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Shaping Dynamic Capabilities Through Merger & Acquisition Activity: Context Of Banking Industry

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Abstract

Digitalization is being accelerated by the ongoing COVID-19 crisis, which has the boosted demand for digital services. The Banking industry must adapt to keep up with the digitalization disruption by exploiting Mergers and Acquisitions (M&A) or establishing Financial Technology related to capturing dynamic capabilities. Dynamic capabilities in the banking context can be achieved whenever additional values were shown in the post-M&A process, bringing the financial and operational performance in better condition for the acquiring banks. The purpose of this paper focuses on exploring mergers and acquisitions in the banking industry through the lens of dynamic capabilities. Hence, based on several literatures that has been elaborated, this paper aims to formulate the conceptual model of dynamic capabilities in mergers and acquisitions in the banking industry. The conceptual model demonstrates that the convergence of capability in sensing and seizing opportunities can result in new product development, while the nexus of sensing and transforming capabilities generates cost and operational efficiency in the context of the banking industry.

Keywords—Dynamic capabilities; Merger & Acquisition; Banking; Conceptual Model; Financial Technology; Value creation. COVID-19.

Abstrak

Digitalisasi dipercepat oleh krisis COVID-19 yang sedang berlangsung, yang mendorong permintaan untuk layanan digital. Industri perbankan harus beradaptasi untuk mengikuti disrupsi digitalisasi dengan memanfaatkan Merger dan Akuisisi (M&A) atau pembentukan depratemen teknologi finansial terkait untuk menangkap kapabilitas dinamis. Kapabilitas dinamis dalam dunia perbankan dapat dicapai apabila dalam proses pasca-M&A tercipta berbagai nilai tambah yang diberikan, terutama adanya perbaikan kinerja dari sisi keuangan dan operasional bagi bank yang melakukan proses akuisisi. Tujuan dari penelitian ini berfokus untuk mengeksplorasi aktivitas merger dan akuisisi serta nilai tambah yang diperoleh di dalam industri perbankan melalui perspektif kapabilitas dinamis. Oleh karena itu, berdasarkan beberapa penelaahan literatur yang telah diuraikan penulis, makalah ini merumuskan model konseptual kapabilitas dinamis dalam merger dan akuisisi di industri perbankan. Model konseptual ini menunjukkan bahwa kapabilitas dinamis dalam membaca dan menangkap peluang dapat mendorong potensi pengembangan produk baru, sedangkan konteks kapabilitas dinamis yakni mengidentifikasi dan mentransformasi organisasi menghasilkan potensi terjadinya efisiensi biaya dan operasional serta membangkitkan penciptaan nilai proposisi baru dalam konteks industri perbankan.

Kata kunci; Kapabilitas Dinamis; Merger & Akuisisi; Perbankan; Teknologi Finansial; Penciptaan Nilai; Covid-19

I. INTRODUCTION

The dynamic changing and increasing competition in the business environment are caused by economic globalization, technology disruption, etc., Regarding this vast adaptive world, many enterprises have to innovate in knowledge rapidly and make fast and dynamic responses to the market. One of the ways in knowled ge

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innovation is by doing an M&A as a business strategy for the enterprises. Mergers and acquisitions (M&As) are strategies often chosen by companies to maintain a competitive advantage (Schraeder & Self, 2003). M&A also has the potential for creating value for the companies not only in the short-term performance (financial values & market position) but also in long-term performance (Business competitiveness and innovation) (Lu & Feng, 2010). In the short-term value creation for short-term performance, the M&A strategy offers some benefits for the acquirer or the acquired companies, such as economies of scale, economies of scope, and learning experience (Mahnke, 1998). From the knowledge management perspective, this benefit could be achieved because there is a knowledge integration between the acquirer and acquired companies. Haspeslagh & Jemison, (1991) in Lu & Feng, (2010) outlined that M&A is a firm's strategic decision by taking full/partial ownership of other firms to gain access to new capabilities and/or markets in an attempt to create new strategic value.

In the process of knowledge integration, knowledge holders (subsidiaries, departments, teams, individuals, etc.) and systems of both M&A enterprises and target enterprises interact, operate, and establish new knowledge systems together. The different knowledge integrates complementary and configures in an optimal way, realizing the management synergy effect (its benefit). After enterprises' knowledge integration effectively, the new complementary knowledge can be utilized as applied tools in facing new problems and challenges in business development and operation. This could be done if the old and new knowledge are used comprehensively by the enterprises. This activity is resulting in knowledge innovation that leads to improving dynamic capabilities for the enterprises. In summary, M&A could also provide long-term value creation for the enterprise's sustainable competitive advantage. Hitt & Pisano, (2003) stated that mergers and acquisitions, especially for cross borders, present significant opportunities for firms that wish to diversify their business geographically, gain new knowledge, and access to valuable resources, which will lead to capability acquisition. Hitt et al., (2010) found that access to and control of important technological resources within an industry may drive acquisitions.

