

지식경영을 활용한 기업인수 후 합병후 통합(PMI) : 한일은행과 상업은행의 합병 사례를 중심으로

PMI Using Knowledge Management Viewed from Merger of Hanil Bank and Commercial Bank of Korea

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ABSTRACT

The purpose of this study lies in examining how knowledge management was applied to PMI(Post Merger Integration) in bank merger. Individuals and organizations in Korea have experienced a lot of changes since the 1997 foreign exchange crisis. In such a situation, individuals came to think the only thing to rely on was personal knowledge. Since organizations had to lay off workers in order of their birth year, not based on whether or not individuals had the knowledge necessary for the organizations, they needed to have such a system that could use their explicit knowledge and even outside knowledge or customers' knowledge as IT developed by changing individuals' tacit knowledge into explicit knowledge as needed in order to continue to maintain their competitiveness and for their own development. Thus, each firm started to pitch for the introduction of knowledge management. Individuals started to store their own experience and knowledge in their homepages or blogs.

It was Woori Bank, the merged bank of Hanil Bank and Commercial Bank of Korea, that introduced the knowledge management system and Shared Service Center, in which knowledge creation is available, for the first time in the banking business. Its previous name was Hanbit Bank. Hanbit Bank wanted to construct an advanced bank system, bringing in their chief information officer(CIO) from a foreign bank and introducing an IT software used in Spanish banks to adjust all banking processes to it. However, they could not help giving up the plan in the middle of the road since there was a great difference between Spain and Korea in the financial system and more than 30% of software package had to be changed. In this situation, PMI was delayed, and customer inconvenience continued, which made the integration of organizational cultures slow down. As a breakthrough in this situation, knowledge management was introduced. To integrate knowledge of two organizations in the process of PMI is an important job for all merger candidates. This study aims at presenting the successful results from using knowledge management as a means to PMI ahead of other financial institutions so they can apply them to their organizations.

PMI was not achieved properly after the two banks had been merged as Hanbit, but entering the era of Woori Bank, workers were integrated under one standard organization following the organizational and knowledge integration, and knowledge management was introduced for an efficient sharing of knowledge among

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members. A great number of mergers have occurred up to now, but Woori Bank is the first case that used knowledge management as a means to both PMI and competitiveness enhancement. Probably it was an appropriate time when Woori Bank introduced knowledge management as it was organized. Since Hanil Bank and Commercial Bank of Korea had not introduced knowledge management until then, it could use knowledge management as a means to PMI. Using knowledge management, it could create a new organizational culture and increase competitiveness in the banking industry.

Keywords : Knowledge Management(KM), Post Merger Integration(PMI), Shared Service Center(SSC)

1 . Introduction

1. Purpose of Study

The purpose of this study lies in finding out how to effectively apply knowledge management to PMI(Post Merger Integration) in bank merger.

Individuals and organizations in Korea experienced a lot of changes including the foreign exchange crisis in 1997.

Organizations laid off workers mechanically in order of their birth year regardless of whether or not they had the knowledge necessary for their organizations. They needed such a system that could change individuals' tacit knowledge into explicit knowledge as needed, and use even outside or customers' knowledge as IT technology developed as well as their explicit knowledge so they could continue to develop maintaining their competitiveness. Polanyi defined explicit knowledge as such a knowledge that can be used between individuals and represented in official language, and tacit knowledge as personal knowledge accumulated through individuals' experience involving intangible factors such as personal beliefs, perspectives and values, clearly distinguishing the two kinds of knowledge from each other(Polanyi, 1966). Organizations, which were active in introducing knowledge management system, started to stress the accumulation and share of explicit knowledge, particularly the change of

tacit knowledge into explicit knowledge, while individuals started to store their own experience and knowledge in their homepages and blogs.

It was Woori Bank, a merged bank of Hanil Bank and Commercial Bank, that introduced the knowledge management system and the shared service center with knowledge creation available for the first time in the banking industry. Hanbit Bank, a predecessor of Woori Bank, brought in its CIO (chief information officer) from a foreign bank, introduced an IT package relevant to banking work from Spain, and adjusted its all banking processes to that software in an attempt to construct an advanced banking system. However, they had to give up the plan in the middle of the road since there was a big difference in financial system between Spain and Korea and change more than 30% of the software, which made PMI slow down and customer inconvenience continue. Organizational culture integration was naturally delayed. As a way to solve these problems at a time, the knowledge management system was introduced. To integrate knowledge from two organizations in the PMI process is the most important job for all merger candidates. This study aims at examining the process of the successful results that a local bank achieved using knowledge management system as a means to PMI earlier than other financial institutions did so they can apply it to their own organizations.

2. Method of Study

To attain the goal of this study, the researchers interviewed those executives and employees deeply related to the merger project of Hanil Bank and Commercial Bank of Korea for primary data, and collected source material from newsletters, newspaper articles, websites and so on as secondary data. In particular, the inside data provided by interviewees to support their memory was of much help. The researchers examined the previous studies and cases relevant to knowledge management concerning the process of M&A and integration of financial institutions home and abroad, centering on information system and corporate culture, and compared them with such cases of the two banks to draw some implications. As to PMI, a former vice president and 3 managers involved in the integration process were interviewed. Before interviewing, they were informed of the purpose of interview and the stuff to be interviewed, and were assured that the interview would be anonymously used only for researches. The researchers asked them for understanding and agreement on recording in advance. The interview was conducted for 100 to 120 minutes depending on interviewees, and the recording was quickly transcribed into a written text after interviewing.

II. Theoretical Backgrounds

1. Knowledge Management

1.1 Organizational Types in Knowledge Management

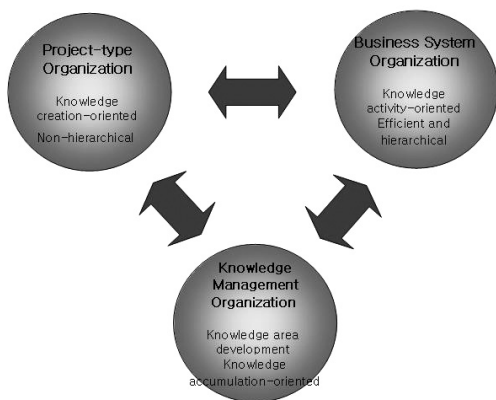
A organizational theorist Sveiby defined knowledge management as “the art of creating value from an organization’s intangible assets”(Sveiby, 1997).

