future is: Can shared leadership help prevent financial crises? Overall, there is need to study what kind of consequences shared leadership has (good or bad) in the contexts it manifests itself.

As it seems that the co-operative context is particularly suitable for shared leadership, it would be interesting to study what in fact are the antecedents of shared leadership and how they relate to ideas and principles of co-operation. Our work provides some leads, but a comprehensive modelling is needed. As a related issue, to proceed in theory elaboration, it also serves to ask: What are the boundary conditions for shared leadership? Our work points towards critical roles individual competence and trust.

Evidently, our work has limitations, such as specific industry context as well as the purpose of the study and, thereby, the methodological choices made. Future research should attempt to go beyond the limitations of our work. First, as it comes to leadership, research should be directed towards investigating particularities of specific industry contexts including other than the financial sector. Second, once a more complete model of shared leadership is generated, a quantitative and statistical approach could be taken to test the model and evaluate its generalizability to particular populations. We trust that more research will follow.

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Table 1. Classical and shared leadership compared

<b>Classical leadership</b>	<b>Shared leadership</b>
Displayed by a person's position in a group or hierarchy.	Identified by the quality of people's interactions rather than their position.
Leadership evaluated by whether the leader solves problems.	Leadership evaluated by how people are working together.
Leaders provide solutions and answers.	All work to enhance the process and to make it more fulfilling.
Distinct differences between leaders and followers: character, skill, etc.	People are interdependent. All are active participants in the process of leadership.
Communication is often formal.	Communication is crucial with a stress on conversation.
Can often rely on secrecy, deception and payoffs.	Values democratic processes, honesty and shared ethics. Seeks a common good.

Drawing from material in Nemerowicz and Rosi (1997) *Education for Leadership and Social Responsibility*, London: Falmer Press. Page 16.

## **Publication IV**

Rosas Saila, Jussila, Iiro, Tuominen, Pasi

**How different can an organizational bedfellow be? When a ballerina acquires a  
beast.**

Submitted for publication review

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**HOW DIFFERENT CAN AN ORGANIZATIONAL BEDFELLOW BE?  
WHEN A BALLERINA ACQUIRES A BEAST**

Rosas Saila

E-mail: [saila.rosas@op.fi](mailto:saila.rosas@op.fi)

Jussila Iiro

E-mail: [iiro.jussila@lut.fi](mailto:iiro.jussila@lut.fi)

Tuominen Pasi

E-mail: [pasi.tuominen@lut.fi](mailto:pasi.tuominen@lut.fi)

All at the International Business, Marketing, & Entrepreneurship

School of Business and Management, Lappeenranta University of Technology

P.O. Box 20, FI-53851, Finland.

Tel. +358 294 462 111

Fax +358 5 411 7201

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**Abstract**

The integration of organizations after a merger or acquisition is often considered as problematic. This inductive study analyses the characteristics and differences that the top managers of an acquirer (a group of co-operative banks) and acquiree (a listed insurance company) construct between their

organizations in an integration context with the aim of understanding the premises of strategic, organizational, or cultural fit or misfit. We propose that many of these differences may be systematically connected to each other somewhat, while having ownership as the original source of difference. That is, pre-acquisition ownership can be seen as the fundamental basis for core values, beliefs, and ideologies that act as the defining elements of the strategies chosen and, further, the cultures of the acquirer and the acquiree.

## **INTRODUCTION**

Mergers and acquisitions (M&As) form an important strategy for firms to grow (e.g., to diversify) (Bauer and Matzler, 2014), to gain access to new resources and markets (Teerikangas and Very, 2006), and to increase efficiency (Sarala, 2010; Schraeder and Self, 2003; Cartwright and Cooper,

1993). Further, acquisition activity has been seen to enable higher overall performance (Straub, 2010; Sirower, 2000), this is why it has attracted strong academic interest in various fields of research (Cartwright and Schoenberg, 2006; Olie, 1994). Following high failure rates (e.g., Lubatkin, 1983), a lot of research has been directed towards understanding why M&As do not succeed when evaluated against their purpose (e.g., Teerikangas and Very, 2006), which is typically considered to be the increase of profitability and shareholder value. A common explanation for failure is that there are often problems involved in the post-merger or post-acquisition integration of organizations and operations. Typically these problems – and the dynamics of integration and post-integration performance – are linked to differences in strategies, organizations, and cultures (Sarala, 2010; Schraeder and Self, 2003; Datta, 1991).

The sources of these various differences, however, have only received a little attention. This study starts with the notion that ownership-associated differences may potentially be amongst key sources of strategic, organizational, and cultural differences. As Tuominen (2012) put it, differences in a firm's ownership are associated with differences in corporate purpose, organization, and strategy. Despite the fact that M&As are encounters between organizations following an ownership change (Cartwright *et al.*, 2012), ownership-related factors have rarely been considered in M&A literature. There are some studies that explore ownership-related differences. These studies do not, however, connect ownership to differences in strategy, organization, or culture between integrating firms but rather to acquisition decisions in themselves. Geppert *et al.*, (2013) explore the influences of different ownership structures (e.g., concentrated [such as family and bank based] and dispersed [stock market based]) on risk-taking and managerial decision-making in large international acquisitions. Further, Shim and Okamuro (2011) have studied differences between merger decisions made by family-owned firms and firms not owned by a family, and their consequences. These studies suggest that ownership-related differences should not be ignored in the M&A context.

This paper starts filling the above gap by focusing on the differences associated with pre-acquisition ownership in a post-acquisition context. We respond to the call of Bettis *et al.*, (2015) for qualitative empirical research on strategic management in general and the call of Cartwright *et al.* (2012) for a more inductive approach to be used in the study of M&A in particular. The data was generated in interviews with the carefully selected informants (the top managers) of two integrating organizations in order to understand the acquisition decision itself and to generate insights into the post-acquisition integration. When organizing and inductively analyzing the data (Gioia, Corley, and Hamilton, 2012; Pratt, 2009), we discovered that the interviewees interpreted there to be a lot of differences between the acquirer and acquiree that were associated with differences in pre-acquisition ownership. The acquirer is a co-operative banking group owned by service-users, while the acquiree was an insurance company that was a publicly-held stock company before the acquisition. Therefore we decided to focus our data analysis on the following question: *How do the top managers of the acquirer and acquiree characterize their firms and construct differences between them?*

The paper is structured as follows. In order to set the stage, we first briefly review what has been discussed in M&A literature about the differences of the acquirer and the acquiree. Next, we will focus on the context, data, and methods. In data analysis, we start with interpretations of the interviewees themselves, identifying accounts that are relevant considering our research question. Highlighting the inductive approach, it is only after compressing the relevant accounts into first order concepts and organizing those concepts in themes that we connect the emerging ideas and associations of the literature to the two different company forms to provide credibility to our analysis. Eventually, we discuss the originality of our work as compared to previous M&A literature and its utility to future research and the practice of M&As. It is noteworthy that our contribution extends beyond the addition of ownership as a source of differences relevant in the M&A context, as

it also serves to illustrate and provide analytical clarity to the variety of differences that may come to play a key role in the post-acquisition phase. Further, our work serves to illustrate that the integration context in itself may accentuate many differences as the members of the two organizations attempt to find legitimacy for 'their own' ways and strategies in the new post-acquisition organization. Overall, the preceding features make this paper interesting and the ideas generated worth thinking about, discussing, and considering in the M&A context.