In today's globalized and competitive business environment, the banking sector is widely regarded as the economy's barometer (Kaur, 2010), reflecting macroeconomic indicators. Banking firms are compelled to pursue profitable development and survival in the face of global megatrends (global marketplace, demographic shifts, changing workforce, and digital business), stakeholder demands, and lackluster development in the banking industry around the world. The main question is how to survive, flourish, and achieve exceptional results. According to (Outlook, 2015) research, the most successful institutions will be those that can reinvent themselves to meet today's pressures while being flexible enough to respond to tomorrow's environment. Another challenge for the banking industry is the emergence of the financial technology industry which is more rapidly used in the era of digitalization.

As a newly established industry, financial technology (fintech) has emerged as the primary form of financial innovation in the new millennium, combining technology with finance. Fintech refers to business models, technology applications, operating processes, and innovative products that promote financial innovation through technical means and have a significant impact on financial markets, institutions, and financial services, according to the Financial Stability Board's (FSB) definition (FSB, 2017). As an IT-based company, fintech improves the efficiency of the whole process of the financial industry, expands the traditional financial boundaries, and changes consumers' spending habits by exploiting technology. Compared with the traditional business model of commercial banks, fintech can provide more specific financial services to different consumers in a more convenient and efficient way, thereby meeting their diversified financial needs (Lee et al., 2021). Furthermore, new technologies have established a "winner-takes-all" banking market structure, making small and midsize banks more vulnerable (Guellec & Paunov, 2017; Schumpeter, 1912). Fintech is a top-of-mind discussion with the phenomenon of 'creative destruction' as described by (Schumpeter, 1912).

In the context of the Banking Industry, Mergers and Acquisitions are often being used to capture dynamic capabilities. Dynamic capabilities in the banking context can be achieved whenever additional values were

shown in the post-M&A process, bringing the financial and operational performance into a better condition for the acquiring banks. Much research in Banking's Mergers and Acquisitions has been conducted and found mixed results. Several papers found that dynamic capabilities can be established after the merger and acquisition process, while others found that mergers and acquisitions could bring catastrophic and failure in organizational and operational processes if it fails to resolve issues regarding the unification of 2 different entities. (Boyer & Choi, 2006) stated many factors could prevent successful M&As, such as difficulties with integration, inadequate valuation, and too much diversification. Other research conducted by Kandil & Chowdhury (2014) found that M&A activity in UK Islamic Banking has a significant relationship with the bank's profitability (particularly in Return on Equity and Return on Investment) performance in the long run. The resulting study by De Young et al., (2017) revealed that M&A in US Bank mergers is driven by other than cost efficiencies, which are gained mostly when the acquiring banks have made frequent acquisitions, suggesting the presence of experience effects. Nonetheless, the M&A-based dynamic capabilities research in the banking industry, especially in the era of financial technology disruption needs to be deepened, since closer cooperation with Financial Technology providers would allow banks to build comparative or competitive advantages over Financial Technology companies. Wonglimpiyarat, (2017) found that banks could manage technological complexities and use the technology strategy to improve its competitive position in the banking sector as well as banks can also learn the systemic nature/characteristics of FinTech-based innovations to pursue appropriate strategies in market-winning competition. Bringing the conceptual analysis of the business expansion strategy and dynamic capabilities, we would compare the theoretical approach to how the business is going to expand, using the M&A activity.

Digitalization is being accelerated by the ongoing COVID-19 crisis, which has boosted the demand for digital services. Incumbents face a threat from innovative start-ups and large technological businesses. Financial innovation includes new products, services, manufacturing methods, and organizational structures (Frame & White, 2004). However, the growth of other companies shows a downward trend in performance due to COVID-19 and all its consequences. Financial technology firms are showing a paradoxical trend compared to other industries as they roast up the business competition during the pandemic conditions such as mobility restrictions and lockdowns. Because of the several advantages of using fintech services, such as easiness, convenience, and better digital experience for the customer (Banerjee et al., 2020), the consumer trend nowadays is shifting from traditional to financial technology services. Consumers are now comfortable with quick, easy, low-cost financial transactions which are regularly accommodated by financial technology companies because of its advantages on using digital technology in cutting production costs.