The most important thing for the practice of knowledge management is an organization.

First of all, the function of an organization should be well understood, which is to create the productivity of knowledge. Knowledge itself cannot create anything. However, its productivity is created only when various knowledges are combined into one knowledge. To enable it is the task and function of an organization, and the reason for its existence. Knowledge workers are equal to experts in a specific field. Enterprises can produce their desired results by enabling experts to play their role properly.

The organization subject to knowledge management should be organized in accordance with the principle of creation and efficiency. This requires three types of organizations, as shown in [Figure 1] below. The first types are business-system organizations playing such a role that the existing hierarchical organizations show. This type of organizations largely take efficiency as their top priority, stressing the use of knowledge. For Woori Bank, project-type organizations or all departments not in charge of knowledge management fall under this business system type of organizations. The second types are project type of organizations problem-centered, creative and non-hierarchical. This type of organizations largely stress the creation of knowledge. In knowledge management, there are many cases that project-type organizations are created as needed and disorganized as soon as problems are solved. Woori Bank have 13 research teams operated in a project type with a concentrated support in a way of vitalizing knowledge management. The third types are knowledge management type of organizations largely developing knowledge areas and accumulating knowledge. This type of organizations

should be operated to a minimum depending on investment efficiency. For Woori Bank, knowledge accumulation is assigned to IT department. The three types of organizations closely interact with each other, and can be overlapped in works.



Source : Karl Jeong Oung et al., 1998.
 (Figure 1) Organizational Types in Knowledge Management

1.2 Development Steps of Knowledge Management

Knowledge management goes through three major changes. In the first step, organizations recognize the need and convenience of knowledge management, in which knowledge is shared among members, and the efficiency of knowledge collection in organizations is improved. In the second step, organizations motivate members, intentionally using and creating knowledge to improve works, and repeatedly using procedures and technologies to expand performance outcome. In the third step, organizations systematically discover and apply knowledge. They use knowledge to create a competitive edge, and innovation occurs in them through newly created knowledges. By doing so, they can achieve distinction from their competitors and implement a constant performance. Since PMI was not success-

ful in the process of merging with Hanbit Bank while newly introducing knowledge management, Woori Bank wanted to achieve all things at a time by introducing the third step of knowledge management

Today, knowledge management is evolving into a higher level. Development in digital technology made it possible for firms from the world to cooperatively work in various ways through sharing of knowledge and work regardless of regions, distance, or languages in the near future(Friedman, 2005). Thus, knowledge management will be linked with a number of outside organizations in the future, not limited to the knowledge in a specific organization. Global firms have already constructed their own knowledge management network.

2. Post-Merger Integration(PMI)

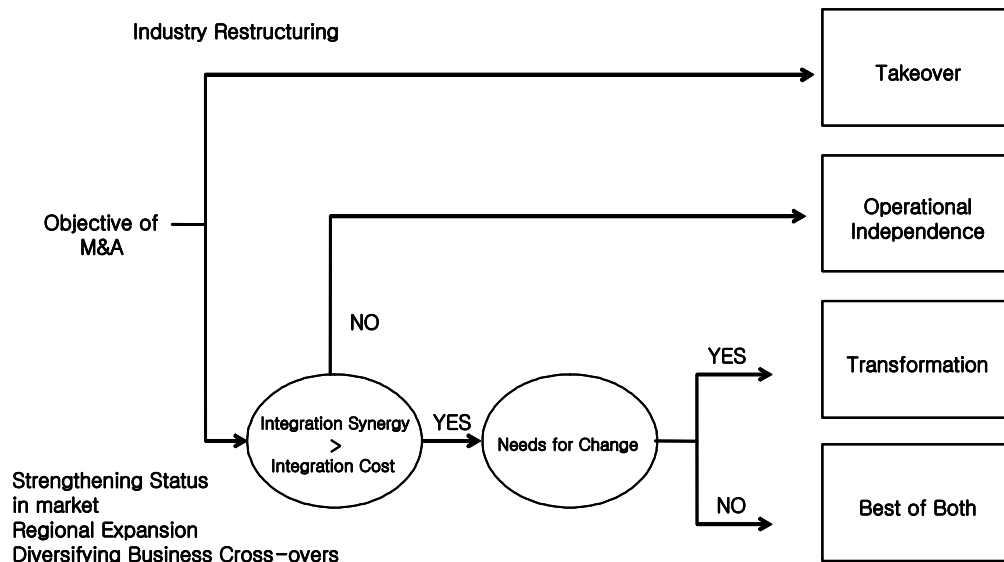
M&A studies before 1960 focused on a successful deal with no mention of PMI(Kitching, 1967). After that, there had been no studies of the process of organizational change until the mid-1980s. It was after the mid-1980s when studies of PMI as the process of organizational change started, focusing on solving those problems taking places in the process of integrating with target firms after an M&A deal (Sales and Mirvis, 1984; Buono and Bowditch, 1989; and Haspeslagh and Jemison, 1991). Thereafter, the matters of leadership and relevant strategic fitness was largely studied, which followed by studies of the synergy expected or thought to be possible(Birkinshaw, 2000; Larsson, 1990; Larsson and Finkestein, 1999; Lindgren, 1982; and Shrivastava, 1986), and studies of value creation(Haspeslagh and Jemison, 1991). With most studies in business management focusing on core competencies and knowledge management, M&A studies started to give attention to these. Some studies focused on the transfer of knowl-

edge or core competencies(Bresman, 1999), and some saw knowledge management as a process of improving learning function(Leroy and Ramanantsoa, 1997). However, there have been no cases using knowledge management as a means to PMI for merged companies. Thus, this study focused on the process ranging from the introduction of knowledge management to organizational and cultural integration in PMI.

Woori Bank came into being, led by the government, but achieved union integration in such a rapid speed that have not been found in other bank mergers coming later by the action of union members' consciousness of crisis that they should show an exemplary normalization as a bank in which state capital was invested and survive a rapidly changing financial environment. In spite of such a consciousness of crisis, the PMI process can face difficulties due to faction consciousness for a merger on an equal basis. Thus, Woori Bank's management and union announced the beginning year of a new culture in April 2000, and introduced knowledge man-

agement to organizational and cultural integration. The merger for Woori Bank was achieved on the basis of restructuring in the financial industry, but different in integration method from the same cases in America.

