

Strategies of Cultural Integration in Successful Merger-Companies

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Abstract: This research aimed to discover strategies in integrating a new culture within the merger companies. The strategies have elements including values, phases, leader role, and the system of cultural integration construction. This research used a meta-analysis with an expose facto research design. Findings indicate new cultural integrations were carried out by many companies through demonstrating internal and external values. Integrations are implemented through 'pre, process, and post-merger'. The most important in the preliminary stage is started by *benchmarking*, leading entire stages, and keeping a balance of collaboration between human and non-human aspects as well as leader and member components. This study concludes that the identified strategies highly contributed to effective management changes at *micro, meso, and macro* level. The implication is that leaders have to consider new cultural integration strategies properly. Since this study were based on meta analysis findings, future research needs to include empirical data originated from merging organizations.

Key Words: strategy, cultural integration, organization

Abstrak: Penelitian ini bertujuan untuk menemukan strategi dalam mengintegrasikan budaya baru dalam perusahaan merger. Sebuah strategi memiliki elemen termasuk nilai-nilai, fase, peran pemimpin, dan sistem konstruksi integrasi budaya. Penelitian ini menggunakan pendekatan meta-analisis dengan desain penelitian *facto*. Temuan menunjukkan integrasi budaya baru dilakukan oleh banyak perusahaan melalui nilai-nilai internal dan eksternal. Integrasi dilaksanakan melalui 'pra, proses, dan pasca merger'. Dalam tahap pendahuluan, hal yang paling penting adalah *benchmarking*, memimpin seluruh tahapan, dan menjaga keseimbangan antara kolaborasi dan aspek non-manusia serta komponen pemimpin dan anggota. Studi ini menyimpulkan bahwa strategi sangat berkontribusi terhadap perubahan manajemen yang efektif di tingkat mikro, meso, dan makro. Para pemimpin harus mempertimbangkan strategi integrasi budaya baru dengan benar. Karena penelitian ini didasarkan pada temuan analisis meta, penelitian di masa depan perlu memasukkan data empiris yang berasal dari penggabungan organisasi.

Kata kunci: strategi, integrasi budaya, organisasi

INTRODUCTION

Merging strategy is viewed as one of a critical stage of change management and attract many researchers and practitioners. Leaders are challenged to find strategies on how to manage the changes in a new organization entity in order to improve its performance. The merging organizations are expected to be stronger since they provide an atmosphere where people work collaboratively (Bradt, 2015, Supriyanto & Burhanuddin, 2017). Merger is a strategic choice (Homburg & Bucerius, 2006; Bligh, 2006). Merger companies have been found during 2015 with invest value more than 1 trillion US Dollar (Muliana, 2015). There

were 535 from largest merging companies and acquisitions in Asia since 2011 through 2016 with value more than US\$ 7.8 billion (approximately Rp 101 trillion) (Martono, 2016), and US\$ 2.1 billion or equal to Rp 27.93 trillion in Indonesia until April 6th, 2017 with exchange rate of rp 13,300 per US Dollar (Databooks, 2017). Such a strategy continues in the future (Morressi & Pezzi, 2014).

Findings indicate not all mergers are successful. The failure of the merging program was experienced almost 83% of the merging organizations (Brad, 2015; Supriyanto & Burhanuddin, 2017). Numerous mistakes were found to cause the failures (Brad, 2015). Al-

though merging initiatives may increase popularity, but more than 2–3 large mergers were failed (Cortina, 2015). This was mainly caused by the failure of many leaders in managing the changes of organizations specifically in integrating new cultures into the merged companies (Cortina, 2015; Supriyanto & Burhanuddin, 2017). These conditions invite attentions and research concerning strategies in constructing cultures for the integrated companies

Merger is described as two or more organizations (companies) combined into one entity to build a better condition. Merger companies are predicted stronger and providing important values in a long term. Theoretically, two or more business entities “merger” ideally could generate business synergies between member participants. This enable the new companies attain sustainable and added values focusing on the increased performance. Such a synergy can be defined with a notation adapted from the formula introduced by Ratnawati and Dewi (2005); 10 plus 10 is more than 20 or $10 + 10 > 20$, instead of 10 plus 10 equal to less than 20 or not $10 + 10 < 20$.

