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MANAGING CULTURAL DIFFERENCES IN A MERGER PROCESS

INFRAESTRUTURAS DE PORTUGAL: MERGER BETWEEN REFER AND ESTRADAS DE PORTUGAL

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Infraestruturas de Portugal* – Merger between *REFER* & *Estradas de Portugal

"The merger between *REFER* and *Estradas de Portugal* has a face, and I, *António Ramalho*, am the face of the merger." [1].

The ongoing deficits that *REFER* and *Estradas de Portugal* have presented in the past, created a huge financial problem for the Portuguese economy. In April, 2014, through the approval of the plan *PETI3+*[1], the Portuguese Government performed several structural reforms in the Infrastructure and Transport sector, to be implemented until 2020. The merger between *REFER* and *EP*, resulted from those reforms, and, in 2015, *Infraestruturas de Portugal* was formally founded, completing a process started by the *Comissão de Planeamento da Fusão*.

However, "mergers do not automatically generate success" [2], often due to an ineffective pre-merger phase. This phase, typically focuses on financial factors and so, cultural factors are often forgotten as the merger unfolds, affecting its performance. "It is amazing how much time and money companies spend on this problem, after it occurs, when they could have eliminated it with a pre-merger planning" [3]. Moreover, *IP* has brought together, two companies with different stages of development[2], different mobility models, their level of sustainability was unequal, and also, their cultures was distinct. For this reason, the pre-merger phase did not have a friendly start and was not assumed by several agents from both sides, resulting in different levels of engagement [4]. Then, two fundamental issues on this case are, to figure out if the resistance by the stakeholders from *REFER* and *EP* was similar and if employees feel that are, already, represented by a completely new identity?

[1] *Plano Estratégico dos Transportes e Infraestruturas* [5].
[2] *REFER* was the "poor relative" because it represented less than what it should, mainly in the "port interland" capacity that Portugal has and also, its market share of commodities was small [6].

***REFER*[3]:** was created in 1997, in a spin-off from *Comboios de Portugal*, becoming the state-owned company accountable for the management of the Portuguese railway infrastructure. In 2008, it became a public business entity, with administrative and financial autonomy [7].

***Estradas de Portugal*:** Before *EP*, *Junta Autónoma das Estradas* was founded in 1927. Years later, *EP* was created and became one of the most important institutions of public administration in Portugal, until its conversion into a public business entity at the end of 2004. In 2007, turned into a joint-stock company, implementing a new management and investment model [8].

REFER and *EP* had similarities such as managing transport infrastructures; structures with more than 1000 employees and their organizations were characterized by successive statutory changes. Anyway, their cultures were different [6]:

1. *EP* was a gender-balanced company[4], while in REFER, from its 2,512 employees, the majority were men, due to the nature of its operational activity, characterized by high physical demands;
2. In *EP*, between 60%-65% of employees had a bachelor degree. The value fell to 18% in *REFER*, representing a more undifferentiated work in the railway company;
3. In terms of labour union influence, REFER was highly unionized (65%), and in *EP,* there were only a few unionized workers;
4. *EP* had a daily infrastructure management unrelated to any road operator. In *REFER*, there was a propensity to look for the infrastructure and transport operation in an integrated way;
5. In *REFER,* the operation control centre performed a complete control of the train circulation[5]. This made the operation more demanding in terms of service level requirements, than *EP*.

[3] *Rede Ferroviária Nacional*
[4] In 2014, 56% of the 1,022 employees were male, compared to 44% of the female population [6].
[5] If there was a train that goes beyond a speed restriction, the system triggers and the information was immediately received in the centre [9].

***Infraestruturas de Portugal*: The company that came to "shake" the transport sector**

The former models of *REFER* and *EP* have presented poor economic results, proving that they were not sustainable[6]. A new model of management and investment was needed and so, on June 1st, 2015, after went through a complex process, led by António Ramalho[7], *IP* was created. Headquartered in *Almada*, *IP* is a state-owned company in the form of a joint-stock[8] and resulted from the merger between two of the largest state-owned companies in Portugal, *REFER* and *EP*. It became one of the organizations with more influence in the management of the Portuguese geographic space[9], named as the interland [10]. In 2016, *IP* had 3,759 employees and António Laranjo was the President of the Board of Directors [11].