The Banking industry must adapt to keep up with the financial technology growth. As we already understand, a traditional bank only relies on the conventional saving and lending mechanism. Románova & Kudinska, (2016) stated that the boom in FinTech could be treated as a threat to the traditional banking industry Dapp et al., (2014) found that the application of IT and modern data analysis provided a more customer-oriented product for the fintech services. However, many experts also believe that FinTech has become an integral part of the traditional banking system, concluding that FinTech companies and traditional banks at the same time can be competitors and partners, but cooperation is essential for banks and can be mutually beneficial (Románova & Kudinska, 2016). This close competition between traditional banks and the fintech industry has brought a big question mark to us on how the traditional banks must respond amid the fintech rocketed growth to survive, especially during the COVID-19 period. Bringing the conceptual analysis of the business expansion strategy and dynamic capabilities, we would compare the theoretical approach to how the business is going to expand, using the M&A activity.

The paper structure is organized as follows. Section 1 is the introductory section. Section 2 reviews the theoretical literature on Mergers & Acquisitions as well as Dynamic Capabilities. Section 3 explains the methodological framework. Section 4 presents a conceptual framework for the M&A-based capabilities

acquisition in the banking industry. The dual business expansion strategy like vertical or horizontal integration in the banking landscape is also discussed. Research implications and conclusions are drawn in Section 5.

II. LITERATURE REVIEW

A. *Dynamic capabilities*

In the rapidly changing industry, as customers' behavior and preference are in flux, companies should become more agile in understanding the needs of new products or value creation in winning the competition and innovation. Several experts agree that acquiring dynamic capabilities is often considered a major factor in a business competition and innovation strategy. Dynamic capability is the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece et al., 1997). Dynamic capabilities can be acquired from operational capabilities, showing how effective and efficient the organization is running and using its resources to obtain its strategy. The basic assumption of this framework is that modifying short-term competitive advantage should align with the long-term competitive advantage by using the core competencies. Teece et al., (1997) concept of dynamic capabilities stated corporate agility is the backbone process for business. Corporate agility is often described by the capability to sense & identify and seize opportunities or threats, as well as maintain business competitiveness.

Another concept of dynamic capabilities is described as strategic and organizational activities such as product development, alliances, and strategic decision-making that help firms create value in dynamic markets by repurposing resources to build new value-creating strategies (Eisenhardt & Martin, 2000). Dynamic capabilities mirror the traditional concept of routines when markets are relatively dynamic and change occurs within the context of a stable industry structure. To put it another way, they're intricate, precise analytic procedures that rely heavily on prior information and linear execution to achieve predictable results. Dynamic skills, on the other hand, take on a distinct character in high-velocity marketplaces where industry structure is blurring. They are simple, unreliable processes that rely on rapidly generated fresh knowledge and iterative execution to achieve adaptable but unpredictable results. Cisco Systems has, for example, a very effective acquisition process by which managers have assembled a changing array of products and engineering know-how that drive superior performance. Similarly, biotech firms with strong alliance processes for accessing outside knowledge achieve superior performance (Powell, 1996).

Dynamic capabilities, as defined by Teece, (2007) are "the ability to integrate, build, and reconfigure internal and external competencies to handle quickly changing contexts," and they have become a major study priority on how to maintain advantages in a complex and volatile environment. Teece later proposed a dynamic capabilities framework as three categories of first-order entrepreneurial capabilities: sensing, identifying, and assessing new emerging opportunities; seizing necessary resources to address, grasp, and capitalize opportunities; and transforming the organization's tangible and intangible assets, renewing cohesion. Sensing (and shaping) opportunities and threats are the first form of dynamic capability, according to Teece, (2007). Sensing (and molding) new opportunities are, by definition, an organization's ability to scan, develop, learn, and filter opportunities and dangers, as well as monitor, assess, interpret, figure out, and calibrate them. Seizing opportunities, on the other hand, is a type of dynamic capability. By definition, seizing opportunities refers to an organization's ability to respond to potential chances by developing new products, processes, or services. Last, the type of dynamic capabilities is, managing threats and reconfiguration. By the nature of the capabilities, managing threats and reconfiguring is the organizational ability to recombine and organize structures as the environment changes.