Merger as a strategy has been used by numerous companies. Merger has been carried out currently in many companies, and this will be followed by other companies in near future. Empirical studies recorded some merging companies successfully made their performance better than before being merged. However, other studies demonstrated otherwise. For example a merger bank was found ineffective in increasing its financial performance. This condition is triggered by non-technical issues originated from human resource aspect (Supriyanto, 2008) that people were not well prepared with the new characteristics of culture. At the same leaders or managers were also not able to manage these changes in supporting the new organization entities.

Determinant Factors of Merging Programs

There are several determinant factors to the success of merging organizations. Bradt (2015) suggested the differing cultures adopted by certain companies may influence this achievement. If a merged organization for instance tries to combine those cultures into a particular one that match with its mission, such a culture is predicted to provide more benefits for the companies. Brad (2015) added human interactions are required in building spirit of human resources. Leaders, then, have to create an atmosphere where people

experience nice friendship, attitudes, group values, and conducive work environments.

It is worth noting that a culture may become a constraint to the management of change. Effective leadership strategy is required to manage and develop the emerging organizational culture in supporting the accomplishment of management missions. Research findings of various countries showed that organizational culture had tremendous influence towards leadership and management effectiveness (Kwantes & Boglarsky, 2007). Management system of merged organizations needs to consider the leadership behaviour as a crucial variable in developing contributed culture for the success of new organizations.

Common factors affect the growth of a company, increased market segment, and product achievement (Epstein, 2005). The growing opportunities in terms of liquidity and access to capita are necessary for future developments. The increased market segment makes the merger organizations stronger in dealing with regional competitions. These also help companies gain effective integrations and increased market shares. Process of an entry into new markets is more simple and less of risk. New and high valued products are accomplished in order to attain strategic advantages. Furthermore, the products will be delivered faster to the market.

Effects of Organizational Culture

Organizational culture was defined by Robbins and Coulter (2005) as the values, trusts, perceptions, and norms adopted by individuals in a company. These influence the way people behave and individual and group performance (Lincoln, 2010). Literature and empirical studies found relationships between particular cultures organizational performance. They provide meanings for people and could affect organizational individual attitudes and behaviour (Cameron & Quinn, 2006; Fralinger & Olson, 2007; Lincoln, 2010). In other words, organizational culture reflects members' behaviour, commitment, and performance.

Organizational culture is a system with four components (values, assumption, trust, and norms) that connect members. Such four components originated from society (Bartol, Martin, Tein, & Matthews, 2002; McKee, Kemp, & Spence, 2013). It is manifested into four level of *artefact*, *perspectives*, *values*, and *assumptions* (Sergiovanni, 1987). This variable is developed from several elements including sharing val-

Table 1. The Seven Steps of Merger Excellence

Pre Merger	Cultural DNA Due Diligence: Collaborating an integration strategy culture of engagement framework
Step I	Involvement and Engagement: Dreaming the future New Identity formulation
Step II	Shared Vision: Expanding the vision from mine to ours and giving it life
Step III	Analysis: Evaluation of current reality in line with strategy
Step IV	Action: Cascading the process by creating ownership in the process
Step V	Implementation: Building and creating momentum
Step VI	Maintenance: Focusing direction and energy of corporate New Identity
Step VII	Renewal: Re-evaluation and re-creation
REPEAT	Step I

Source: Hill, Weiner, & Weiner, 2008.

ues among members, trust, expectations, norms, and routine.

Elements of this culture influence how individual works and connected one to another in achieving goals (Cameron & Quinn, 2006; Gibson, Ivancevich, Donnelly, & Konopaske, 2006; Lok & Crawford, 2004; Yuki, 2010). Embedded cultures consolidate assumptions, goals (Russel, 2001), and create certain hints for the existing cultures.

Conclusions of the studies showed that the developed culture: (1) fostered satisfactions to employees, corporation partners, and valued leadership roles in entire levels; (2) increased participative decision making processes; (3) built excellent organization with clear targets and procedures; (4) attracted entire members; (5) produced high social responsibility values; (6) emphasised on work accuracy, predictability, and courage in decision making; and (7) regarded mutual values and adaptation ability to current demands (Champoux, 2003).

Kwantes and Boglarsky (2007) found leadership effectiveness in several countries strongly demonstrated close relations between organizational culture and leadership effectiveness level. Organizational culture aspects lead to the increased capacity of members in achieving work satisfaction and leadership effectiveness.