IP is the result of what can be defined as a horizontal merger, where companies in the same industry merge [12]. The model of merging a road and a railway company had already been developed in Sweden and Finland, but it is not the same as in Portugal. In the Nordic countries, it is a General-Direction of the State. The difference is related with process planning and then the ability to execute it. When we talk about a General-Direction of the State, it is the State that assumes the functions of planning and execution of the infrastructure management. In Portugal, the State has the function of planning, and then, it is up to *IP* to operationalize this planning. Moreover, in Sweden and Finland, the State has great power to finance the investments, and, therefore, the sustainability of the company is not a problem. In Portugal, beyond the objectives of creating a road-rail integrated model and the profitability of its real-state assets, it is expected that *IP* be capable to achieve financial sustainability through its

[6] António Ramalho said "before the merger, if the model of separate companies continued, it would bring to Portugal a deficit increase of 7.2 billion euros, in the years after" [6].

[7] Former President of the Board of Directors of *IP*. Holds a law degree from *Universidade Católica*. In 1985, completed a postgraduate degree in "International Capital Markets" by the Institute of Finance in Oxford. Years later, worked for the Champalimaud Group, where he was responsible for the sale and spin-off of the Group. In 2004, after working several years in the Banking sector, was hired by the State to design the financial model of *Alta Velocidade*. Then, in 2014, led the merger process between *REFER* and *EP*, that created *IP*, where he became President. In 2016, he resigned from the position and became the new CEO of *Novo Banco [13]*.

[8] The company's social capital is fully subscribed by the State [11].

[9] In the road infrastructure, *IP* has a total of 15,099 km and the railway has a total length of 3,621 km [11].

operationalization and with a rigorous management of its funds [14]. Regarding financial sustainability, which is a common goal in a merger process [15], in the short term, all the gains that *IP* already have or will have, will not be enough to face the financial deficit that has. For example, only the public-private partnerships represent about 1,500M€ per year and then, the sale of real-state assets will not be enough to reach a budgetary balance in the coming years. The investment funding is being made through the State Budget and *IP* lives with large annual payments, but in the future, the company will have higher revenues[10]. In addition, the company has to find sources of financing[11] because, as defended by a member of the financial department of IP, "through this integrated model, the company will have better conditions to be financed, and then, it is foreseen that in 2029, the company will be financially sustainable"[16].

Integration Process: Managing Change

"The lack of an integration team would slow down the integration process" [17]. Anyway, in the pre-merger stage, which is one of three stages in a merger process [18], there was no team that manage change, but there was a management team of the merger process, the *Comissão de Planeamento da Fusão*[12], created in August 2014, to define a strategic plan to guide the performance of *IP* between 2015 and 2017[13] [14]. Moreover, the team structured the merger process into five distinct phases [19] (Exhibit 1) and was composed by 9 axes (Exhibit 2). The Portuguese Government wanted to bring *REFER* and *EP* together, according to a certain number of objectives, set up a planning Commission and informed it that was necessary to elaborate a plan to achieve those objectives [4].

[10] The company has its own revenues, such as, tolls that generate €300M per year, the use of railway infrastructure generates €100M per year and the contribution of the road service is worth €680M per year [16].
[11] In *IP*, successive operations of capital increase carried out in 2015 and 2016 allowed the reduction of the financial charges. (in 2015, there was a capital increase of 1.617,3 million euros) [11].
[12] António Ramalho was the leader of the Comissão de Planeamento da Fusão.
[13] The logic adopted was to have a strategic plan with the duration of 3 years and then it would be renewed. The emphasis of the first plan, was to answer to a financial sustainability component, and so, enough changes should occur, resulting in a new strategic plan, with other drivers, for the future [14].

In the beginning, the pre-merger stage was initiated by having two completely different management teams, one from *REFER* and the other from *EP,* each one was composed by their Board members. Those teams were responsible to plan the merger process and were maintained for 6 months. They followed the change, interpreted its risk factors and also, made weekly reports for the directors of both *REFER* and *EP*'s Board of Directors, for them, to follow this possibility of integration. Then, in the end of 2014, there were nominated some managers from those 2 teams, to join the Joint Board (*Administração Conjunta)*, composed with people who had the culture of *REFER* and *EP*. Finally, in June 2015, *IP* was set up, becoming a single company with a single Board of Directors[14]. The whole structure was built, with the directions[15] on the first phase, second the departments, and then the employees [4].