As shown in [Figure 2] below, Kay and Shelton (2000) proposed 4 PMI models. They said that for model selection, it should be first considered if a specific M&A is the product of restructuring in the industry, and if it is the case, one organization is in general taken over by the other. They recommended that if a specific M&A is not the product of restructuring in the industry, it should be first decided which is the greater between integration cost and synergy from integration, and if the former is the greater than the latter, two organizations should be independently operated rather than integrated, while if to the contrary, it should be first decided whether or not a change is needed, and if not, the best of things from two organizations should be taken as standards for a new organization. Since the foreign exchange crisis, most M&As have been ones from



Source : Kay and Shelton, 2000.

[Figure 2] 4 PMI Models

restructuring in the industry due to oversupply. Woori Bank merger belongs to the same case. Thus, this merger would be normally an absorption merger, but actually was one between two banks on an equal basis. Thus it should be Best of Both model in accordance with models of Kay and Shelton (2000) in [Figure 2]. When Hanil Bank and Commercial Bank of Korea was merged to be Hanbit Bank, it appeared to assume Best of Both model. However, the consciousness of crisis that if merged in such a way, it can survive an environmental change to come made Woori Bank take the transformational integration through a drastic organizational change and the introduction of knowledge management using a reengineering technique in accordance with the advice of consulting firms.

III. Backgrounds of Birth and Characteristics of Woori Bank

1. Backgrounds of Birth

Countries in Southeast Asia suffered difficulties from the 1997 IMF economic crisis. Korea was no exception to it. Many firms including financial institutions went bankrupt or suffered difficulties. With 5 ailing banks shut down by the government on June 29 1998, bank restructuring started in earnest. Earlier than that, the government ordered seriously ailing Korea First Bank and Seoul Bank to reduce capital for overseas sales in early 1998. Meanwhile, those banks rated relatively high in financial soundness sought survival through various self-restructuring measures such as merger, capital increase, and attraction of foreign capital. The first bank restructuring led by the government in 1998 continued until late in 1998 with the shutdown of 5 ailing banks on June 29, and various measures

such as merger, overseas sales, and capital increase as well as workout were taken. The 1998 restructuring was concentrated on removing ailing financial banks.

Four measures of workout, merger, overseas sales or foreign capital attraction, and capital increase were applied to the first bank restructuring. The government selected banks for restructuring based on BIS capital ratio in June 1998, and asked target banks for various types of restructuring. 14 local banks with BIS capital ratio less than 8% as of late 1997 were largely subject to workout, merger and overseas sales with large-scale public funds invested in ailing banks in the form of buying out dishonored bonds, deposit payoffs, or capital increase participation. Meanwhile, 13 local banks with BIS capital ratio 8% or more were recommended for merger, overseas capital attraction, or self-increase of capital, and the government supported capital increase for those banks who took over 5 workout banks. In particular, since Commercial Bank of Korea and Hanil Bank belonged to ones with BIS capital ratio less than 8%, merger and acquisition was selected for their restructuring.

Depending on the evaluation results of Management Evaluation Committee, 5 ailing banks were shut down. The government led 5 good banks to take over Dongnam Bank, Daedong Bank, Chungcheong Bank and Donghwa Bank by purchase and assumption(P&A) in which the good banks purchase good assets and assume liabilities and Korea Asset Management Corporation(the then Korea Assets Corporation) buys bad assets.

This is how mergers were achieved. Hanil Bank and Commercial Bank of Korea were integrated into Hanbit Bank, Hana Bank and Boram Bank into a new Hana Bank, Kookmin Bank and Korea

Long-term Credit Bank into a new Kookmin Bank, and Chohung Bank, Kangwon Bank and Chungbuk Bank into a new Chohung Bank.

Seoul Bank and Korea First Bank, large ailing banks, were subject to overseas sales. The government participated in capital increase to support those banks who took over 5 ailing banks, support merged banks, and improve the health of ailing banks, some good banks increased capital on their own, and Korea Deposit Insurance Corporation raised public funds to support banks' capital increase. A total of 64-trillion-won public funds was raised for the first financial restructuring in 1998, in which a total of 91 trillion won including a 27 trillion won of public funds was invested, and later 18.6 trillion won of the recovered public funds was reinvested.

As seen above, the merger of Hanil Bank and Commercial Bank of Korea was led by the government, as they were designated as the targets of the first financial restructuring in 1998.

2. Characteristics of Birth

2.1 Similarity in Culture

For corporate culture, every organization has its own culture that organizational members have developed together over its long history. However, if firms are similar to each other in products, sales process, customer base, and even size or human constitution, they are in general similar in corporate culture. Since Hanil Bank and Commercial Bank of Korea are similar in many things as seen below, they are basically similar to each other in corporate culture.

2.2 Merger by the Government

The merger of the two banks was led by the

government as seen in the backgrounds of birth. With a large amount of public funds invested in the merger of the two banks, their BIS capital ratio rose from 8.5% before merger(as of late June, 1998) to more than 10% after merger.

2.3 Similarities in Cost Structure

It turned out that Hanil Bank and Commercial Bank of Korea were similar to each other in the cost structure chart useful for forecasting the efficiency of management.

In the ratio of total cost including interest and non-interest costs, Hanil Bank was lower than Commercial Bank of Korea, showing a little better performance in cost efficiency. On the contrary, in return on assets(ROA), Commercial Bank of Korea was higher than Hanil Bank, preceding the latter in asset management capability. For local banks, bad assets have a decisive effect on profitability. Given that the autonomy of loan review was guaranteed in the past, it might be excessive to evaluate a comprehensive asset management capability of banks only with such a horizontal comparison of financial ratio.