### **MERGERS, ACQUISITIONS, AND THE CRITICAL QUESTION OF FIT**

Let us start by defining the key concepts of M&A literature. According to Borys and Jemison (1989), a merger refers to the consolidation of two organizations into a single organization. Acquisition on the other hand is the purchase of one organization by another where the buyer or acquirer maintains control. As has been mentioned, M&As often fail because of problems involved with the integration of the two firms (Sarala, 2010; Schraeder and Self, 2003). According to M&A research, the key sources of these problems have to do with strategic and organizational fit, or in fact misfit, between the two organizations. In the following we will concentrate on these two areas of fit/misfit in more detail.

#### **Strategic fit/misfit**

In the M&A context, strategic fit refers to the unifying features of the environments of the acquirer and the acquiree (Lubatkin, 1983). In more detail, it can be divided into the similarity, relatedness, and/or complementarity (e.g., Cartwright and Schoenberg, 2006; Chatterjee, 2009; Haspeslagh and Jemison, 1991) of certain strategic attributes, such as resources (e.g., production technology), supply chains, and product/market orientation (e.g., customers served or products sold) of the firms (Bauer and Matzler, 2014; King *et al.*, 2004; Shelton, 1988). A fundamental concept here is synergy (e.g., technical or diversification synergy), which occurs when two operating units can run more efficiently

(e.g., with lower costs) and/or more effectively (e.g., with a more appropriate allocation of scarce resources) together than if they remained apart (Shelton, 1988; Lubatkin, 1983).

For a long time, strategic management literature has maintained that the outcomes of M&As are dependent on the strategic fit between the two companies in question (Lubatkin, 1983). Cartwright and Schoenberg (2006) point out that in fact an entire stream of literature has emerged to study the connection between the strategic fit of the uniting firms and post-acquisition performance. In this stream of research it is found that the less a target company's strategy is related to that of the acquirer, the less likely the acquisition is to result in the high performance of the combined company. Performance comes through fit, since fit means that managers can also effectively employ their 'dominant logic' of doing business (i.e., the repertoire of tools that top management use to identify, define, and make strategic decisions, and their view of the world) in the resultant company (Pralhad and Bettis, 1986), and leverage resources and capabilities (Palich, Cardinal, and Miller, 2000).

Considering the importance of strategic fit for post M&A performance, Schraeder and Self (2003) note that it is actually already a key factor when planning and making decisions concerning M&As. In other words, potential merger or acquisition partners are typically identified based on a strategic fit between the two companies. The better the fit on the strategic fit–misfit continuum, the more confident the top management can be that the envisioned merger or acquisition's benefits may materialize. According to Weber and Drori (2011) 'it is likely, then, that strategic fit interacts with other systematic variables in the integration process to produce robust performance results' (p. 78).

This notion of fit/misfit conveys the idea that the strategies of firms vary. Why they vary and how fundamental the differences are, is less clear. In other words, what remain to be discovered are the premises of the differences of strategic logic across companies.

### **Organizational & cultural fit/misfit**

It is well established in M&A literature that strategic fit considerations alone are not sufficient to identify suitable 'organizational bedfellows' or to predict M&A success (Bauer and Matzler, 2014; Sarala, 2010; Mirvis, 1985). In other words, while relatedness indicates that there are potential synergistic benefits, it will only result in superior post-acquisition performance if synergies can be realized through effective post-acquisition integration (Datta, 1991). This is where the concept of organizational fit becomes more relevant. Greenwood, Hinings, and Brown (1994) address it via three components of organizational design: 1) structure (i.e., its configuration, the balance between differentiation and structural integration, as well as the basis of structural authority); 2) the decision processes (i.e., the degree to which decision-making is centralized and the basis of decision-making); and 3) culture (i.e., the values and beliefs about appropriate organizational practices shared by organizational members). By contrast Olie (1994) refers to the degree of compatibility of administrative practices, management styles, organizational structures, or organizational cultures. He observes that there must be a fit not only between the elements that relate to internal management of the firm but also between those that define the organization's relationship with the environment – meaning that there must be a reasonably compatible style in all aspects of the two companies. Let us next briefly discuss what is currently known about these differences and their implications in the post-acquisition context.

According to Datta (1991), management styles are something that are unique to organizations and may differ considerably – for example, there may be very different risk-taking propensities between different management groups. Further, additional to possible differences considering the approach to decision-making, one group may favor loose, informal control and open channels of communication, while another might stress greater operation control and highly structured communication channels, as well as adherence to well-defined job descriptions (Datta, 1991). Whether management style is

categorized under the heading of organizational or cultural fit is another debate that is beyond the scope of this paper, but there seems to be a consensus in M&A research indicating that major differences in management styles may lead to difficulties or even integration failure (Schraeder and Self, 2003; Datta, 1991; Mirvis, 1985).

Additional to management style, control systems and their components (such as reward and evaluation systems) are important issues in the integration phase – similarities within these leading to easier acquisition implementation and vice versa (Datta, 1991; Diven, 1984). That is, there might be differences between the criteria and indicators to measurement of performance and the time period over which it is focused (Datta, 1991) that have important implications. However, at least in the case reported by Greenwood et al. (1994), there was a strong indication that beliefs and values were more important than actual structures and decision processes when it came to a decline in support for the merger, which leads us to the role of organizational culture and identity. There have been various definitions of the concept of organizational culture during recent decades (see Schultz, 1995; Smircich, 1983); in this article, organizational culture is defined as a construct of shared mental assumptions of organizational practices, norms, symbols, and traditions (e.g., Albert and Whetten, 1985; Dutton, Dukerich, and Harqail, 1994) that guide interpretations and action in organizations by defining appropriate behavior for various situations (Ravasi and Schulz, 2006). Organizational culture (e.g., as ‘glue’ [Dowling, 1993]), needs to be considered in explanations of the development and maintenance of organizational identity (Hatch and Schultz, 1997). Further, culture has symbolic context ‘within which interpretations of organizational identity are formed and intentions to influence organizational image are formulated’ (Hatch and Schultz, 1997, p. 360). Identity can be defined as a collective, commonly-shared understanding of the organization’s distinctive values and characteristics (Hatch and Schultz, 1997) that is central, enduring, and distinctive about an organization’s character (Albert and Whetten, 1985). It involves how we define and experience

ourselves and this is influenced by our activities and beliefs that are grounded in and justified by cultural assumptions and values (Hatch, 1993; Hatch and Schultz, 1997).

Recently, academics have given more attention to the role of organization culture and identity in post-merger integration and M&A performance (e.g., Weber and Drori, 2011; Björkman, Stahl, and Vaara, 2007; DeNisi and Shin, 2004; Ullrich, Wieseke, and Van Dick, 2005; Weber and Tarba, 2010). The key question is about cultural fit, which refers to low cultural distance as well as high similarity and compatibility between the cultures of the two organizations (Bauer and Matzler, 2014). Distance, similarity, and compatibility can be assessed, for instance by analyzing the beliefs, values, ideologies, and assumptions shared by organizational members (Cartwright and Cooper, 1993; Schein, 1985). Chatman and Jehn (1994) refer to more detailed differences, such as those related to people orientation, attitudes toward innovation, customer-service orientation, employee loyalty, and attitudes toward growth. Nevertheless, the human aspect of the phenomenon is seen as being just, as or even more important than, the strategic aspect (Schraeder and Self, 2003; Cartwright and Cooper, 1993), since research has shown that integrating two different organizations with different traditions and backgrounds into a single unit with a common identity or culture often proves to be difficult and full of conflicts (Olie, 1994). In other words, cultural incompatibility or misfit have substantially contributed to the failure of M&As that appeared potentially successful from the strategic fit point of view (Cartwright and Schoenberg, 2006; Chatterjee et al., 1992). On the other hand, cultural similarity is seen as fostering integration, making it more readily accepted and thereby faster (Bauer and Matzler, 2014).