Was Cultural Due Diligence[16] implemented?

It is part of culture, the share of a vision, strategy, values, practises, but also a set of traditions. In the current approaches, one of the reasons why merger process fails, has to do with cultural integration. For this reason, it is important to position culture management as an integral part of the merger integration process. Moreover, although financial elements are more easily quantified, companies should make cultural analysis as central as the financial [21]. Cultural integration takes time, but it is important that the due diligence process identify the extent of the differences in cultures. "The impact of cultural differences on a merger will be mediated by the integration strategy adopted, the progress of cultural integration as well as managerial actions throughout the merger process" [22].

[14] The Board of Directors has autonomy in the performance of its duties, and so, it is defended that it has the first and last decision on *IP*. Nevertheless, by being a State-owned company, sometimes, the planning and execution functions, cross their lines. For example, the State is permeable to local power, and this reflects in IP's key plan, which ends up having some obstacles, like when the State Budget captivates some funds from *IP [14]*.
[15] In *IP*, there was a balanced selection of leaders. 55% of the directors were from *REFER*, 45% were from *EP* [6].
[16] The responsible for the Cultural Due Diligence process has to identify what are the main cultural differences of the organizational model, what are the main difficulties and gaps that a merger could integrate at culture level, as well as, the reflection of these cultural differences on the behaviour of the various agents [6].

“A newly merged organization will not learn during the post-combination phase if it has not been engaged in a learning phase from the start” [23]. In the pre-merger stage, there were several Due Diligence processes to understand the different areas of *REFER* and *EP*. However, none of the 9 axes of the *Comissão de Planeamento da Fusão*, was for culture and then, “there was no Cultural Due Diligence” defended a member of the PMO (project management office) team. In this merger, the Due Diligence was mainly in terms of financial and contractual area. “The primary reason many mergers do not deliver long-term value is because they lack a strong cultural integration plan” [24] and so, “management should pay as much attention to cultural fit during the pre-merger stage as it does to finance and strategic factors” [25]. The responsibility for the delay in the cultural analysis, can be attributed to the strong trade union movement, associated with the railroad, where “issues were answered closed to the trade unions, in order not to make the railway operation unfeasible” argued a member of the PMO team of *IP*. Therefore, when the systems were integrated, people began to question why the whole process is still not working at 100%. The reason was the lack of the culture analysis, which was left to be managed later [4]. Anyway, as it was mentioned by a Senior Advisor of the Board, "the process leader, has to decide what is more important. If there is pressure to reach certain objectives, go ahead and correct cultural analysis as time goes by” [9].

However, in the absence of a plan to manage culture, the communication area compensated it. The goals of the communication plan were to inform about the new business model, minimize employee’s anxiety and to communicate the advantages of the change process, promoting IP as a sustainable company. The strategy of the communication plan went through 3 dimensions: facilitate the culture change (the informal meetings between the CEO and the management teams and the program of roadshows have facilitated the exchange of views and focus on the decentralized structures); promote employer engagement[17] (promote a culture of

[17] In the beginning, as both companies kept Boards, the *Comissão de Planemaento da Fusão* set up a website to provide information about the process, the *Intranet* (communication channel for the whole company) [26].

commitment, reducing cultural resistance and value relationships) and create conditions for the employees to play the role of ambassadors of *IP*'s brand[18], promoting employer branding (the new brand of *IP* was developed, using internal resources) [26]. Although, concerning the pre-merger communication, it is criticized that "people who got most involved were the first-line directors and there was a differentiated involvement in the merger" defended a Senior Advisor of the Board [9]. Sometimes, the important is to use a technique, to tell people that this is good, for them to join the project [9]. "The mere existence of diversity (…) only creates the potential for learning. To exploit this potential, the organization must create mechanisms for such learning to take place" [27]. In the end, despite some criticism, the communication plan was executed for the entire line of employees[19] and as António Ramalho defended, "we have done both the work of internal and external communication in an absolutely religious way" [6].