B. *Merger and Acquisition*

A Merger occurs when two organizations agree to collaborate in order to attain one's goals at the expense of the other's resources as well as the predecessor's resources. This definition is based on our in-depth research into mergers and acquisitions, as well as our analysis of current business scenarios. Absorption and consolidation are the most common types of mergers. Merger through absorption occurs when an acquiring firm keeps its name and identity while acquiring all of the assets and liabilities of a target firm that has ceased to exist as a separate entity, whereas merger through consolidation occurs when two or more companies have mutually agreed to end

their legal existence and then wish to form a new business entity S.A. (Ross et al., 2010). Whereas, by purchasing the target's assets or equity, an acquiring firm gains a significant ownership stake in the target company. Tender offers, or public offers by an acquiring firm to buy the equity of a target firm, are the most common way for it to happen. It also clarifies "a clear sense of which corporation is in charge (Epstein, 2005). In this study, we will show some theory that motivates merger and acquisition activity.

When scholars discuss motives in the context of mergers and acquisitions, they typically focus on the motives of the buying company's management and/or the motives of the target company's shareholders; motives of other stakeholder groups that may be significantly impacted by the acquisition are rarely mentioned. This could be explained by the fact that the decision to merge is heavily influenced by the buying company's management and the target company's shareholders (Gerpott, 1993). Specifically, in this study, we will view mergers and acquisitions from a macroeconomic perspective, which is that mergers can be viewed as a reaction to macroeconomic processes caused by economic disturbances (Gort, 1969).

Merger Theories

Previous bank merger studies have employed the following theories, among others. Each is based on economic and management ideas that have been thoroughly examined and tested using financial and model validation tools. The majority of them have been employed in past bank merger studies. This section presents relevant empirical studies.

Hubris

According to Roll, (1986), hubris predicts that the newly joined entity's combined value would decline while the target's worth will increase. Hubris says that purchasers overpay for targets out of a desire for power and control. Hubris believes that the strong form of the efficient market theory can explain financial, product, and labor markets. Mergers, according to this model, will result in no gains.

Buyers' overconfidence and refusal to alter their ideas about aims were discovered by Hietala et al., (2002). Langford & Brown, (2004) used the acquisition trend of First Union Corporation to relate CEO arrogance to overpaying and value-destroying acquisitions. In 1997, when First Union and Nations Bank were at odds, First Union paid 5.3 times the book value for CoreStates Financial, barely three months after Nations Bank revealed plans to buy Barnett Bank for 4.0 times the book value. In a study that did not include banks, Ayers et al., (2003) found a consistent effect of asserting control by getting lockup agreements and the amount of acquisition premium paid. Brantley provides a good description of decision-making processes surrounding merger lockup agreements. For lockup agreement releases connected with longer-duration lockup agreements, significant abnormal returns were discovered (Keasler, 2000).

Information Content

Financial market inefficiency may occur due to a lack of relevant available information. Information content suggests the buying firm may be able to develop information that the market valuation of the target does not reflect. The buying firm exploits this asymmetry in information by acquiring the target at a price the buying firm considers to be a bargain.

Dodd & Ruback, (1977) looked at 386 tender offers and concluded that during the month of the merger announcement, shareholders of buying firms had positive abnormal returns. As a result, the idea indicates that announcing a bid could alert the market to the existence of previously unknown information about the target. According to Asquith & Kim, (1982), target firm stockholders received considerable positive cumulative abnormal returns from two months before the disclosure to the month of the announcement, while no other securities holders gained or lost.

Warfield & Linsmeier, (1992) found from bank research analyzing the information content of earnings components that the information provided by earnings components varies depending on economic conditions and tax incentives. Beaver et al., (1997) show that both earnings and stock price fluctuations are endogenous by looking at the information content of profits and prices. Earnings may fluctuate for reasons unrelated to price changes, and prices may fluctuate for reasons unrelated to earnings fluctuations. In the case of large nonrecurring or unexpected charges against earnings, Elliott & Hanna, (1996) looked at the Information content of earnings.

Stoughton, (1988) demonstrated a theoretical explanation for the presence of merger premia in circumstances of financial market information asymmetry where risk-reducing acquisitions were conceivable in a study of the information content of corporate merger and acquisition offers. Stockholder advantages from focused versus diversified bank mergers were investigated by DeLong, (2001). This study found that bank mergers were categorized based on activity and geographic similarity (focus) or dissimilarity (diversification). Mergers that focused on both activity and geography increased shareholder value by 3.0%, whereas other types did not.

Tax considerations in mergers apply to information content notions as well. Ayers et al., (2000) work on the implications of goodwill tax deductions on the market for corporate acquisitions was referenced in the tax accounting part of this paper. Dunne & Ndubizu, (1995), investigated the impact of alternative foreign accounting and tax approaches for goodwill on target shareholders' value. Foreign corporations that wrote off goodwill against a reserve account transferred more value to target shareholders than those that amortized goodwill against income, according to empirical findings. According to the findings, foreign acquirers who deducted goodwill for tax purposes transferred more money to target owners than other acquirers at the time of the acquisition announcement.