IV. PMI Process through KM

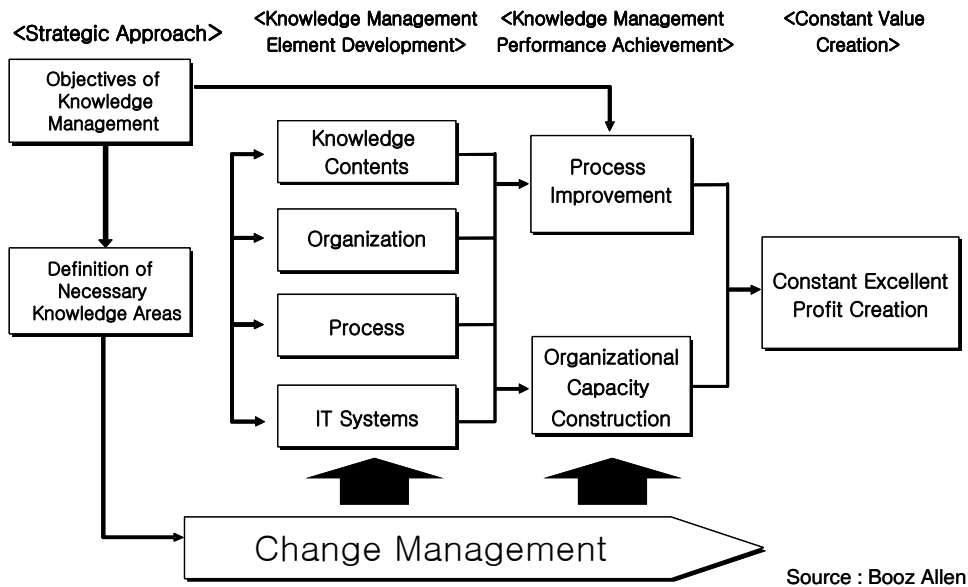
1. Woori Bank's Strategic Approach in KM

Woori Bank has a clear strategic goal with the introduction of knowledge management. They defined the objectives and necessary knowledge areas of knowledge management and developed constituents of knowledge management in the stage of strategy establishment, and checked in the stage of measuring of knowledge management performance if processes were improved and organizational capacity

was developed so strategic objectives could be achieved. The ultimate goal of the introduction of knowledge management is to constantly make a great profit(see [Figure 3]). In the stage of establishing the direction of knowledge management, Woori Bank analysed core capacities to construct a system fit for the financial industry environment, and made a thorough prior research to link the objectives of knowledge management and the management strategies of the bank. They analysed necessary knowledge and knowledge-sharing situation by department, and made an effort for employees to get easier access to the system. This requires the improvement of business process and the development of organizational capacity. They defined knowledge areas necessary for the organization and tried to achieve a successful PMI by introducing a change management method into the organization, process and IT so such knowledges could be accumulated and shared, and new knowledge could be created. A common integration gives attention to which bank takes over the other, while a future-oriented integration for the

creation of something new does not cause a matter of distinguishing yours from ours, and removes unnecessary emotional problems, enabling a smooth progress of PMI. In particular, for one-to-one merger like that between Hanil Bank and Commercial Bank of Korea, which one is taken in a merger can cause a serious emotional problem among organizational members.

After merger, Woori Bank introduced new management systems such as performance management, risk management, a new personnel management, expert system, and business unit system. However, what's more keenly needed were chemical combination in cultural terms due to the merger of two different banks and a smooth information sharing between the two organizations. Although a system for changing employees' behavior was in the existing groupware systems, it was replaced by a knowledge management system centering on knowledge exchange since there was a limitation in sharing knowledge or maintaining and operating a systematic knowledge management system.



(Figure 3) Strategic Approach in Knowledge Management

“The success of a merged bank depends on how quickly metamorphism between organizations is overcome”, said a manager from computer information unit for Woori Bank. “Woorisam Construction Project is a job of recombining workers from two organizations, which are different in organizational culture and work process, under one standard organizational culture through the common medium of knowledge management.”

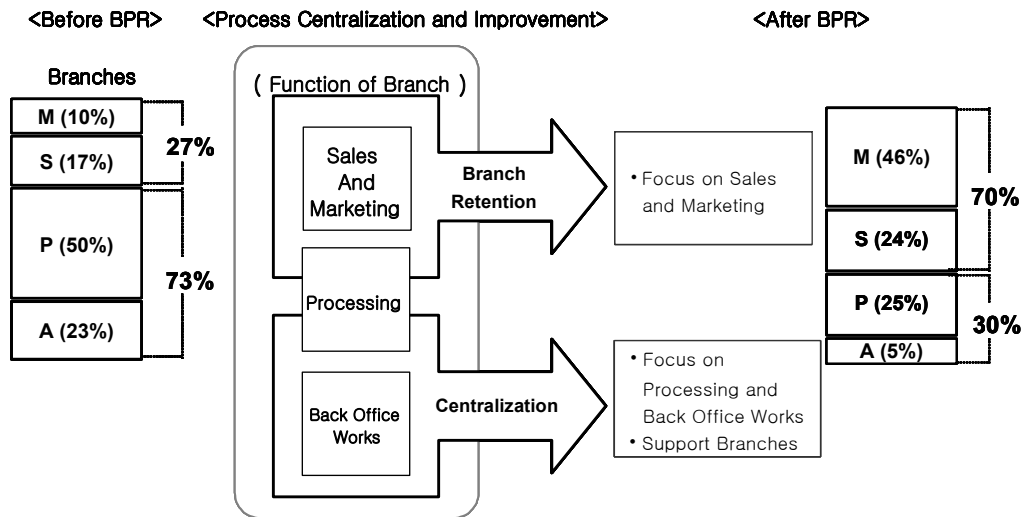
2. Integration in Business Network and Process for KM

From the past marketing activities 10%, sales activities 17%, processing work 50% and back works 23% to 46%, 24%, 25% and 5% each after reform. From a broader view, branches assumed sales and marketing function. Woori Bank innovated the or-

ganization and work process of its branches significantly. As shown in [Figure 4], benchmarking banks from developed countries, it transferred most of back works and around half of processing work to Shared Service Center of its head office, transforming its branches into ones focusing on marketing and sales. After reforming organization and process, work constitution changed with their processing and back works greatly reducing from 73% to 30% through the centralization and improvement of process. Such a successful innovation was mainly due to advanced IT.

3. Shared Service Center as Organization Creating Expertise

Woori Bank transferred those works assigned to its branches in the past to its head office, and set



§ Marketing (M) : Current account counseling, Loan counseling, Card use counseling, Account attraction activities, VIP Management activities, etc.

§ Sales (S) : New account opening, Loan execution, Credit card issue, etc.