The identity of *Infraestruturas de Portugal*

IP had a pre-determined cultural framework related with its sustainability, with a concept of intermodality and with values such as efficiency, security and transparency [6]. "At first, there was a great appeal to use the "IP sweater", because the change of the brand[20] was extremely internalized as an element of aggregation of the merger process" said a Board Member of *IP*. However, despite the approval of the new brand, if we approach *IP*'s employees, they would still talk about *EP or REFER*. They worked many years in their former companies, so *IP* does not have much to create something new in the short-term [14]. António Ramalho argued that "it is crucial to have a policy of small steps and wait to realize what the vectors of *IP* are" [6]. People have to gradually forget about their origin and to prove this, is the fact that,

[18] *EP* and *REFER*'s brands were relatively new and still inherited characteristics from *JAE (Junta Autónoma das Estradas)* and *CP (Comboios de Portugal)* [26].
[19] 65% of IP's managers agreed that employees were informed about the process and the merger's results [26].
[20] The brand presentation was held in *Entroncamento*, in an emblematic place for the railway area - *Museu Nacional Ferroviário*. The name of the region, symbolizes the crossroads of different cultures and employees from the railroad and road infrastructure [28].

62% of *IP*'s managers agreed that there is still a long way to go for *IP* to be recognized as a single entity [26]. Therefore, it can not be said that the former cultures were dissolved and *IP* created a completely new one. The culture of *IP* is adjusted and so, characteristics of *REFER* and *EP* can still be identified. Both companie*s* had a centenary history, and then, it is inevitable that the "new" culture born through the existing cultures. Goals may be common, but there is still, no identity [14]. Anyway, the objective in the long-term is to have an unique culture and then, employees will start to feel in the future, that they are represented by a new identity and, for this reason, *IP* is moving through the Metamorphosis path, which is one of the paths to achieve identity integration, "which enables members to forget the identity of their original companies, developing a shared identity, in which all parties feel they have a voice" [3].

IP has made unification of cultures/practices to happen. It was mentioned by António Ramalho that, "in the departments, where it was decided that cultures should be integrated, there was a plan to standardize it" [6]. For this reason, the substantive levers, through which managers can shape an organization's identity, are related to *IP*, "which refer to acts and decisions, not just dialogue. They include decisions regarding governance structure and changing organizational structures" [3]. The areas that suffered less with the process of unifying cultures were the operational areas, such as the areas of railway and road maintenance, circulation management and large investments, because they were different. That is, in the maintenance area, teams from *REFER* and *EP* remain separate, since in one case it was done in-house (*REFER*), the other was done by contract management (*EP*)[21]. Curiously, these areas have about 2/3 of IP employees [4]. Regarding this, António Ramalho argued that "merging operational areas of the road-rail infrastructure is possible, but I do not think it is an essential element for a successful merger"[22] [6]. When a merger fails to deliver promised levels of

[21] In *EP* there was more use of outsourcing than in *REFER*. Road engineering can be practiced in project offices, so, there are a number of professionals who could work, not needing to be on *Estradas de Portugal [9]*.
[22] Beyond economic performance, there were also improvements in operating performance, resulting in growth in the number of trips by rail and roadway and reduction of the networks' maintenance costs [20].

performance it is likely due at least, in part, to a lack of psychological synergies [3]. “We assumed that there were cultural differences in certain functions that should be preserved for some period", said the former CEO of *IP*. Nonetheless, for the separate areas, there was an informative plan, for them to get informed about what the other team was doing and to participate in the same knowledge [6]. “One of the keys to managing the integration process is to obtain the participation of the people” [29]. Contrarily, “the areas where the process of unifying cultures and practices had a great impact were the shared services and corporate services” defended a Board Member of *IP*, such as, planning, financial, human resources, commercial, information systems and asset management[23]. The centralized services have become common services. In addition, the engineering area has also merged, but it was a special case. Even doing the same function, road and rail engineering have different specificities. Therefore, in some departments, there was not a complete merger [14].

Moreover, it was questioned whether it would be necessary to do a renewal of human resources[24] at the operational level. The people less confident regarding this merger, defended that *IP* has brought together two companies, which worked with specific technical skills and so, "no one can jump between areas, but rather stay in a specific area", said a participant in a debate [30]. Anyway, regarding this theme, it was concluded that in the operational activities, the daily production will always be different, since the areas are separated and then, skills do not need to change just because there was a merger. On the other hand, with change and organizational component, soft skills are more critical in a merger. For example, for the employees from REFER it is difficult to talk about sales. Creating processes for this is what is more complex. It is necessary to prepare people to work as a team, because the company is