Synergy

The term "synergy" refers to when the whole is greater than the sum of its parts. In the context of mergers, it means that the newly merged entity can function together more effectively than the two firms separately, resulting in greater profitability as a sum of two parts. A company will be able to demonstrate increased customer value, increased sales, fewer operating costs, and lesser investment as a result of synergy (Aaker, 1995). Synergy is difficult to achieve in practice since two businesses may appear to be connected and have significant promise yet were developed in a hurry to complete a merger. Sometimes, the potential synergy exists, but implementation issues prohibit it from being realized. Perhaps the two organizations' cultures are incompatible, or the incentives are insufficient.

In an analysis comparing merger pre-announcement and post- announcement values of buyer and target firms, Bradley, (1980) found that target shareholders realize a gain through the premium paid for their shares purchased by the acquiring firm. If target shareholders retain shares of the target firm, they realize a gain from the increase in share price relative to the pre-announcement market value of the firm. Buyer firms that were able to maximize the target firm's assets were able to pay the highest premium. Bradley suggested the findings in this study supported the synergy theory of mergers.

Berger, (2003) looked at the effects of technical progress on synergy in the banking business. The success of bank mergers has been attributed to gains in costs and lending capacity due to advancements in back-office technologies, as well as consumer benefits from enhanced front-office technologies, according to this study. Berger also points to significant gains in general productivity as a result of better banking service quality and diversity. Technology advancements and associated productivity gains are thought to have aided in the banking industry's consolidation.

Langford & Brown, (2004) also talk about synergies. They conclude that probing business activities for potential merger synergies, at both the corporate and business unit level, is suitable after studying excellent acquirers around the world.

Financial Determinants

Research dealing with financial determinants typically emphasizes the variations in acquisition prices paid relative to book values of targets of differing sizes and other characteristics. Several research findings on mergers and the relationship between financial determinants and premium paid, highlighting the number of mergers, the period studied, and significant independent variables contained in findings will be present in this section.

Palia, (1993) investigated the managerial, regulatory, and financial determinants of bank merger premiums. The findings revealed that bank merger premiums were connected to regulatory settings during the study period, as well as specific features of the buyer and target banks. Hakes et al., (1997) investigated the impact

of state deposit caps. Deposit caps reduced the merger price paid, with targets with assets of \$100 to \$200 million being the hardest hit.

Bruner, (2002) looked over 100 empirical studies from 1971 to 2001 that dealt with different aspects of business mergers and acquisitions. During the time period under consideration, the following factors contributed to profitability: (1) Diversification depletes value while focus preserves it, (2) anticipated synergies are major drivers of wealth creation through mergers, and (3) value-oriented purchasers with low book-to-market ratios outperform value-oriented buyers with high book-to-market ratios.

Disturbance theory

Economic shocks, according to Gort, (1969), generate changes in individual expectations and raise the general level of uncertainty, causing merger waves. Individual expectations are reordered as a result of such economic disruptions; previously non-owners of assets now value the assets higher than the real owner of the assets, and vice versa. This causes a cyclical increase and decrease in the importance of M&As for businesses, resulting in a merger wave. Gort dismisses the idea of an efficient capital market, claiming that forecasting future developments through capital markets is fraught with risk due to economic disruptions such as technological advancements and price fluctuations in securities (Gort, 1969). In this study, the 2020 event or so-called Covid-19 pandemic is one of the main reasons to view merger and acquisition from the perspective of disturbance theory.

Each theory in M&A covers various areas within the research and also many industries. However, none of the empirical studies mention the use of merger and acquisition in the lens of the dynamic capabilities conceptual model, especially in the banking industry. Our study focuses on exploring mergers and acquisitions in the banking industry through the lens of dynamic capabilities. Hence, based on several literatures that has been elaborated, this paper aims to formulate the conceptual model of dynamic capabilities in mergers and acquisitions in the banking industry.

III. RESEARCH METHODOLOGY

Conducting a conceptual article is different from an empirical paper. While both of them have a common goal (i.e., creating new knowledge by building on carefully selected sources of information combined according to a set of norms), the conceptual paper's arguments are derived from the assimilation and combination of evidence in the form of previously developed concepts and theories. On the other side, an empirical paper's arguments are derived from data in the traditional sense (Jaakkola, 2020).