§ Processing (P) : Passbook update, Reissue, Deposit, Payment, Relegation, Dishonoring, Collateral registration, Bill or check issue, etc

§ Back Office Works (A) : General affairs activities, Planning, Genera management, Audit, etc

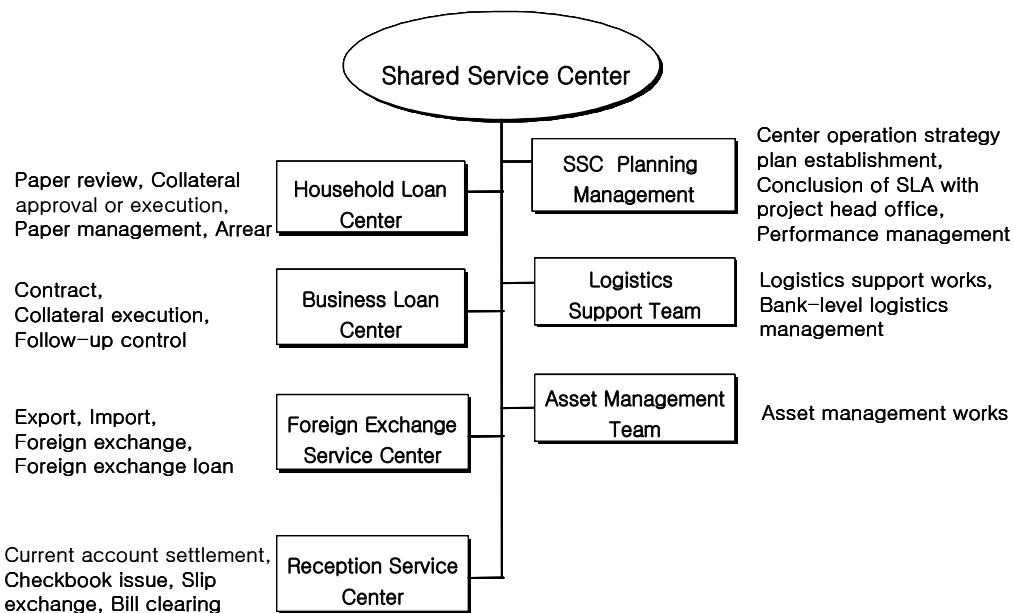
Source : Reconstruction of data from banks.

(Figure 4) Branch Organization and Process Integration

up Shared Service Center(see [Figure 5]). It set up 4 centers of household loan center, business loan center, foreign exchange center and reception service center, and organized teams for logistics support service and asset management service as independent sections to motivate members to accumulate knowledge and create new knowledge, bringing a great change to the organization. It signed a service level agreement(SLA) with business head offices and Shared Service Center on operational strategies and planning. Its four centers, and logistics support and asset management teams had their expertise improved by integrating those services allotted to several sections in the bank and constantly placing inside professionals in one position. It increased work efficiency, and motivated workers to create new knowledge by introducing a strict performance management system and a reward system based on performance.

Taking two services as examples, for household

loan service, it took a week to take loans from branches on their home or apartment mortgages in the past. If customers submitted required papers to a branch, they could have yes or no notified after obtaining a sign from the branch and an approval from the head office. Much time was consumed since relevant papers had to be passed between a branch and the head office. However, after the bank's organization and process were improved, it came to be able to let customers know on the same day or the next day whether or not loans could be made. As communication got faster and high-capacity image file could be transmitted, the loan papers submitted to one of its branches were sent to the household loan center of its head office and to relevant experts at the Center, and they could evaluate collaterals or decide the amount of loan in a very short time. Since experts at the household loan centralization center had knowledge on collaterals by region and by area while review-



Source : Reconstruction of data from banks.

[Figure 5] Organizational Chart of Shared Service Center in Main Office

ing loan papers from the whole bank, it didn't take much time for them to make a final decision. Such an intensive work process provided room for members to create a new create. Before centralization centers were installed, the general affairs as back office work didn't attract much attention. However, employees at Woori Bank were surprised to see new knowledges created after general affairs were centralized with its name changed into Logistics Management Team. Important papers including securities will be passed between branches and the head office. After centralizing such work and introducing a performance management system, this team greatly improved bags for important papers and their locking device, and applied for a patent on that. They used a heavy lock to open and lock up bags for important papers before, but since it caused a considerable inconvenience, they developed a simple and safe locking device and went on to apply for a patent. Since this occurred in a section that had showed the slowest response to changes in the bank history, other sections were greatly encouraged. Mentioning such a change, a worker from Woori Bank's branch(manager at Seongdang-dong Branch) said, "Given that knowledge management gave great satisfaction to both customers and workers, such a change is a new idea, not just a matter of profit and loss!" Process serves an important function that delivers various data, information and knowledge in a company to proper people and organizations, and at the same time is a product from the company's long experience. However, Woori Bank benchmarked the process of an advanced bank, making it its own. In the recent rapidly changing business environment, the basis of competitiveness is a quick decision-making. A quick and safe logistics support is necessary for a quick

decision-making. Thus, Woori Bank's adoption of image processing technology and possession of a quick logistics support system and a quick decision-making system between its branches and head office have some relation to advanced firms' view of regarding such an intangible process as their key value and recognizing it as their precious asset.

4. Integration of Organizational Cultures through KM

Kim In-su(2000) proposed 7 measures for reforming corporate cultures. Actually, the process of integrating organizations in PMI is to upgrade two organizational cultures in a better way, not to integrate them as they were. Thus, the integration of organizational cultures in PMI is a cultural reconstruction rather than a simple integration of cultures from both sides. In this sense, to analyse the 7 measures proposed by Kim In-su for reforming organizational cultures in the PMI process is meaningful.

First, new visions and strategies were presented to reform corporate cultures. For Woori Bank, since employees were demoralized, who had seen their many senior members laid off in the name of honorary retirement since the 1997 foreign exchange crisis, and its organizational culture was loosened as it merged with another bank, it keenly needed a new vision and strategy to tighten it. It introduced knowledge management as a new vision to form a desirable organizational culture fit for the new environment created through a merger. Since Knowledge management was a totally new thing to members, neither one from Hanil Bank nor one from Commercial Bank of Korea, there was no great resistance to it among them.