[23] A merger process recombines 5 types of asset, such as the physical assets, like facilities [31].
[24] A company’s human resources practices can be powerful shapers of its culture. These include, among others, compensation practices, and messages about values [32].

much bigger[25]. The required renewal is the same as before the merger. "*IP* has a more serious problem with aging" argued a member of the PMO team. It is not normal to have companies and a State that can not hire for more than 10 years. At the moment, in *IP*, there are almost no employees under 30 years [4]. Older people are leaving and there is no renewal. It is essential that people be "born" within IP scope [29]. To conclude, all areas where was a unification of cultures is where there was a mix of employees. For example, in mixed areas, although employees are doing road activity, they have experience that is valid in the railway area, so in the internal recruitment process, they are already applying [14].

"It is good to have some resistance"

"Change is contrary to our human nature, and we are meant to get into routines" said a member of the Board of IP [14]. "The workforce does not always share the same perceptions, and culture change becomes a difficult process" [33]. Although, in *IP*'s merger process, there was no acts of manifest, such as strikes, or people refusing proposals for certain functions. "Resistance is more within people than it is manifested" defended a member of the PMO [4]. When the merger was announced, employees answered, whether they agreed or not. Prior to the merger, more than 1,000 workers spoke with Antonio Ramalho, who stated that, "there was a significant group of people who was in favour of the merger" [6]. However, there was a difference between companies, where *REFER's* employees looked less pleased[26]. The different number of unionized workers in both companies can explain this imbalance. Despite this, the great reason for resistance was associated with changes in facilities[27], changes of management

[25] The *IP* Academy promotes the development of skills considered critical to the business, with a strong focus on internal training, involving the whole structure of the group, in alignment with the organizational objectives. It seeks to integrate people and train at a certain level through association with Universities. It was something that was already working more in *REFER* than in *EP*, and was transferred to IP *[6].*

[26] In EP, 45% of the people questioned, found the merger an important step and an opportunity for their careers. Regarding Refer, it was 27% [4].

[27] 36% of managers made an unfavourable assessment about the change of facilities. Nevertheless, a methodology was developed to minimize the effects of this situation [26].

and changes in work processes, because *IP* had to adopt one of the two sides[28]. There is still a little of "us and them" between employees [4]. "Organization members show a positive bias toward members of their own in-group and tend to hold a negative view of the members of an out-group"[29] [34]. *REFER* and *EP* had different sizes, in terms, of number of workers, which implied a different approach to the business. In addition, there were also language issues, as each area has its own technical language, where certain things have different names [4]. Moreover, there is also, some resistance regarding the different remuneration levels. "People who perform similar functions are gaining different values", defended a Senior Advisor of *IP* [9]. "Despite all the efforts, these differences will not fade, but it has been an issue that has not created big problems" argued a member of the financial department of IP [16].

In a merger, a crucial aspect is stability. Even when opinions are different, it is important to not always be in a process of rupture, "because usually companies, like *REFER* and *EP,* change the Board and employees enter in a process of uncertainty" defended a Senior Advisor of *IP* [9]. Anyway, in the beginning, the merger was led by António Ramalho and meanwhile, there was a replace of Government, which changed the area of infrastructures. Moreover, there was also a change in the company's strategy, because the pre-merger focus is different from the post-merger, due to the fact that, in the later phase *IP* is materializing the investment. More ahead, the new Government continues and the President of *IP* changed. "Although the style of António Ramalho is different from António Laranjo's style, the project continued" said a member of the PMO. However this merger was opposed by the left-wing parties, which defended a return to the former model in rail network[30], we can say that, from the political view, there has been a consensus [14].

[28] *IP* work with SAP software, which was the system that was on the side of *REFER* and not the Oracle system that was on the side of *EP*, which led the *REFER* culture to be dominant in accounting [6].
[29] *IP's* managers considered that organizational climate and engagement of employees is more favourable inside departments and decreases between departments and in *IP* as a whole [26].
[30] In the past, there was no separation between transport operator and infrastructure (REFER and *CP*).

After all, have the different cultures had impact?