Despite this, there is little discussion about the premises of cultural differences in M&A literature. However, the background of cultural differences is sometimes traced back to firm-specific, industry-specific, and country-specific diversity (Olie, 1994). According to Teerikangas and Very (2006),

firm-specific differences are more important than national differences, since they have most influence on the success or failure of post-merger or post-acquisition integration.

Parallel to this idea, Sarala (2010) states that organizational cultural differences and organizational cultural preservation increase conflict, partner attractiveness decreases conflict, while national cultural differences have no influence on the level of conflict. When it comes to firm-specific factors, the geographic dispersion of a firm may create major communication and resource distribution challenges as well as force the firm to contend the local rules and regulations; challenges that tend to intensify when pursuing acquisition strategies, especially international ones (Schraeder and Self, 2003). Additionally, there are also notions according to which the differences may be accentuated in particular industries. For example, according to Chatman and Jehn (1994), firms in the service sector are likely to have 'strong cultures,' which is why they may be likely to face integration problems as shaping a culture is a great challenge for any manager. To overcome such challenges, Olie (1994) suggests that a viable new (integrated) organization could be created, for instance by symbolic reconstruction of a new identity. A key question here is the extent to which the members of organizations value and want to retain their organizational integrity. In other words, it is not only about fit but, for example, the acquiree's will to adopt the ways of the acquirer. If the desire to preserve one's own identity is strong, integration is less likely to take place. Further, to the extent that individuals in the acquired organization experience that their values are extensively different from those of their new partners, there is a risk that they will leave the organization and take valuable knowledge with them (Daly, Poudier, and Kabanoff, 2004). This could be the case for example with the above-mentioned strong cultures that (by definition) are not supposed to be changed (Cartwright and Cooper, 1993). A specific case where a 'we/they' rhetoric might hold firm is that of the integration of organizations that have a history of some kind of rivalry (McEntire and Bentley, 1996).

In summary, both strategic and organizational or cultural fit/misfit need to be considered in the context of M&As. However, if we wish to understand the backgrounds of fit and misfit, we need to map the sources of these differences in more detail. It is to this end that the following sections are directed as we identify the difference in company forms as an overlooked but important source of differences and ‘we/they’ rhetoric.

## **CONTEXT, DATA AND METHODS**

Our somewhat extreme case is among one of the biggest acquisitions ever made in Finland in which a group of co-operative banks (OP Bank Group) acquired a majority stake in Pohjola (a listed insurance company) in 2005. According to the official story, the horizontal acquisition (linking firms in the same markets) was made to execute the purpose of the co-operative bank group: to create benefits for the member-owners. As competitors were growing and diversifying in order to form ‘financial warehouses,’ including banking and insurance services, the executives of the OP Bank Group considered the acquisition as a rational and important act to secure the kind of competitive position required to execute the co-operative purpose. The acquisition was partly a defensive act and partly an attempt to utilize opportunities in the market. In this sense, the acquisition decision was quite a typical one (see e.g., Cartwright and Cooper, 1993). In the acquisition decision, strategic fit issues, such as relatedness and complementarity, in products and services and the customers served were considered (e.g., Shelton, 1988). For instance, Pohjola insurance served big businesses and had about 35 per cent of the market, while OP Bank Group had a big share of households and small businesses in banking services. Moving from the science of acquisitions towards the art of it, there were also voices attempting to convince people that this was a ‘white knight’ acquisition (Mirvis, 1985) in that Pohjola could have found a worse ‘home’ (possibly outside Finland) and was ‘rescued’

by another Finnish financial group with strong and wide-spreading roots in the Finnish population (OP Bank Group having altogether more than a million members).

Technically, the acquirer was the central bank of the group – OKO – owned by the co-operative banks through their central (second order) co-operative, OPK. According to the group's top management, OKO was selected as the acquirer since it was considered that OKO might 'best understand' Pohjola due to similarities in company form and, thereby, compatibility in ways of thinking. The incorporation of the consideration of such 'mushy' issues has not always been typical in the tradition of acquisition decisions (Cartwright and Cooper, 1993). These considerations, however, did not match the post-acquisition phase since the integration of the acquirer and the acquiree into OP-Pohjola Group took place between the entire group (including OPK and the co-operative banks) and Pohjola, not just OKO and Pohjola. This outcome should not have come as a surprise to any of the parties involved since many essential parts and operations of the Pohjola organization were blended with the co-operative banks along with its products and services. In other words, there was high association of operations instead of the co-operatives banks and the insurance company continuing as autonomous partner firms. Also the name of the new organization (OP-Pohjola Group) symbolized the coming together of OP Group and Pohjola – just as would have been recommended, for example by Olie (1994). It is in this integration context – where negotiations focus on reporting relationships, changes in policies and business systems, and the tasks of putting the plans into action in the combining of organizations (Mirvis, 1985) – that the representatives of the co-operative banks, their central organization, and those of the insurance company engaged in stereotyping and accounting for the company-form-related differences between the acquirer and the acquiree. Often the differences accounted for in our data are highly polarized, which according to Mirvis (1985) is quite typical in a context where cultural differences are substantial. According to a top manager, this was not something they expected when making the acquisition decision. A call for

help was made to understand the company-form-related differences – further convincing us that our research questions are worth asking. In fact, the work of Cartwright and Cooper (1993) leads us to believe that a study like this, if made earlier, might have helped to better plan for the integration.

As the significance of inter-firm diversity in M&A situations is said to vary considerably depending on the kind and degree of the new combination (Olie, 1994), OP-Pohjola Group is a fruitful context for our purposes. It can be seen as offering us an unusual revelation (Eisenhardt and Graebner, 2007). Conveniently, unusual research access (Yin, 1994) was granted to us as the first author works as a bank manager in a local co-operative that it is part of OP-Pohjola Group. In that role she has been able to personally observe and experience the transaction and integration process, which is highly valuable given that in most of the M&A research published in top-tier journals the researcher is set in a neat analytical role and the conclusions drawn are ‘based on research settings wherein the researcher him/herself has not observed or experienced that transaction’ (Cartwright et al., 2012, p. 100). Thus, we are able to mitigate this shortcoming of M&A research and respond to the calls that have been made for a move from an external to an internal perspective on M&As.

## **Data**

Our primary empirical material consists of texts generated in thirty-six (36) thematic in-depth interviews (Braun and Clarke, 2005) with the top managers of OP-Pohjola Group. We thereby align with previous M&A research in which interviews have been widely used in order to bring forth the insiders’ experience related to question similar to ours (McEntire and Bentley, 1996; Cartwright and Cooper, 1993). Bearing in mind the challenges related to interview data (Eisenhardt and Graebner, 2007) we chose to interview organizational actors from different levels of the new-born case co-operative group: the top managers and executives in the Central Cooperative, Pohjola Bank Plc, and Pohjola Insurance, and independent member banks. All of these interviews were conducted by the

first author, who also had the best understanding of the research context. The interviews lasted from 60 to 180 minutes each and were carefully recorded and later transcribed (Denzin and Lincoln, 1994) verbatim by a professional typist. The language of the interviews was Finnish, which is the mother tongue of the interviewer and the interviewees. In these thematic in-depth interviews a story-telling approach was followed (Czarniawska, 2004) and discussion processes were used (Gioia et al., 2012). In other words, there were no precise questions but an umbrella of themes to collect extensive material on them, so that the interviewees were able to express their thoughts and views by responding to a thematic, broad question without too much guidance from the interviewer. The themes of the interview were sent to the interviewees beforehand if requested.