Second, CEO's leadership played an important role in improving corporate cultures. Woori Bank minimized the formation of factions due to a one-to-one merger by bringing in its CEO and president and its holding company's chairman from the outside. The reason why it has selected their president by means of public recruiting was that if an insider became its president in a one-to-one merger, it could cause members' discontent due to their misunderstanding that ones from a specific bank were favored. From this, we can see that they have been careful in selecting the bank's president and its holding company's chairman. However, there has recently been an atmosphere of expecting an inside president. This may be an indication of a successful merger. The neutral CEO from the outside cried for the knowledge management propagated by the then Kim Dae-jung government, which had its own strategic value as a means to resolve the difficult situation in which integration came to a deadlock after merger.

Third, education and training affected the integration and reconstruction of corporate cultures. Woori Bank introduced knowledge management, and continued to provide a group training or education program to workers from two banks so they could get closer to each other while getting and learning new things. Skinship is the best method to make members get closer.

Fourth, an organizational development technique enabled members to change their norms, values and beliefs in the direction that the organization wants in a relatively short time, based on behavioral science knowledge. Events such as Best Practice(BP) presentation that cause competition between individual members or between sections are a good means to strengthening bonds between organizational

members, through which organizational culture changes into a new one.

Fifth, organizations strengthened or reformed their culture with rewards. Explanation of rewards is a means to presenting the organization asks its members for what action or performance.

One of the most common reward methods in knowledge management is the mileage system. In the early stage, Woori Bank's knowledge management team didn't show a positive response to the mileage system. Mileage system is such a system in which workers are rewarded as much as they provided useful knowledge information. Its focusing on the mileage system in the initial issue stage led to incline toward a simple numerical estimation, which caused various problems. Thus, Woori Bank produced an approval plan manual to prevent a qualitative deterioration of knowledge due to the mileage system, and assigned knowledge management officers from various fields to review knowledge. They didn't give points to knowledge information looking worth but not in reality, or to writings from other websites. Such knowledge management officers reached 103 in number that told the true knowledge from the false. Woori Bank made them estimate the grade and value of knowledge. This means that knowledge management is important as much. The bank is motivating members by awarding equivalent honor rather than monetary rewards to best knowledge workers.

"This stemmed from their lack of a quantitative evaluation standard, and they placed 'Hall of Fame' for best knowledge workers at their homepage, deciding that it is important to award honors rather than monetary rewards," said A responsible person for Change Management Team with Woori Bank. "A successful knowledge management requires a

change of executives and employees in mindset, and basically, personnel or mileage system doesn't have a great effect on knowledge management." If knowledge listing is reflected in mileage system or personnel management, workers will competitively list knowledge, but a situation that cannot help focusing on the quantity of knowledge occurs. They decided that focusing on the quantity of knowledge does not guarantee a successful knowledge management since only one or two of thousands of knowledge data is actually of great help to the organization. Thus, they focused on a practical system such as 'question and answer' for a qualitative knowledge management. The 'Help Me' section, in which employees ask and answer between themselves, shows a cumulative average response rate of 93% with 9.3 ones of 10 questions satisfied without the help of a responsible officer from the head office. The 'Question and Answer with Experts' section, in which complex business knowledge is shared, shows an average response rate of 92.7%. For this, a responsible person from Change Management Team for Woori Bank said, "It is their goal to increase the response rate to 95 to 98% by promoting the best helper further more."

Sixth, there was a change in organizational structure. They changed their organization to focus on knowledge so the knowledge dispersed in the organization without preservation could be accumulated and shared. Woori Bank reformed a large portion of the business process between its branches and head office into Business Process Reengineering(BPR) for a successful knowledge management. It centralized its organization and allotted experts of relevant fields to work at one place to accumulate and share knowledge and create new knowledge through the combination of knowledges, and

integrate employees under a new corporate culture through such a process. In any mergers, it is very difficult but important to integrate unions. Both Hanil Bank and Commercial Bank of Korea have the union shop in which up to assistant general manager is required to unconditionally join the union. The conflict between unions from both sides was severe in the merger process, but finally labor and management, and labor and labor reached a reconciliation with the consciousness of a common destiny through the announcement of a new corporate culture in April 1999. Based on this, both banks integrated unions for the first time in the financial sector in January 2000.

After that, they achieved a smooth and quick integration of unions when in turn merging with Peace Bank of Korea in December 2001, Woori Merchant Bank in July 2003, and Woori Card in March 2004. Woori Bank is now maintaining a relatively strong competitiveness in labor and management relation with the idea that they should set a model as a company revived with public funds. As new employees had constantly joined the union since merger, those factional cultures formed immediately after merger disappeared a lot.

Finally, a physical or behavioral symbol had an impact on corporate culture. It has a considerable effect on the integration or reconstruction of corporate cultures to hang motto or management philosophy frames on office walls and make workers read whenever meetings are held, and to hold a grand award ceremony for best employees. Woori Bank changed its previous name of Hanbit into Woori (which means We in English) so workers from Hanil Bank, Commercial Bank of Korea, and later, Peace Bank of Korea could have a consciousness that they are not strangers but a part of the Woori

community. Since the word of Woori makes people feel friendly, other banks opposed to its use of the common noun of Woori as a proper noun. It was true to make bank tellers confused between when Woori was used as a common noun and as a proper noun, but the use of the word greatly contributed to uniting the members of Woori Bank into one body.

5. Contents of KM System

5.1 Development on Commission to Relevant Business

The Woorisam project was basically designed to improve employees' performance. Woori Bank decided that the staff's individual marketing capacity and various ideas related to customer satisfaction were important sources of knowledge, given the banking business's characteristic of having one giant marketing organization. Since an increase in employees' such capacity is directly related to an improvement in their business performance, which can lead to the organization's performance, Woori Bank focused on expanding individuals' capacity by actively integrating and effectively spreading individuals' knowhow. They primarily focused on changing tacit knowledge into explicit knowledge. Computer Information Team in Woori Bank decided to introduce a solution specialized in knowledge management, which can construct knowledge management system in a short time, and carry out both system construction and change management at a time. In particular, it committed this job to an outside firm with an accurate understanding of and experience in financial sector, who had constructed large-scale systems for around 70 firms such as KT, INI Steel, Hynix, Samsung Electronics and Kumho Eng-

ineering and Construction, and systems for financial firms such as Daeshin Securities, Dongbu Insurance and Korea Exchange. It also adopted a system from a firm who provided dotnet-based solution and was excellent in financial stability and in after-service.