Portugal will only be competitive in its services if it has an infrastructure network that allows a low level of transport costs, and this can only be achieved if the networks are integrated. In a country with scarce resources, it is fundamental to realize where things can be complementary [14]. With the merger, there was a reduction of costs, but these costs were secondary, in relation to the most relevant value, which was the decision about the investment model of not being competitive between road and rail infrastructure, but complementary [6]. To say that, after the merger, this is already possible, it is not true. It was defended by a Senior Advisor of IP that, "in the immediate terms, the most tangible objectives may have been achieved, but the structural issues associated with a merger, like the, financial sustainability in the long term, it is still too early to analyse" [9]. The values that are associated with the merger are still not significant, representing a value around € 30M until 2019[31]. However, with the integrated model, *IP* was able to position itself differently from its suppliers, but is this a result from the merger, or from a management capacity? It will be difficult to know. "The merger was an option, but not the only one" defended a member of the financial department [16]. The value that the merger can bring to the shareholder and to the economy, only the future can determine and as António Ramalho stated, "the country would lose in reversing the merger process because we have an opportunity for all mobility to be treated in an intelligently way, (…) ensure the growth of rail traffic, maintain the quality of the road sector, and simultaneously create conditions so that everything can be done without burdening the State Budget" [10].

On the other hand, when cultural analysis was supposed to be executed, the priority to invest in a close relationship with labour unions, made Cultural Due Diligence to be postponed [14]. The communication department was the option to counterbalance the lack of culture

[31] There was a reduction of directors, which occurred directly from the merger. At this point, in 5 years, there will be a saving of around € 10M. In relation, to the value of the employees who left, there was a gain of € 20M, but it can not be all imputed to the merger. Then there are the gains related to the profitability of real estate assets, because there was a concentration of people in certain buildings [16].

analysis. Only after *Infraestruturas de Portugal* was established, the company intensified the process of cultural integration. While managers were concerned about managing the financial and operational issues of the integration, they delayed the rigors of managing culture clash, ignoring cultural differences or assumed that the combining cultures were similar. In its first two years, *IP* has shown positive economic results[32] and 57% of the managers agreed in part that the merger process was efficient [26], but nevertheless, it is important to question, if cultural Due Diligence was done in the pre-merger stage, would the economic performance be higher? Anyway, this first positive economic results “protect” what managers defended in the first six months since *IP* was established, that the inter-relationship between employees was more favourable inside departments but decreases between departments and in *IP* as a whole. Therefore, in departments such as maintenance, who kept separated, the change process from the former cultures to the new IP culture can be slower, than in departments that are already merged, where employees from different background work together. Then, the future will answer if the lack of cultural analysis in the pre-merger stage will only be noted in a later period, increasing the low resistance that already existed, or is this merger a special case, where the lack of cultural Due Diligence did not have any impact.

[32] In 2015, the Net Result was positive, in the amount of 12.5 million euros, representing a significant improvement of 85 million euros, compared to the combined negative result of *EP* and *REFER* in 2014. In the 1st half of 2016, the Net Result was positive: 5.1 million euros. This value represented an increase over the homologous period, which had a negative Net Result of 12.3 million euros [11].

EXHIBIT 1: 5 Stages of *Comissão de Planeamento da Fusão*

Source: *Infraestruturas de Portugal*[33]

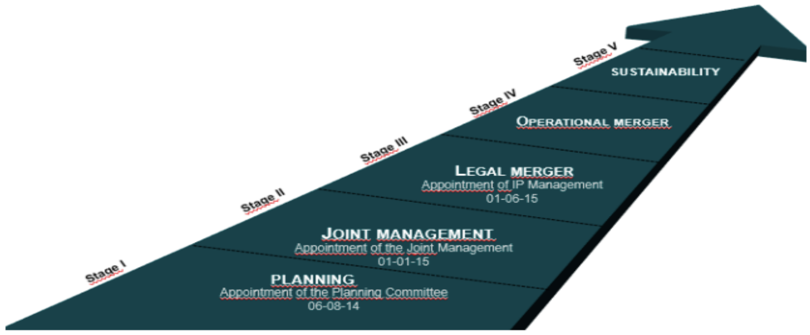

EXHIBIT 2: *Comissão de Planeamento da Fusão* – 9 axes

Source: *Infraestruturas de Portugal*[34]

A Planning Committee appointed on 6 August 2014 to carry forward the merger process identified nine priority areas of action:

I – Governance;
II - By-laws;
III – Strategic Plan;
IV – Sustainability Strategy;
V – Organisation and People;
VI – Information Systems Strategy;
VII – Communication and Image;
VIII – Premises
IX – Quick Wins Plan.