#### **Data analysis**

We conducted a thematic analysis of the data (see Braun and Clarke, 2005; Gioia et al., 2012). First, after we had come up with the research questions, the first author studied the data several times and identified all the interview accounts that seemed to relate to the questions (Braun and Clarke, 2005). The interest in this study was not focused on whether the accounts are accurate reflections of 'objective' conditions but instead the focus was on the interpretations of the interviewees concerning the integrating organizations. Simplifications of these accounts were defined as first order concepts. This was the joint effort of all three authors. Second, we collectively searched for similarities and differences among the first order concepts in order to find out if there is a deeper structure in this array and moved to axial coding in which we searched for relationships between and among categories, which helped to shape the second order themes (see Gioia et al., 2012). Third, we asked if the emerging second order themes indicate ideas and associations that might help us push forward scientific knowledge in this area. In order to strengthen the credibility of our work, we linked the emerging concepts and associations to appropriate literature in and outside the acquisition context. Finally, continuing to partially follow Gioia and colleagues (2012), we investigated whether it is

possible to distil the emergent second order themes even further into one or more aggregate dimension. Tables 1–6 present the selected representative data (‘proof’ quotes) for each of the first order concepts, thereby reserving the respected readers the right to evaluate the credibility of our interpretation.

It is noteworthy that the process through which the following section was composed could be labelled ‘engaged scholarship’ (Van de Ven and Johnson, 2006), since it combined two academics and one practitioner in a joint effort to move from data towards scientifically and practically useful new knowledge in the domain of M&As. Through the engaged scholarship we could better rely on our joint interpretation as one of us had a deeper understanding of the data, as well as of the strategic, organizational, and cultural premises of the acquisition and the ongoing integration.

#### **ANALYSIS AND SYNTHESIS: INTERWEAVING DATA ANAD LITERATURE**

From the search for similarities and differences across first order concepts we identified six second order categories: 1) Ownership and governance, 2) The value mechanism, 3) The decision-making structure, 4) The decision-making system, 5) The implementation of decisions, and 6) Identity and image. In the following we will go into these themes in detail. In the representative data ‘(P)’ stands for the voice of a Pohjola manager and ‘(OP)’ for the voice of an OP Group manager (Tables 1–6). In each table, the first set of accounts – ‘A’ – represents explicit differences between the two companies, while the latter two – ‘B’ and ‘C’ represent the characterizations of each.

#### **Ownership and governance: Who is charge and how is control exercised?**

As the representative data in Table 1 illustrates, an essential difference between the acquirer group and the acquiree is associated with the identity of the proprietor (who?) and the means of exercising

control (how?). In the co-operative banks, ownership is associated with being a member-customer (and, on the central co-operative level, with being a member bank), whereas in Pohjola ownership was associated with being an investor of financial capital. This is consistent with literature in which a critical distinction between co-operatives and investor-owned firms (IOFs) is associated with ownership; in co-operatives it is either producers or consumers who are formally in charge; in IOFs it is investors (Hansmann, 1999; Holmström, 1999). This difference is also connected to a variety of other differences. In co-operatives, the ownership of the banks' (the organization's) resources is collective and in the annual meetings of the co-operative the members (or a democratically elected representative body) exercise control in the vein of one-member-one-vote. The participatory method of control is also applied on the group level, where all banks have a say in steering of the alliance constellation. As Pohjola was a listed company, there was a dominant coalition running the show, putting pressure on and giving guidelines to the management – and actually making annual meetings somewhat useless 'theatre plays,' which might sometimes lead to conflicts between controlling shareholders and minority shareholders (Morck, Wolfenzon, and Yeung, 2005). Further, Liljeblom and Vaihekoski (2010) state that when compared to co-operatives, listed firms may 'in general be subject to higher short-term pressure due to relatively high ownership stakes by short-term investors such as mutual funds, and activist owners.' (p. 242). Additionally, whereas Pohjola was acquired, the combination 'of a lack of a secondary market in ownership claims and decision rules which typically rest on democratic principles rather than ownership concentration' (Thompson, 1997, p. 38) makes the ownership of co-operative banks somewhat collective and gives the customers a permanent hold on their bank, leaving takeovers out of question unless approved by the membership. However, this is not the full story. In co-operative banks there is less separation of ownership and control than there used to be in Pohjola, since the owners are not investors but instead users of the co-operative's services and, thereby, they control the co-operative in that role on a 'daily basis.' Thus, the consumers may control their co-operative via both market control and voice dependent mechanisms

going considerably beyond those available for customers of IOFs (Tuominen, Jussila, and Kojonen, 2009).

Table 1 Ownership and governance

1st order concepts and the selected representative data	
A	<p><b>Shareholders can increase their voice by buying more stock, whereas in co-operatives voting rights stay equal</b>  <i>'When [an investor] buys more stock [of a particular company] her or his share grows and her or his voting right increases, but in a co-operative this is absolutely impossible' (OP)</i></p> <p><b>A co-operative is permanently in the hands of the membership, whereas in an IOF, takeover is possible</b>  <i>'one can never buy or take over a co-operative or get more voice than one vote' (OP)</i></p>
B	<p><b>Investors are the proprietors of the IOF</b>  <i>'We are an IOF; we obey our shareholders.' (P)</i></p> <p><b>IOFs are guided by couple of owners</b>  <i>'in a joint-stock company ... a couple of owners' reason or irrationality. good and bad, guides the management and the operation' (P)</i></p> <p><b>A dominant shareholder (or shareholders) control an IOF</b>  <i>'In an IOF there are the owners, one dominant shareholder or several dominant shareholders, who always really make [the decisions]' (P)</i></p> <p><b>An individual shareholder can put pressure on management in an IOF</b>  <i>'If there is a shareowner in an IOF who wants quick results, he or she will put huge pressure on the company to make profit' (P)</i></p> <p><b>An annual general meeting is a theatre play in an IOF</b>  <i>'[As dominant shareholders' really make the decisions] the annual general meeting does not really matter ... it is kind of a play in which once a year minority shareholders are allowed to listen as the company leaders tell stories' (P)</i></p>
C	<p><b>Owners live the daily life of the co-operative</b>  <i>'members, the users of the services of the co-operatives, concretely live the daily life of the company.' (P)</i></p> <p><b>Co-operatives are democratically governed by the members</b>  <i>'One owner-member has one vote; (OP)</i></p> <p><b>Customers elect members to governing bodies</b>  <i>'customers choose their representatives in the representative body' (OP)</i></p>

In the post-acquisition phase, Pohjola people were expected to move accountability to the headquarters, the board and the coalition of investors now being accountable to a broader administration and, in terms of particular people, an identifiable community of customer-owners. Many layers of differences (in both strategies and cultures) followed and, thereby, created an interesting tension considering integration.