Computer Team in Woori Bank largely faced the following two problems while carrying out the Woorisam project.

First, most executives and employees had different understandings from each other about the objectives and effects of and reasons for knowledge management due to their lack of information and knowledge. What is worse, some asserted the introduction of knowledge management was unnecessary, and some opposed to it unconditionally. These were a great obstacle to the introduction of knowledge management, and a hindrance to getting users' needs that had to be properly identified at the right time while the project was in progress. To solve these problems, the knowledge management project team opened a temporary homepage, focusing on improving the staff's understanding of knowledge management by providing them with various contents associated with it, and tried to solve these problems by delivering the objectives of and reasons for it in an active way, using means such as walk, in-house broadcasting, bulletin board, and direct visit education.

Second, various systems that had contained contents similar to knowledge management before were found here and there in the company. Thus, relevant officers for Woori Bank gradually achieved integration, visiting each system operator one by one to present an optimum solution and to explain the values of integration, and constructed an environment that knowledge could be accumulated centering on Woorisam, providing a function that could

transfer knowledge from bank-level systems including the existing groupware. Other problems associated with system construction could be relatively easily solved or avoided since outside experts related to the knowledge management project took part in. Mentioning the progress of Woorisam project for 5 months ranging from October 2002 to February 2003, a general manager from Computer Information Team for Woori Bank said, "Issues associated with systems were not our concerns." He added, "Deciding that contents collection is a key to the initial success of the project, we focused on it."

5.2 Sections of Woorisam System

(1) Question and Answer

This section is composed of 3 subsidiary sections of Help Me, Question and Answer with Experts, and To Operator. The 'Help Me' section is where all common employees can freely ask and answer without any approval procedures, and has a system in which mileage points are awarded through Listing, View, Viewed, Evaluation, and Evaluated functions. The 'Question and Answer with Experts' section is the same as the 'Help Me' section in functional elements, but is different from the latter in that answer function is limited and only a specific expert designated by a questioner can respond. The 'To Operator' section is where anyone can post his or her questions or answers, but the mileage count function is not provided. Deciding that the 'Question and Answer' section is a key to the initial knowledge management, Woori Bank gives a great attention to this section. Since 700 branches across the nation provides similar services, detailed codes and guidelines for this work are already prepared. However, situations that can occur in the actual field are more complicated than this, and

things actually occurring in branches across the nation prove this. Employees' individual experiences or mistakes can be shared in this section, and such individual experiences or knowhow can be converted into the whole staff's knowhow. This section also helps create a sense of togetherness by sharing employees' personal difficulties. Thus, this section has made a large contribution to the integration of corporate cultures.

(2) Woori Study Club

This is a common community function that supports all processes including application, approval, creation with a system. For example, if an employee applies for a study club, it is notified to the administrator, and if reasonable, with his or her approval, a space for the club is created in the initial form, and the applicant is awarded with a status as system operator who can control the relevant club. The system operator can create various bulletin boards in the club, and edit them to fit the objectives of the club activity, while mileage points are given in accordance with a standard policy for the whole. This section is designed to enhance the quality of accumulated knowledge so the knowledge management system can play a key role in creating value as assets, not stop at a simple knowledge accumulation.

(3) Woori Plaza

This section is designed to further more increase the fun of the knowledge management system by providing various information, if not the knowledge necessary for practical work. It provides spaces for topic discussion, questionnaire, food information, life information, business information, various licensing tests essential for bank tellers, examination informa-

tion including learning contents, and book information. This section mostly assumes the form of bulletin board, but shows a little different form fit for the characteristics of each information. It gives only listing points without other functions, which is designed to lead to use knowledge-based sections as much as possible.

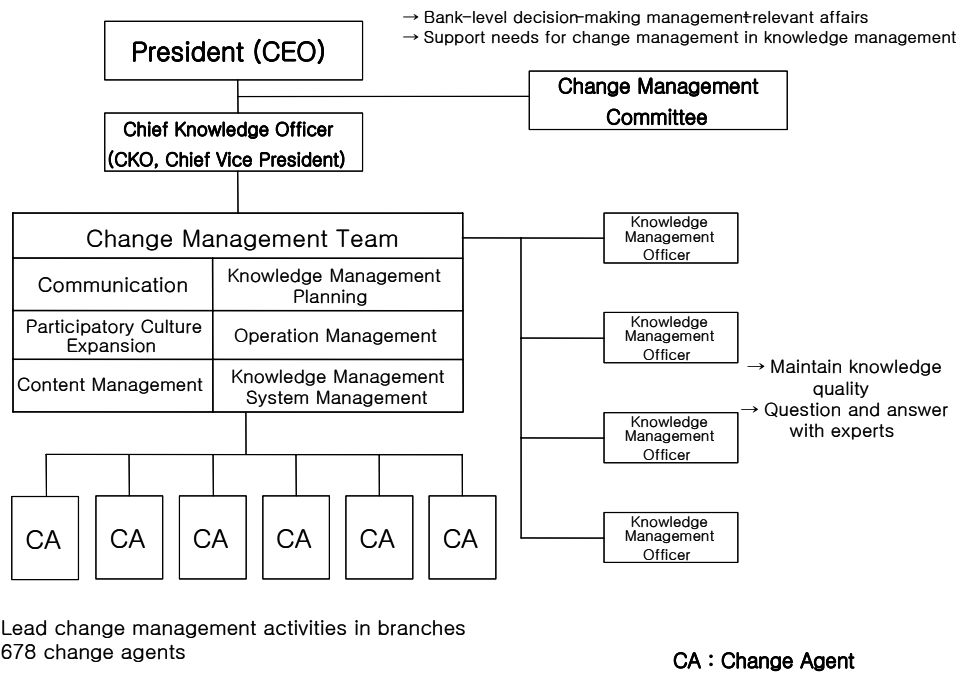
5.3 Organization for Performance of KM

As shown in the knowledge management operation organization map(see [Figure 6]), there is Change Management Committee under President, and a chief knowledge officer(CKO) under the committee. From this, we can see that Woori Bank's introduction of knowledge management is another expression of the PMI process. It placed Change Management Team immediately under CKO so it could integrate cultures from the merged organizations through the introduction of knowledge management,

and at the same time, enhance the competitiveness of the banking industry as a knowledge industry, which is its strategy designed to catch two hares at once. It also appointed 678 change agents (CA) together with knowledge management officers under Change Management Team so they could lead the mission of change management in sections and branches.