In the basics, the conceptual papers typically focus on proposing new relationships among constructs; the purpose is thus to develop logical and complete arguments about these associations rather than testing them empirically (Gilson & Goldberg, 2015). In order to develop logical arguments, the authors must provide a theoretical explanation for that link. As that explanation demonstrates the logic of connections between concepts, it is critical for theory building (King & Lepak, 2011). Jaakkola, (2020) explained that three components that must be included to create a good argument are claims, grounds, and warrants. While claims refer to the explicit statement that the reader is being asked to accept the outcome of the research, grounds refer to the evidence and reasoning used to support the claim and to persuade the reader-It is drawn from previous literature and warrants are often beliefs implicitly accepted within the given research domain. In summary, creating an argument that has 3 necessary components is critical in order to create a logical and complete argument.

To create this kind of argument, the authors are needing a relevant article. In identifying articles relevant to the literature review, we used important keywords that represent the main idea of the proposed paper (Levy & Ellis, 2006). It consists of: "dynamic capabilities", "merger and acquisition", "value creation", and "banking or banking industry" keywords. The term of the keywords finding is within the "title, abstract, keywords" in the database. The chosen keywords are found within the most / popular scholarly database and the popular digital library. We choose Scopus, ScienceDirect, and ProQuest as literature review sources from the scholarly

database. And also, choose Wiley, Springer, Emerald, Taylor & Francis, as an online/digital library sources for finding a relevant journal. We also identify a relevant article with another step, which is a backward search approach (Levy & Ellis, 2006). This approach refers to reviewing the references of the articles yielded from the keyword search noted above (the first step). It was conducted after finding the initial articles by using a previous keyword. These approaches continue until the three necessary component sources are collected, and it can be assimilated and synthesized into logical and complete arguments

IV. RESULT AND DISCUSSION

The Market change will always happen in the business environment. This is reinforced by the many interruptions and interventions by technological developments, and the influence of globalization to influence market preferences faster and wider (Teece et al., 1997). Dynamic capabilities become very important for companies in addressing market changes and this has been mentioned by various literature streams on dynamic capabilities before (Eisenhardt & Martin, 2000; Teece, 2007; Teece et al., 1997).

Eisenhardt & Martin, (2000) defines dynamic capabilities as “the firm’s processes that use resources-specifically the processes to integrate, reconfigure, gain and release resources-to match and even create market change...”. The “how to firm process and manage their resources and capabilities” becomes more crucial to obtain sustainability growth for the firm. While Teece, (2007) clearly defines the dynamic capabilities into three types which consist of sensing, seizing, and reconfiguring which has been stated in section 2.

In the context of acquiring, as explained above the three generic dynamic capabilities should be considered. The first form, sensing capabilities, is defined as the ability to identify, interpret and pursue emerging opportunities (Teece, 2007). In the context of acquisitions, sensing capabilities reflect the processes that help acquirers (a) to identify new acquisition opportunities, and (b) access sufficient information to assess targets. Research in the field of acquisitions highlights that the Identification of appropriate acquisition targets is an important determinant of acquisition success. Acquirers possessing sensing capabilities are likely to be better able to identify acquisition opportunities early and benefit from lower competitive pressures and, subsequently, lower premiums (Chatterjee, 2009).

Sensing capabilities also encompass the activities associated with assessing new opportunities (Teece, 2007). This activity involves tapping advisors, suppliers, customers, and other external sources to gain information about acquisition targets. Deploying sense capabilities, acquires may gain better access to sources of market information and overcome the risks of poor target selection associated with inadequate information. While the assessment is inadequate (poor sense capabilities), it will lead the firm to adverse target selection and suboptimal acquisition performance (Shen & Reuer, 2005). In sum, the acquirers require sensing capabilities to correctly filter and shape the acquisition opportunities that they identify in the market (Teece, 2007).

The second form of dynamic capabilities is seizing opportunities. This form is about continuing the opportunities that emerge from the sensing and leading the firm to address the opportunities by making high-quality investment decisions and mobilizing appropriate resources (Teece, 2007). In the acquisition context, the dynamic capabilities are manifested in (a) the decision-making protocols that guide target selection and negotiation, and (b) the processes for integrating new acquisitions. As we know when the pre-acquisition the acquirers face several decisions throughout the acquisition process that contribute to the overall acquisition outcome. One of the decisions is the selection of the appropriate acquisition candidates to pursue. Several findings state that the acquirers that carefully consider their existing capability gaps and internal constraints to integration tend to outperform those that do not consider such factors (Lowe, 2016). Thus, seizing capabilities may provide acquirers with the capacity to form decision rules that guide decision-making during the acquisition process (Teece, 2007).