### **The value mechanism: How and through which markets do owners benefit?**

Emerging from the differences in who the owners are and what they expect from their company is a major difference in the mechanisms and markets via which the owners gain value. Whereas the investor-owners of Pohjola operating in the stock markets were interested in high returns on the capital invested, the members of the co-operative banks look in the service markets for services that fit their needs and provide affordable prices along with discounts (bonuses) based on purchase volume. Thereby, Pohjola was used to pursuing maximum profits, for instance by hard sales and the increased prices paid by the customers, whereas the co-operative banks rely on a totally different way of value creation – careful mapping of the customer-owners’ needs, listening to the customer-owners, and pushing prices as low as possible while considering sufficient profitability (Tuominen, T., Tuominen, P. and Jussila, 2013) to maintain the economic sustainability important in the financial sector. While in Pohjola the financial result of the company itself (i.e., profit) played a key role in creating value to the owners, in the co-operative banks it is the members’ bottom line (Jussila, Tuominen, and Saksa, 2008) that is the main focus – in normal times the bank’s financial result being a less immediate concern. What this means is that while Pohjola was used to a quartile economy (i.e., four financial reports a year), co-operative banks are used to maintaining a more patient approach to making money for the company. On the other hand, somewhat controversially to both the main message of patience in our data and the notions put forward by Liljebloom and Vaihekoski (2010), the owners of the co-operative banks put pressure on their bank constantly as they (i.e., some of them) interact with their bank on the service market every day requiring a great service–need fit, along with affordable and fair prices. Table 2 provides a summary of the above discussed first order concepts and representative supporting data is also included.

Table 2 The value mechanism

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**1st order concepts and the selected representative data**

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A

**The mission of a co-operative deviates from profit maximization**

*'The mission of an IOF is to make profit for the shareholders; The mission of a co-operative is not quite the same' (P)*

**Co-operation is not about profit maximization**

*'We differ from IOFs; our mission is not to maximize our profit and preserve it in the company.' (OP)*

**Co-operation is about affordable and just services for the owners**

*'The purpose of an IOF is ... to maximize profit and thereby provide its shareholders with maximum returns. But in a co-operative we attempt to provide services to owners, owner-members and the entire membership as affordably and justly as possible, while also meeting profitability requirements' (OP)*

**Pohjola sells whereas the co-operative listens to the customers**

*'Pohjola's people said they are 15 years ahead of us in sales culture, but I would say they are 15 years behind ... from their way there is a long is a long way to how we map customer needs and listen to the customer' (OP)*

**In the co-operative banks the result is achieved during a long time-period**

*'The co-operation does not maximize profit in any way. Such a co-operation as we now have here gives us time to produce financial outcome during a long period of time.' (OP)*

**Co-operatives do not follow quartile economy**

*'In co-operation the outcome can be achieved from different time perspectives, we do not need to think of a three-month or one-year period.' (OP)*

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B

**The mission of an IOF is to maximize shareholder gains through efficient operation and 'best' profit**

*'The mission of an IOF is to operate efficiently and gainfully, maximize profit, and share the best possible profit with the shareowners.' (OP)*

**Pohjola has made a profit through high insurance prices**

*'They say our insurances are expensive. But we have our targets in sales, which we keep. This firm was gainless a long time, and we changed this business to a profitable one, around the year 2000; we know now it is the only way to lead an insurance company.' (P)*

**In an IOF they follow the result in quarters**

*'in an IOF this kind of result process, per quarter, is important and it may be connected to some kinds of decisions' (P)*

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C

**Co-operation is about affordability, fairness, and sufficient profitability**

*'A co-operative tries to serve customer demands as affordably and fairly as possible while considering profitability at the same time.' (P)*

**The co-operative rewards owners through bonuses**

*"Our [member] bonus system is quite interesting as it is quite fixed and, on the other hand, it is expenditure instead of a profit item" (OP)*

**The co-operative is the customers' economic companion**

*'Our purpose is economic companionship with our customers' (OP)*

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The interpretations in our data seem to be consistent with literature on financial co-operation indicating that ownership makes a difference considering the behavior of firms (Thompson, 1997). This is not surprising as ownership is associated with the purpose and mission of a business (Tuominen, 2012). The mission of an IOF is to maximize shareholders' wealth, which requires the

maximization of company profits. As the mission of a user-owned co-operative is to ‘conduct concrete activities in such a way as to maximize satisfaction of members’ needs.’ (Michelsen, 1994, 23) the banks maximize the wealth of their members, which requires the maximization of their profit instead of that of the company (Tuominen, 2012). It also follows that, in contrast to an IOF, managerial performance cannot be judged by simply examining the firm’s net financial earnings (Hansmann, 1999), which may appear illogical to former Pohjola managers who are accustomed to the logic of IOFs. It is noteworthy that in academia there is also an idea that ‘if the activity produces a decline in profits or share value, this may be an indication of a non-economic motive but may also merely represent a flawed business decision’ (Schwartz and Carroll, 2003, p. 509).

#### **The decision-making structure: Where are decisions made?**

Following the above differences, there also is a difference between the decision-making structures of the acquirer and the acquiree (see Table 3). Centralization, a clear hierarchy, and a customer-segment oriented top-down (army-like) chain command was used in Pohjola to make sure that the entire organization works consistently and in a disciplined manner towards the investor-owners’ goals. In the co-operative bank group, decision-making is highly decentralized and ‘scattered’ (as described by an interviewee). The member banks of the group jointly decide about the group guidelines in their central co-operative but, on the other hand, they are independent when actually deciding about particular instances on the local or provincial level. Consistent with the findings of Tuominen, Jussila, and Saksä (2006), our interviewees emphasize that since many of the decisions are made on the customer surface it allows the owners’ needs to be better served.

Table 3 The decision-making structure

1st order concepts and the selected representative data	
A	<p><b>The IOF is centralized whereas OP Group is decentralized</b>  <i>'This very strong centralization has been a characterizing feature ... I mean, while in OP Group decision-making has been decentralized, in Pohjola it has been centralized. And this of course is manifest in the ways of operation' (P)</i></p> <p><b>The co-operative bank groups' decision-making is local, whereas Pohjola's is not</b>  <i>'well, I mean this structure and locality, that Pohjola does not have, is a big difference' (P)</i></p> <p><b>Decision making in Pohjola was centralized whereas in the co-operative group it is decentralized</b>  <i>'Pohjola has been this kind of centralized, centrally-led organization, and the co-operatives banks, on the other hand, are very much decentralized and scattered. I mean our business decisions are genuinely made in different parts of Finland' (OP)</i></p>
B	<p><b>Pohjola was a centralized, national and hierarchic organization</b>  <i>'Pohjola was a centralized, national, and hierarchical organization'</i></p> <p><b>Pohjola had an army-like top-down structure</b>  <i>'the other part (Pohjola) was used to an army-like top-down decision-making' (OP)</i></p> <p><b>Pohjola was a disciplined Helsinki-run organization</b>  <i>'After its structural changes, Pohjola had turned into a streamlined Helsinki-run and segmentally whipped sales organization'</i></p> <p><b>Pohjola was about narrow national tubes</b>  <i>'Pohjola had very carefully defined customer segments nationally, and it had these narrow tubes throughout the nation' (P)</i></p> <p><b>Harmonized operation</b>  <i>'Pohjola was a straight line organization; it has a straight hierarchy and one way of operating' (OP)</i></p>
C	<p><b>In a co-operative bank decisions are made on the customer surface</b>  <i>'decision-making is on the customer surface' (OP)</i></p> <p><b>The co-operative banks are closer to the customers</b>  <i>'The co-operative banks have been much closer to customers and people have been local' (P)</i></p> <p><b>The local banks are independent</b>  <i>'The structure of OP-Pohjola Group is based in independent local banks' (OP)</i></p> <p><b>The co-operative group is multicultural</b>  <i>'this group of co-operatives ... it is a multicultural thing' (OP)</i></p> <p><b>Cultures vary across the co-operative banks</b>  <i>'I think one has to accept that there are different cultures and differences inside the group' (OP)</i></p>

In our data it is noteworthy that following the structural differences is the notion that in Pohjola there was only one way to do things, whereas the co-operative banking group is composed of multiple cultures. In other words, the interdependence of the co-operative banks as a group requires certain extent of sharedness in the ways of operation. However, their independence as banks with locally or regionally embedded owner communities also allows and promotes some degree of differences

across the member banks of the group. Thereby, integration is in fact not taking place between two cultures. Instead, there is an attempt to integrate one culture to multiple cultures.