[33] http://www.infraestruturasdeportugal.pt/sites/default/files/files/files/2015_annual_report_-_english_version.pdf
[34] http://www.infraestruturasdeportugal.pt/sites/default/files/files/files/2015_annual_report_-_english_version.pdf

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Teaching note:

Pedagogical objectives of the case:

This case describes how *Infraestruturas de Portugal*, the company responsible for managing the road-rail infrastructure in Portugal, has been able to integrate two different cultures. *IP* resulted from the merger between *REFER* and *Estradas de Portugal,* former public companies responsible for railway and road infrastructure, respectively, which had different stages of development, different mobility models, their level of sustainability was unequal, and also, their structure of cultures was distinct. Therefore, the pre-merger phase did not have a friendly start and was not assumed by several agents from both sides, resulting in different levels of engagement. It is fundamental to have a cultural integration process well planned and executed, with the objective of not failing the business. **The objectives are:**

1. Describe two models of merging a rail and a road infrastructure;
2. Describe the objectives of merging a rail and a road infrastructures companies;
3. To position and understand the role that the "organizational culture" has in a merger process and in the creation of a new entity;
    a. One of the reasons why merger process fails, has to do with cultural integration. Due Diligence process typically focuses on financial factors, then it is important to analyse if culture should be part of the integration process;
    b. Analyse the causes of resistance by stakeholders about the merger process, the differences between each party and what criticism was made by the opposition;
    c. Figure out what is the relation between the new and former cultures. For this reason, it is important to examine in which of the four distinct paths that can be followed to achieve culture/identity integration, did the company went through;
    d. Describe in what departments are common to unify cultures and, for this reason, prove that an integration of a culture is different between departments.

The main take-aways that should result from the discussion in class are:

1. In terms of pre-merger stage, it is important to pay attention to non-financial variables. Factors such as the integration strategy, cultural differences, the communication and learning processes are as important as the financial factors. To have an effective merger, managers must analyse both the financial and psychological synergies. For the psychological synergies to happen, executives need to make a set of identity issues;
2. Bringing together people from different entities involves finding common objectives to create unity, a key step towards building a new identity. The organization must create mechanisms for learning;
3. Identity is shaped and reinforced by all the organization's key stakeholders. Also, managers should know that, in contrast to operational alignment, identity alignment is a process that can take years. This time is represented in the case, where, even with the objective of having a unique culture, there is still the presence of the former cultures;
4. Each entity has a single culture and so, each one involved in a merger process, faces culture clash, which can be found even in mergers where both companies are based in the same country and in the same sector. Moreover, even if the merger decision is unanimously accepted, some stakeholders resist to a major change. Anyway, resistance may be attenuated if employees within an organization are treated well and then commitment to the organization is a probable outcome.

Review of the relevant academic literature

The theme of culture in a merger process is studied and integrated in the main books of Mergers & Acquisitions and in Human Resources. In addition, there are also certain articles that study the presence of culture in a merger process and the relevance of a cultural due diligence in a pre-merger stage. This work project aims to relate the presence of culture in a real merger process, between two organizations that had different culture structures.

To complement the interviews made to members of the company structure and the use of official documents of *IP*, my primary sources were books such as *Mergers and Acquisitions: Managing Culture and Human Resources, Applied Mergers & Acquisitions, Handbook of Research on Mergers and Acquisitions and Managing Culture Clashes in M&A's*. I also resorted to articles such as "*Making Mergers Work*" and "*A framework for the human resources role in managing culture in mergers and acquisitions*":

1. **Integration Process:** it should be on the hands of top management teams whose role is to make strategic decisions. In terms of integration process, I referred to (Laeser 2014) in "Managing Culture Clashes in M&A's", which refers the relevance of the work of an integration team, which should bring intercultural competences with them to be able to fulfil future integration tasks. Effective integration means employee satisfaction through developing constructive employee behaviour, building a new identity, and reduce the cultural and communications problems;
2. **Resistance:** in terms of resistance between employees from different organizations, I referred to (Weber 2012) in "*Handbook of Research on Mergers and Acquisitions"* about the social identity theory, which studied that it is normal that people who came from the same organization tend to get well with the former colleagues, but, on the other side, sometimes, hold a negative view of the members of an out-group. In addition, I referred to (Cartwright and Cooper 1996) in *Managing Mergers, Acquisitions and Strategic Alliances: Integrating People and Cultures* which exams the different perceptions that the workforce have and so, culture changes becomes a complex process.
3. **Cultural Due Diligence:** in "National and corporate cultural fit in Mergers/Acquisitions: an exploratory study" by (Weber and Shenkar and Raveh, 1996) it is analysed the importance