For the side of integrating newly acquired, the seizing capabilities also play a role in coordinating the integration of the acquirer and acquired firm. The seizing capabilities enable firms to address opportunities by building loyalty and commitment between firms. Loyalty and commitment could be built if there are good relationships and trust within the acquirer and acquired firms. Empirical findings suggest that by fostering relationships between parties, acquirers, and targets, can overcome the ambiguity that characterizes negotiations (Lowe, 2016). Moreover, relationship building enables parties to become sensitive to cultural differences that are often detrimental to acquisition negotiations (Gomes et al., 2013). This is also stressed by Junni et al., (2015) that demonstrate how acceptance of the other parties' organizational culture is positively related to post-acquisition integration. If the relationship is good then the cooperation between the parties could be effective (e.g., using and integrating resources that lead to new value creation).

The last form is reconfiguring capabilities. It refers to the continuous renewal and recombination of activities, aimed toward maintaining competitive advantage (Katkalo et al., 2010; Teece, 2007). In the context of an acquisition, these capabilities are typically seen through organizational restructuring, whereby business units are added, deleted, or recombined following an acquisition. Literature suggests that reconfiguring capabilities enables acquirers to recognize which resources generate rent, identify other areas within the organization where these resources may create value, and design mechanisms to transfer the resources in a way that does not diminish their value. Based on Junni et al., (2015) findings, reconfiguration by resource deployment improve acquisition performance. Providing evidence to suggest that resource fluidity (the ability to rapidly redeploy resources) is associated with greater post-acquisition knowledge transfer and, subsequently, greater post-acquisition performance. Thus, by deploying reconfiguring capabilities, acquirers are better able to modify the resource compositions of their existing units and newly acquired units through resource deployments.

Another role of reconfiguring capabilities lies in restructuring acquired units to improve the performance of underperforming units. Karim, (2006) highlights from the review of acquisition literature that acquirers need to prepare themselves for the likelihood that acquired units may need to be reconfigured several times before acquisition potentials are achieved. The acquirer could be better to unlock the synergetic potential of the acquisition when reconfiguring capabilities are deployed. While synergy results lead the firm to be able to demonstrate increased customer value, increased sales, fewer operating costs, and lesser investments (Aaker, 1995).

Therefore, the main idea to unlock the competitive advantage in the context of the banking industry through M&A activities is focusing on how we synthesize each type of dynamic capability created into key activities that could trigger the competitiveness indicators. In the banking industry, especially under the disruption of financial technology and the Covid-19 era, digitalization is an inevitable process to be drawn by traditional banks. As our paper tries to capture the trend of value creation through M&A using a dynamic capabilities framework, we look to redraft a conceptual model of how a dynamic capabilities perspective could lead banking firms to acquire competitive advantage and achieve sustainability. We adopt the basic concept developed by Čirjevskis, (2019) and apply the key activities related to the context of the banking industry.

This conceptual model might comprehend the value creation of each competitiveness indicator from the micro-foundations of each perspective. Our proposed model is as follows:

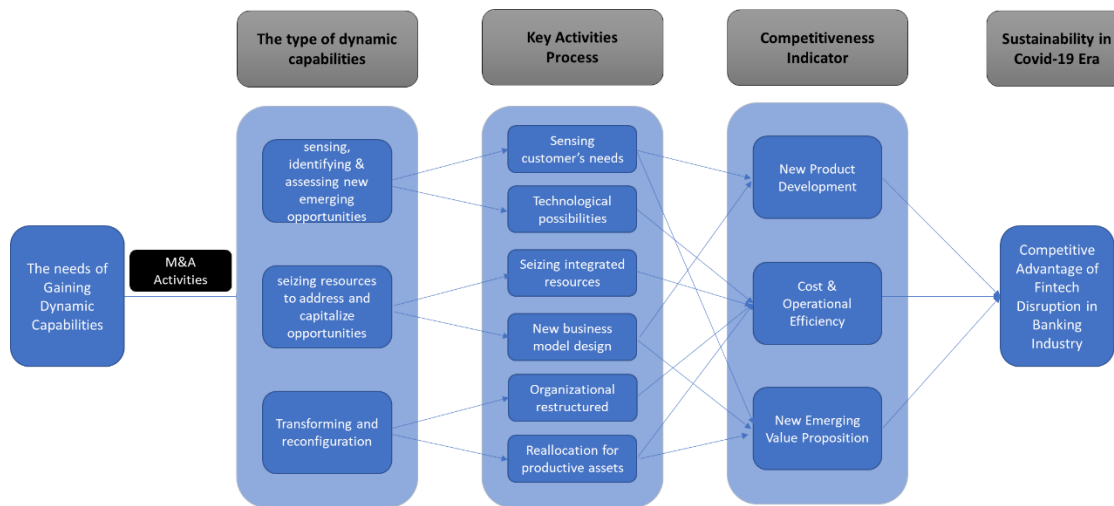


Figure 1. Conceptual model of competitive advantage with dynamic capabilities perspective in the Covid-19 era.