### **The decision-making style: How are decisions made?**

According to our data (see Table 4), there are also references to differences in the way decisions are made in the acquirer group and the acquiree organization. In the centrally-led Pohjola, decisions were made quickly by the top management – and a critical voice has said decisions were made ‘hastily’ (i.e., in a manner that leaves a lot of questions about the quality of the decision). In the shareholder-dominated model there was neither the need to negotiate nor to call together committees in various meetings to ground the decisions. Errors were made and as they were identified the decisions were revised. In the democratically controlled OP Group, all the important decisions are negotiated in a large group, both on the level of the banks and the central co-operative (Rosas, Jussila, and Tuominen, 2012). This is a patient and time-consuming way – ‘inefficient,’ the critics say – but it allows for the perspectives and feelings of different parties to be considered (discussed, thought, and weighed) and trust to be built, which is important for implementation – as will be illustrated in the following section.

Table 4 The decision-making system

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<b>1st order concepts and the selected representative data</b>	
A	<p><b>Pohjola went back and forth, which is not an option in the co-operatives</b> <i>‘In Pohjola they made a quick decision and they follow it – they notice that was the wrong decision; take a step back; make a new decision; go again. There is no such option in a co-operative.’ (OP)</i></p> <p><b>The co-operative’s administration requires more building of trust</b> <i>‘The co-operatives have much more feeling for administration. It takes much more backstage work to build trust for them [than Pohjola]’ (P)</i></p>
B	<p><b>IOFs decide fast</b> <i>‘IOFs are centrally-led ... and thereby in this respect maybe a bit more responsive and faster; more reactive’ (P)</i></p> <p><b>In the IOF there is no negotiation</b> <i>‘No committee will gather around the negotiation table [in Pohjola]’ (P)</i></p>

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C

**Decisions in co-operatives are negotiated in a large group**

*'In OP Group, both in banks and the central unit, as we have broad administration, we have the members and the owning governing bodies and ... so, always when we make important decisions, we need to discuss, think about, and weigh [things] with a very large group of people, and those things are indeed considered' (OP)*

**In the co-operative group decision-making is slow**

*'When someone says "co-operative bank," it is two years immediately' (OP)*

**Decisions concerning customers are made locally and quickly in co-operative banks**

*'The customers can be sure of quick local decision-making.' (OP)*

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According to our data, such differences were 'too much' for many Pohjola managers. They could not see themselves working in an organization that has the kind of a decision-making style that OP Bank Group has. Their conclusion was to look for a management position elsewhere, in organizations that follow what is in their view the best way: authoritarian, strict, and fast.

### **The implementation of decisions: How are decisions transformed into praxis?**

As observed above, there are differences in decision-making in the two organizations (see Table 5 for representative data). Decisions made in the headquarters of Pohjola (in Helsinki) were immediately commanded around the entire organization (i.e., across the nation). There was assertive leadership, strict discipline, and mistakes (deviance from the orders) were not allowed – even if the independent thinking of the personnel could lead to better results. Before the acquisition In Pohjola the personnel have even been viewed as 'slaves' that are 'whipped' to efficiently implement the headquarter's decisions. What follows is that Pohjola has been able to implement rapid changes. On the other hand, the downside has been that no improvements to the activities and operation were made without orders from Helsinki. Further, the inflexibility meant some inability to find a fit between local customers' needs and the harmonized practices of the company. The interpretations of the interviewees paint a totally different, but consistent, picture of OP Group. Not only are decisions made collectively and in a participatory manner, they are critically evaluated by those implementing

the decisions. As mentioned above, the co-operative banks are independent and, thereby, they can (to some degree) consider to what extent they implement group-level decisions. It is highlighted that in the co-operative group it is the owners (the banks) themselves that implement the decisions and on the customer surface it is the owner (i.e., the customer-owner) who participates in the local level implementation process as the user of the services. Therefore, it is essential that the implementers agree on the decisions and are committed to their implementation as if they do not and are not, there will be deviances from the group decisions (which are despised by managers used to the former mode of Pohjola operation – as illustrated by a reference to the co-operative bank CEOs as ‘ballerinas’). Sometimes the tensions in the group are indeed frustrating but, on the other hand, they are seen as leading to not only better decisions on the group-level but also varied solutions on the local-level (as the different markets require).

Table 5 The implementation of decisions

<b>1st order concepts and the selected representative data</b>	
A	<p style="text-align: center;"><b>Implementation was very disciplined in Pohjola while the co-operative banks have ‘ballerinas’</b>  <i>‘We led [our personnel] very assertively here in Pohjola. We don’t allow too many mistakes. And the co-operative banks ... they are full of ballerinas. Every CEO; some 227 of them’ (P)</i></p> <p style="text-align: center;"><b>In Pohjola change is faster than in OP Group</b>  <i>‘We can change our activities and operation concept much faster than they can in the OP Group for example’ (P)</i></p> <p style="text-align: center;"><b>Centrally-led IOFs move quickly while co-operatives have to build commitment to the decisions</b>  <i>‘IOFs are centrally led ... and move therefore maybe much quicker or .... are more reactive than co-operatives where they need to commit the administration and form opinions.’ (P)</i></p> <p style="text-align: center;"><b>In Pohjola the implementers were ‘slaves’ while in OP Group they are the owners themselves</b>  <i>‘It is very common in Pohjola to talk of “the field” and that they are the slaves and the workers that do what is ordered by headquarters. To us “the field” means the owners’ (OP)</i></p> <p style="text-align: center;"><b>Pohjola had definite frames for implementation while OP Group does not</b>  <i>‘the co-operative bank can make all its deals without having to worry about every euro. They do not drop a deal. We do, since we have a definite frame ... I mean it is game over – no deal’ (P)</i></p>
B	<p style="text-align: center;"><b>In the IOF decisions from the headquarters pass quickly to the whole organization</b>  <i>‘If I or someone here with me or the CEO makes a decision, in five minutes it is delivered around the whole organization and it is an order or a command or a decision.’ (P)</i></p> <p style="text-align: center;"><b>In Pohjola implementation took place without negotiation</b>  <i>‘They [Pohjola headquarters] let us know our goals for next year or for a three-month period; there is no place to discuss or negotiate them – they just come ... and it was our task to [implement them]’ (P)</i></p> <p style="text-align: center;"><b>Implementation is done without the subordinates’ right to think for themselves</b></p>

*'even if common sense could lead to better results ... once something has been decided at the top, that is the way it goes.'*

(P)

**In the IOF one must wait for orders**

*'They couldn't do anything in Pohjola before they get orders' (OP)*

---

C

**In the co-operative group the implementation of decisions is not straightforward**

*'The whole structure and culture of ours may be demanding when the decisions do not go through the organization nationally' (OP)*

**The group guidelines are merely recommendations**

*'At our banks we are used to the fact that national guidelines are just guidelines – not national commandments that we should obey precisely.' (OP)*

**In a co-operative group one must use persuasion**

*'It is a persuasion-based organization where managers have to walk a tightrope – I just can't manage it' (P)*

**Implementation is participatory in co-operative banks**

*'We use a lot of time to listen and negotiate and commit rather than make direct orders' (OP)*

**Independence gives possibility to different solutions**

*'Our group structure is different. This independence, it is our strength – that we can find different solutions. There is not one right decision.' (OP)*

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As it comes to speed of implementation, there is an interesting notion. While in Pohjola implementation started after a top-management decision, in OP Group many things are already being implemented in the banks before the actual decision is reached as the member banks participate in the preparation and making of decisions and know the direction or at least the framework of what decision will be taken.