V. Conclusions and Limitations

We have studied the process of PMI between Hanil Bank and Commercial Bank of Korea in terms of knowledge management, analysing their integration performance. The merge between the two banks was not achieved by agreement between both sides, but at a ratio of one to one in accordance with the first bank restructuring program led by the government. After merging, they made a great ef-



Source : Reconstruction of data from Woori Bank.

(Figure 6) Organization for Performance of Knowledge Management

fort to achieve integration in culture and IT. However, since a proper integration was not achieved while being merged as Hanbit Bank, they introduced the knowledge competition system to efficiently deliver knowledge to members, and integrate members under one standard corporate culture as well as organizations and knowledge. There have been a number of mergers until now, but the first that has used knowledge management as a means to both PMI and competition improvement is Woori Bank. Since the time when Woori Bank was established was an appropriate moment for introducing knowledge management, and either Hanil Bank or Commercial Bank of Korea had never employed it before, they could apply it to Woori Bank as a means to PMI. They could create a new organizational culture through knowledge management, and at the same time improve the bank's competitiveness. Specific results from using knowledge management as a means to PMI are as follows.

First, the introduction of knowledge management enabled all employees to share corporate visions, members to have an open dialogue, and CEO to approach employees with a new paradigm of knowledge management. With a full description of the backgrounds and objectives of the introduction of a new system as well as what the bank expects from employees, all members came to be able to share corporate visions.

Second, information sharing resulted in an improvement in business knowledge. The primary purpose of knowledge management is to share information and knowledge among members. The company used the mileage system to induce individuals to share their tacit knowledge. They came to be aware that it was useful for all members to share knowledge, not limit it to their own. Consequently,

the sharing of information and knowledge improved their business knowledge. They admitted that since various business knowledge acquired through knowledge management was useful to them, they encouraged other workers to share their knowledge with their coworkers.

Third, knowledge management improved cooperation between departments. Cooperation between departments was strengthened through the activities of a learning group BP(Best Practice). What was successfully performed was shared with members from other departments, which would be helpful for their better understanding of what other departments do. In addition, it turned out that the sharing of the practices improved first by other departments caused a friendly rivalry between departments and helped vitalize the organization. An employee from Geumgok Branch said, "I've been to a BP meeting some time ago. I keenly realized the power of sharing knowledge with each other. It seems that the meeting gave impetus and encouragement to participants. It came to me as a surprising experience." A BP meeting for employees was held at the bank level, and prizes were awarded for the exemplary cases, which served as a motivation to vitalize knowledge management.

Fourth, knowledge management created a sense of unity among members, and changed the corporate culture. There had been a lot of changes in the organization since the foreign exchange crisis. Seeing their senior workers were laid off in the name of honorary retirement in the order of seniority, employees thought the age of life-time employment passed and that of life-time job arrived, and the only recourse was their tacit knowledge, the origin of their competitiveness. Their such thinking has changed as knowledge management was

introduced. Reliability between employees, which crumbled while experiencing a few mergers for the past, has recovered, and employees' negative attitudes that feared changes have been considerably removed. Cynical and indifferent employees have changed into active ones, while passive and closed ones into passionate and active ones. One employee from Eungbong Branch said, "It is evident that as a great change starts from a little change, such a little change in our organization is consciously and unconsciously perceived, which takes place in employees' consciousness through knowledge management."

Such a change in members' attitude improved management performance, for which they were rewarded with bonus, while the organization recovered the culture of reliability. Employees said they could not deny that they became the actors of change through a vigorous change management by knowledge management, and came to stand in the center of the change.

Fifth, knowledge management instilled a sense of pride in members. In Korea Knowledge Management Award, which was co-hosted by Knowledge Management Society of Korea and Maeil Business Newspaper and reviewed for private and public business sectors to select best knowledge management companies, Woori Bank was selected as one of the best. The winning of an award for excellent management caused bank employees to take great pride in a high value from the outside on their achievement of knowledge management. This served as an opportunity to let the outside know that their PMI, which made little progress during their Hanbit Bank period, was being efficiently performed.

As discussed above, the introduction of knowledge management resulted in a great performance across the organization. In the future, Woori Bank

will have its competitiveness further improved through knowledge management, and prosper all the more based on the competitiveness.

However, knowledge management cannot be used as a means to PMI in all mergers. If already introduced into two organizations and not new to them, knowledge management need not be introduced again and cannot be a new challenge to members since just integration in knowledge management will be sufficient for them. As competent politicians would strengthen the national unity through an outside enemy when facing serious problems at home, it would be one good strategy for a successful PMI to arrange people from different backgrounds to make joint efforts to accomplish new missions without the need to mind the other party by giving a challenging job, which can be accomplished only through cooperation between members. For Woori Bank, knowledge management was such a challenging job.

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● 저자 소개 ●



제갈정웅 (Jeong-Oung Jekarl)

서울대학교 상과대학을 졸업하고 미국 일리노이대학교에서 경영학 석사학위를 취득하였으며 서울과학종합대학원대학교 박사과정을 수료하였다. 한국지식경영학회장과 한국 M&A 협회장을 역임 했으며 명예경영학 박사이다. 현재 학교법인대림학원 이사장이며 주요 관심분야는 지식경영과 M&A이다.



최도성 (Dosoung Choi)

서울대학교 경영학과를 졸업하고, 동 대학교에서 경영학 석사과정을 마친 후 미국 펜실베이니아 주립대학교에서 경영학 박사학위를 취득하였다. 미국 펜실베이니아 주립대, 테네시대학교, 그리고 뉴욕주립대(버팔로)에서 조교수와 부교수를 역임하였으며 1994년부터 2008년 4월까지 서울대학교 경영대학 교수로 재직하였고 현재는 한국은행 금융통화위원회 위원으로 재임 중이다. 한국증권연구원장, 한국재무학회장과 한국증권학회장을 역임하였고 금융, 재무, 자본시장, M&A, 기업도산 등과 관련한 다수의 논문과 저서가 있다.