of the presence of a cultural due diligence process in a pre-merger phase and the needed balance between financial and cultural analysis, for fear of undermining synergies. It is concluded that, only after a cultural problem appears, the managers start to work on the theme. Moreover, in “Making the most in culture clash in M&A” by (Marks and Mirvis and Ashkenas, 2013) it is examined the fact that while managers are preoccupied managing the financial aspects of integration, they postpone the culture integration.

4. **Identity Integration:** the definition of an identity makes an organization unique. In the MIT Sloan Management Review’s article, “Making Mergers Work”, it is analysed the four distinct paths that can be followed to achieve identity integration, such as assimilation, confederation, federation and metamorphosis. Each represents “a particular combination of the answers to questions that managers must answer in pre-merger such as, how should a common identity be built?”. In addition, it is analysed that “managers can shape an organization’s identity through the use of two different levers: symbolic and substantive”. The symbolic identity management lever “consist of discourse about what the merged organization stands for” and substantive lever “refers to acts and decisions about the organization, not just discourse”.
5. **Cultural Differences:** this theme is analysed in “The Culture–Performance Relationship in M&A: From yes/no to how” by (Teerikangas and Very 2006), which analysed the impact of cultural differences between entities in the performance of a merger and “it will be mediated by the integration strategy adopted, the progress of cultural integration as well as managerial actions throughout the merger process”

Road map for discussion

1. **"A newly merged organization will not learn during the post-combination phase if it has not been engaged in a learning process from the start"[35]. Did *IP* performed cultural Due Diligence in the pre-merger phase?**

   In the pre-merger stage, there were several Due Diligence processes to understand the different areas of *REFER* and *EP*. However, the Due Diligence process was mainly in terms of financial area and so, at start there was no cultural Due Diligence. The responsibility for the delay in the cultural analysis, can be attributed to the strong trade union movement, associated with the railroad, where issues were answered closed to the trade unions, in order not to make the railway operation unfeasible.

2. **What did the company structure to attenuate the lack of cultural Due Diligence?**

   The communication area was the option to attenuate the lack of cultural Due Diligence. The objectives were to inform employees about the new business model, minimize employee's anxiety and to communicate the advantages of the change process.

3. **"One of the keys to managing the integration process is to obtain the participation of the people"[36]. Did IP's employees had a role in the integration process?**

   The strategy of the communication plan went through 3 dimensions, and one of them was to promote employer branding, creating conditions for employees to play the role of ambassadors of *IP*'s brand. For example, the new brand of *IP* was developed, using only internal resources.

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4. **There are four distinct paths to achieve identity integration: Assimilation, Confederation, Federation and Metamorphosis. Which one is more related to *IP's*?**
   The culture of *IP* is adjusted and so, characteristics of *REFER* and *EP* can still be identified. Both companie*s* had a centenary history, and then, it is inevitable that the "new" culture born through the existing cultures. Anyway, the objective is to have, in the long-term, a unique culture and so, employees will start to feel they are represented by a new identity and, for this reason IP is moving through the Metamorphosis path, which enables members to forget the identity of their original companies, permitting the development of a shared identity, in which all parties ideally feel they have a voice.
5. **The percentage of employees from REFER and EP that were in favour about the merger, was equal? And what are the main reasons for the existence of resistance?**
   There was a difference in resistance, where *REFER's* employees looked less pleased. In EP, 45% of the people questioned, found the merger an important step and an opportunity for their careers. Regarding Refer, it was 27%. The different number of unionized workers in both companies can explain this imbalance. Despite this, the great reason for resistance was associated with changes in facilities, changes of management and changes in work processes, because *IP* had to adopt one of the two sides.
6. **"Organization members show a positive bias toward members of their own in-group and tend to hold a negative view of the members of an out-group"[37]. How is the relationship between employees?**
   In *IP*, some areas merged (financial area, human resources, marketing) and other areas kept separated (road and rail maintenance). Then, *IP's* managers consider that the organizational climate and engagement of employees is more favourable inside departments and decreases between departments and in *IP* as a whole.

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