**Identity and image: How are the firms characterized?**

As can be expected given the above-discussed differences, there are dramatic differences in how the identities and images of the acquirer and acquiree are interpreted by the interviewees. The managers from OP Group see their own organization as one with 'spirit' and feeling that arise from humane values of co-operation and of being a good citizen. The managers from Pohjola paint an image consistent with this identity but do not position it as a strength like those in OP Group mainly do. In their accounts they despise the OP Group and even their central bank for not being what they call 'real businesses.' They see co-operation as 'not sexy,' as a 'hinderance,' and as a mode of operation in which business managers might not want to work. They interpret the OP Group as being

‘provincial’ and unmodern and simply too slow because of the trust-building requirements. Pohjola, on the other hand, is interpreted by the interviewees representing this particular organization, as being a tough, cold, and cruel commercial bank, dominating the big business market. To the interviewees to a great extent it represents the ‘ideal type’ of corporation, which according to Tainio (1999) typically contains a re-engineered and downsized organization, a sharply focused business portfolio, stock-options, performance criteria based on capital, and lavish dividends. Representatives of the OP Group shared this idea, referring to a hard sales organization on the hunt for profit.

Table 6 Identity and image

1st order concepts and the selected representative data	
A	<p style="text-align: center;"><b>A co-operation is about spirit and an IOF operation is about rent-seeking</b>  <i>‘now we have got a millstone around our neck ... after the first surprise I wondered what is inside Pohjola – what it may do to this group and how we will ever get synergies with it. How can we ever connect our co-operative spirit to their kind of hunting for economical profit?’ (OP)</i></p> <p style="text-align: center;"><b>Pohjola is a big and tough commercial bank and OKO is not</b>  <i>‘speaking honestly, as a commercial bank, like OKO is in some ways too, Pohjola as a national company has ... it has a much tougher reputation as a big company than OKO. I mean OKO was the central bank of the co-operative banks and not considered as a commercial bank’ (OP)</i></p> <p style="text-align: center;"><b>An IOF is a hard, cold, and cruel business organization while a co-operative is (apparently) sensitive</b>  <i>‘an IOF does not fiddle around or create appearances. It just does. It is tougher, colder, and crueller in these [operations]. In co-operation the development of feelings, governance and this glue [trust] requires more work on facades.’ (P)</i></p>
B	<p style="text-align: center;"><b>Pohjola is a commercial bank</b>  <i>‘we are a commercial bank’ (P)</i></p> <p style="text-align: center;"><b>Pohjola is about hard selling</b>  <i>‘Pohjola is a hard sales organization’ (OP)</i></p>
C	<p style="text-align: center;"><b>The co-operative group is humane</b>  <i>‘The values of our co-operative group have always been humanity and things like that.’ (OP)</i></p> <p style="text-align: center;"><b>The co-operative banks are part of society</b>  <i>‘We have been raised to this co-operative mentality – this is our strength; we are part of this society, these people. We fall or rise with them.’ (OP)</i></p> <p style="text-align: center;"><b>Co-operation is a hinderance</b>  <i>‘there were many who could not take on that role. They felt co-operation to be a hinderance so they left’ (P)</i></p> <p style="text-align: center;"><b>Co-operation is not sexy enough</b>  <i>‘co-operation has not been considered sexy enough, since it has not been considered as business’ (P)</i></p> <p style="text-align: center;"><b>Co-operatives are bureaucratic and unmodern</b>  <i>‘There is too much administration in co-operatives. They should be modernized to be effective.’ (P)</i></p> <p style="text-align: center;"><b>Co-operative banks are farmers’ banks with no big customers</b>  <i>‘the bigger the firm ... the so-called “milk canister bank” has had no access to them. I mean the bigger firms have been ours’ (P)</i></p>

The differences in identity and image were seen as so dramatic that it was seen as somewhat surprising that Pohjola was acquired by OP Group. In our data there even seems to be fear of Pohjola – as if it were an inhumane ‘beast.’ The dramatic differences in how the two organizations were viewed by the financial media, were referred to by an interviewee who commented on meetings with representatives of the media: *‘every time you meet them, any one of them, they ask “How is it possible to integrate two corporate cultures that are from totally opposite sides?”*

## **DISCUSSION**

Pre-acquisition ownership makes a difference in the acquisition context. This is a revealing contribution to M&A literature (e.g., Teerikangas and Very, 2006; Datta, 1991), which has not previously paid attention to ownership as an important source of strategic and organizational or cultural differences. Our study shows that a variety of differences between the acquirer and acquiree can be traced back to differences in ownership. In other words, who is in charge (customer-owners vs. investor-owners) and how they exercise control (democratically by service-users vs. aristocratically by investor-coalitions) sets the stage for fundamental differences in strategy, organization, and culture. For the investor-owners the only place to use your voice is at the annual general meeting, which is dominated by a coalition and, thereby, leaves no other voice-dependent means of influence to most of them. For the customer-owners there is the possibility to use your voice every day when using the service. There is less separation of ownership and control as the owners themselves participate in the (social) value creation processes as service-users. These differences seem to add another angle to Mirvis’s (1985) notion of power relationships: ‘the power of the aristocrats versus that of the people’ (p. 66). They also seem to manifest distinct ideologies concerning the organization of market economy and, thereby, can be seen as enriching the idea of rivalry in M&A literature (McEntire and Bentley, 1996).

A rich set of differences is discovered as we move towards the features of the acquirer and acquiree that follow the differences in ownership. Our first theme that sheds light on this issue is that of the value mechanism. This refers to differences in how the customer-owners of the acquirer group gain value versus how the investor-owners of the acquired organization used to gain value. The acquirer follows its corporate purpose in the service market, attempting to fit its services and products to the customer-owners' needs and trying to push the actual prices of the products and services as low as possible (as long as economic sustainability and risk-management are not compromised) in order to help the customer-owners' themselves 'profit' from co-operation. The acquiree on the other hand used to be on a quest for maximum profit for the company by attempting to sell as much as possible (irrespective of customer needs) and at relatively expensive prices in order to satisfy the needs of the investor-owners in the stock market. In other words, as with the co-operative group, the customer is the king in the investor-owned company the customer was made a servant to shareholder-value. Considering the differences – such as the pursuit of higher prices versus affordability, hard sales versus careful listening, profit maximization versus risk-managed customer value – it is not hard to envision integration problems. Given this strategic variety, it is also questionable whether the acquiree can be easily made to adopt the management logic of the acquirer, which would be important in Prahalad and Bettis's (1986) view. It is worth acknowledging that the management logics in both organizations are seen as having transformed into something that defines how the personnel views their organization rather than representing a rational choice made by top management – the acquiree's 'sales culture' serving as a convenient illustration of this. The polarized differences might also reflect each organization's strong cultures, which are typical of service organizations (Chatman and Jehn, 1994). In other words, linking the interpretations to our theoretical framework, many of the above differences that are traced back to differences in ownership could be seen not only as strategic but organizational or cultural as well. The service personnel in OP banks and Pohjola both are customer-oriented but the former in terms of careful listening and the latter in

active sales – reflecting, according to our data, differences in both ownership and in industry culture (Chatman and Jehn, 1994). In other words, active (even aggressive) sales are interpreted to be an important norm in insurance business.