Sensing and identifying new opportunities can trigger key activities such as grasping customers’ needs and identifying technological breakthroughs to enhance business processes and systems. While seizing resources and capitalizing opportunities available were yielded from acquisition concepts that acquirers gain new resources available from the target company that has specific resources as their competitive advantage, as the ability of firm-specific resources and capabilities to contribute to competitive advantage makes them desirable (Fortune, 2004). The dynamic capability perspective provides a core theoretical framework to explore the value creation process, as it focuses on how firms keep refreshing their competitive advantage based on their valuable resources (Eisenhardt & Martin, 2000; Helfat et al., 2009; Teece, 2007; Teece et al., 1997). The emphasizing process in integrating resources post-M&A activities can be a key activity of new value creation. A new business model design could also be a key activity as an improving act of updating an obsolete strategy by the acquirer post-M&A. Next, managing threats or transformation processes and reconfiguration of assets could be exploited as a value creation process.

Having the capability of sensing customers’ needs, the acquirer company could develop the possibility of creating new products as well as creating new value propositions that might, in the end, attract new customers or maintain existing customers. While being well-to-do in seizing resources can generate cost & operational efficiency and developing a new business model could unlock new value propositions and the possibility of new product creation. Organizational restructuring often creates new culture, and, respectively, calling a more effective business process, which leads to cost and operational efficiency, while the reallocation in the productive asset might adequately evoke the new product as well as proposed value. These all activities are the backbone of value creation in the context of the banking business process to sustain a competitive advantage.

There are three basic concepts of value creation, governance-based, knowledge-based, and cost-based value creation (Bowman & Ambrosini, 2003). The governance-based value creation is conducted when the business structure of the target company is changed in order to force a new culture and process to achieve more efficient and effective performance. The practical implication of governance-based value creation in the banking industry happens when the target bank is changing its corporate culture which forces them to conduct business in a totally different way. Cost-based value creation happens when the target company’s resources are reallocated and reconfigured to achieve economies of scale, consolidation-wise. This proposed value further will create a shared resource that leads to cost savings. The empirical example for this is when both the acquirer and target banks are sharing platforms in the procurement or supply chain process, hence cost synergy can realize the cost reduction. While the knowledge-based value creation extracted from a process of transferring knowledge between the acquiring and the target company hence could create valuable knowledge as specific resources.

These all-key activities constructed would energize the creation of several competitiveness indicators, such as new product development, cost & operational efficiency as well as a new value proposition. Hence, those competitiveness indicators could establish a sustainable competitive advantage for banking firms.

V. CONCLUSION AND RECOMENDATION

Many companies respond to the rapid changing in the business environment by adapting, both through internal and external capabilities. This paper is focusing on the competitive advantage using the perspective of dynamic capabilities acquired through Mergers and Acquisitions. The prevailing paper contributes a fresh view to theory and practice by illustrating logical ways in cultivating the dynamic capabilities framework in the M&A process of banking firms, specifically in the era of digitalization as a result of the pandemic outbreak.

The conceptual model is canvassed through the nexus of dynamic capabilities framework, and business key activities, which could be an impetus to business model innovation in the banking industry. The conceptual model demonstrates that the convergence of capability in sensing and seizing opportunities can result in-new product development, while the nexus of sensing and transforming capabilities generates cost and operational efficiency. At last, the crossing path of seizing and transforming capabilities can create a new value proposition that leads to sustainable competitiveness for the banking industry.

Therefore, the conceptual model could be a theoretical contribution as an instrument on how Mergers and Acquisition are channeled in the business expansion and the creation of competitive advantage as well as identifying dynamic capabilities more observable and distinct measurement could the industry be experiencing a vast rapid transformation.

There is a limitation to the recent research. There is a need to verify the proposed model of dynamic capabilities as drivers of merger and acquisition in the banking industry through further qualitative and mixed-methods research studies. The authors also mentioned the single industry analysis which could raise opportunities for future research, both in terms of theory development and findings validation. This leads to the authors' suggestion for further empirical research in examining the role of dynamic capabilities framework using primary data from the banking industry that conducted mergers and acquisitions during the Covid-19 era.

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