Also decision-making structures differ between the acquirer and acquiree. This difference means a great deal considering the orientations of the organization; whether there is a chain of accountability going through the entire organization towards the headquarters and the board of the firm (in the acquiree) or whether any such chain goes through the entire organization towards the customers (in the acquirer). Considering that structural decisions are an important area of strategy, one can say that in this respect the acquirer and the acquiree could not be much more distant. According to Mirvis (1985) this can be a major challenge to integration. Further, the decision-making structures are connected to another challenge. The acquirer can be seen as a blend of multiple locally or regionally embedded organization cultures and identities. In this respect, the integration is not taking place between two cultures and identities. Instead, the culture and identity of the acquiree is supposed to be integrated into the many cultures and identities of the acquirer. This is a finding that can easily be seen as relevant across many other domains, such as acquisitions of or mergers between multinational firms.

Another related issue, showing further consistency in the findings across themes, is the difference in decision-making styles of the acquirer and acquiree. In the acquired organization decisions were made at the top, fast and without too much negotiation (if any) with different organizational actors, which is seen as leading to costly errors and the ensuing corrective actions. In the acquiree, however, important decisions involve the entire organization through committees and various participative processes in which different views, experiences, and feelings are incorporated in decision-making, which is seen as leading to high decision-quality. One could in fact speak of differences in administrative cultures between the two organizations. Such differences are known to create tensions in integration (Lubatkin, 1983). In what might be seen as an illustration of this, many managers of

the acquiree left after the acquisition as they could not see themselves as capable of changing their ways. This is consistent with the work of Mirvis (1985) according to which the required changes in the role identities of managers are sometimes too big for them to handle.

Decisions are made to be implemented and in this context there are fundamental differences in this activity as well. The acquiree organization was used to the immediate implementation of the headquarter's decisions across the entire country-wide organization through assertive leadership, strict discipline, and zero tolerance concerning deviance from the orders. This meant that changes and improvements could be done rapidly, if only their need was realized by headquarters. The fit between the services of the products, and services and the customers' needs was questionable, but this was not the primary concern anyway; it was enough if the operation maximized shareholder value. The acquirer organization on the other hand was used to careful consideration – based on local market needs – of what group-level decision to implement. In other words, there is certain degree of adaptation to the local environment. On the other hand, as the member banks participate in the group-level decision-making process, they are committed to implementing the decisions that are appropriate concerning group operation and they also even start implementing many decisions before the ink is on the paper. These differences between the acquirer and the acquiree seem to represent the classical differences between bureaucratic and organic organizations and, thereby, present a strategic misfit. On the other hand, the differences – for instance in the view of employees (the 'slaves' of the acquiree), the role of managers (the 'users of the whip' of the acquiree), the implementation of decisions (in a disciplined manner, after a decision vs. in a flexible manner, starting before the decision), and leadership style (authoritarian vs. participatory) – are in line with the kind of cultural differences existing literature (Chatman and Jehn, 1994; Chatterjee et al., 1992; Olie, 1994) identifies as a challenge or even an obstacle for successful integration.

Finally, ownership seems to be a fundamental basis for core values, beliefs, and ideologies that, according to Chatman and Jehn (1994), act as the defining elements of the cultures of the acquirer

and the acquiree. The ownership-based differences in organizational identities (including the values held by organizational members) and corporate images thereby provide additional challenges to integration – challenges that are, in our view, in part about the cultural misfit discussed in previous research and in part about strategic misfit: identity falling in the former category and corporate image in the latter. There is a lot of the ‘we/they’ rhetoric Olie (1994) writes about. The identity differences are a major challenge, which can for example lead to fear of the ‘alien’ culture. Our reading of Mirvis (1985) makes us also wonder about the attitude of the managers of the acquired organization towards the acquiree. One might have expected that the acquirer’s role (as the acquirer in general and as a ‘white-knight’ in particular) would prompt a view of the acquirer as a dynamic player or would at least challenge the acquiree’s managers to somehow appreciate the acquirer’s way of operation. On the other hand, considering the superiority of the IOF model in the macro-level business discourses (Tuominen, 2012) it is not very surprising that this superiority is maintained on the micro-level as well. Further, according to Mirvis (1985) it is not unusual that a negative image of the ‘other’ is accentuated in the integration of two highly different cultures. On the other hand, the acquiree is seen as having a ‘strong culture,’ which according to Cartwright and Cooper (1993) is not meant to change – the acquired organization resists and is unwilling to abandon its culture and, thereby, the separation remains. A reason for resistance is that the members of the acquired organization do not see the identity and the image of the acquirer as attractive and worth adopting or even preserving. Integration is not easy for the acquirer organization either, since the inhumane image of the acquiree is a source of fear.

## **CONCLUSION**

Our work has a number of implications for future research on the topic. First, the ownership of the acquirer and the acquiree (the merging organizations) should be considered as a factor in acquisitions

(and mergers) as it may help understand a variety of strategic and organizational or cultural differences, as well as how they are interconnected. This supports theory development in the area of M&As. Considering ownership as a potential source of multiple interconnected differences can also help practitioners as it enables them to think of, identify, and discuss somewhat systematic fit/misfits between firms. There are a number of key questions that may be asked: Is the purpose of a firm defined by customer-value or shareholder-value? Is the attention of top management (e.g., the CEO and the board) directed to product or service markets, or the stock market? Does the firm believe in or emphasize centralization or localization? Second, researchers may find our interpretation that there is a need to further clarify what actually falls under strategic and what under organizational or cultural fit useful, as literatures of fit and misfit overlap in their definitions. Perhaps a starting point to advanced clarity is the division of an organization into the social, technological, cultural, and physical dimensions that are supposed to fit to the other organizations (or elements of the organization environment) through strategy (Hatch and Cunliffe, 2006). Third, our work may serve as a reminder to future researchers that the broader context of acquisition ought to be taken into consideration. This study could have been about the acquisition of Pohjola by OKO (a listed company owned by the co-operative banks) in which few of the above differences between OP Bank Group and Pohjola would have played a role. It was only after taking into account that OKO was merely the instrument for the OP Bank Group to execute the acquisition that all the interesting aspects were grasped. Fourth, future research should be directed towards following the of leads from our work. We found for example that the number of identifiable and accepted subcultures in one or both organizations may be an issue worth studying in the context of M&As and also worth considering when planning for integration. Fifth, the 'rhythm of organizational life' (decision-making and implementation) was very different between the acquirer and the acquiree. In other words, the managers' and employees' orientation in space and time and the sequencing of activities differed, which can be seen as a challenge to coordination. This is something to be considered by

practitioners and investigated by researchers in depth in future M&A studies. Sixth, acquisition may arouse a variety of feelings (such as fear) in reaction to, for example, the image of an 'alien' organization. This notion might lead to very interesting and useful studies on emotions in the M&A context. For practitioners it should be useful to think of and discuss the identity and image of the to-be-acquired firm and what kind of fit there is on the level of emotions. Seventh, it seems that some of the key stakeholders of the acquirer and the acquiree saw a cultural misfit and, thereby, saw possible integration problems better than those making the acquisition decision. As a practical tip, this leads us to think that stakeholders could be incorporated in the evaluation of potential acquisition targets or at least that their participation might help prepare for integration (problems). Co-creation on the level of strategy could be an option. Finally, this very acquisition case or a similar one could be studied further during the integration process in order to find out how it is possible to overcome such dramatic differences. If the successful integration of firms this different is possible, there may be a lot to learn from it.

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