East's (2012) suggest that leaders need to consider merged organizational *stakeholders* by affirming that there is no such perfect organizational behaviour. Organizational merger contain particular risks and various challenges from various agreement integration analysis. These challenge leaders to consider such consequences and overview situations before implementing merging strategies.

Implications of the above issues are that leaders must be familiar with the differing conditions of new merging companies and build effective a communication channel and process (Cameron & Quinn, 2006). This is necessary in order to prepare management and employees work effectively within the merging environments (Mirvis & Marks, 1992 in Corona, 2015). They also initiate an acculturation process in introducing new cultures to to ensure people have trusts strong motivations to the new comoanies (Nahavandi & Malekzadeh, 1993).

Merger Stages

Every merged company have to carry out strategies in systemic ways. Hill, Weiner, and Weiner (2008) proposed seven stages practiced in some excellent merging companies as listed in Table 1.

Before discussing the seven stages, pre-merger activity takes place, namely *Cultural DNA Due Diligence*, i.e. collaboration in building cultural integration strategy as an initial frame work agreement. *Pre-merger* is followed by stages: (1) *Involvement and engagement*, concerning new identity formulation; (2) *Shared vision*, widening owned vision into realized vision; (3) *Analysis*, evaluating existing condition into arranged strategic framework; (4) *Action*, performing prepared process by creating nuance within; (5) *Implementation*, building and creating main momentum or power during implementation; (6) *Maintenance*, focusing on briefing and keep the energy for certain *corporate new identity*; and (7) *Renewal*, *re-evaluation and re-creation*. Such stages are cyclic in nature and *feedback* could be provided from first into next stages.

Several key organizational roles include considering cultural changes based on five basic assumptions: (1) existing cultures (2) the uniqueness of culture, (3) organizational culture as a socially constructed concept (4) culture provides members with a way of understanding, and (5) sense of events and symbols (Min-Ching, 1990). It determines behaviours in achieving long term goals. It is considered as the key to effectiveness and performance specifically to outcomes, satisfaction, commitment, employee engagement, employee resignations, and differing effects to the merged companies. Cortina (2015) provided clues how manager integrate cultures successfully. It consisted of several stages.

Phase 1: Pre-merger and pre-planning stage. This contains information collection and trust development. Cultural gap and fear clarification identification. This step is designed to create cultural awareness through combining historical, styles, and reputations.

Phase 2: Planning stage: (1) negotiating the composition of a mixed group designated to work towards integrating culture, (2) deciding the extent of cultural integration, (3) methods and timing of change, (4) assessing potential risks, (5) identifying training needs, (6) setting integration goals, and (7) budgeting.

Phase 3: Implementation, which is designed to integrate structures and systems. Several aspects have to be considers include: (1) create an atmosphere for cultural integration, (2) provide an open communication, (3) plan staff training and development, (4) integrate structures, functions and control systems (Cortina, 2015).

Phase 4: Evaluation, review, and reflection. This final stage is highly important and should be followed up on the next activity through activities: (1) evaluate expected against actual outcomes, (2) recognize what could have been done differently and learn lessons, and (3) revise the programs through consultations. To ensure its success, related parties should discuss how the current situations the merging organizations to be valued and developed.

Denison, Adkins, and Guidroz (2011) suggested the process of cultural integrations applied by merger and acquisitions. It requires several stages as a life cycle illustrated in Figure 1.

The success of organizational cultural integration is determined by leadership behaviours and managers ability in overcoming problems. Kavanagh (2006) demonstrated leadership effects and change management strategies during a merger process. Whether or not cultural change is accepted by members, it depends on how leadership and management



Figure 1. A Process for Cultural Integration in Mergers and Acquisitions
(Source: Denison, Adkins, & Guidroz, 2011)

strategies are able to make management changes successful.

Based on the literature reviews and previous research findings this research was carried out to investigate: (a) what values should be considered in *cultural integration process* by companies, (b) how technical stages of new cultural integrations during pre-merger, merger, and post-merger, (c) what leadership roles practiced in building new cultural integrations, and (d) how the *new cultural integration process* is structured in by successful merger companies.

METHOD

This study used an expose-facto research design with a secondary data for previous research findings. Data were retrieved from published and unpublished documents from online and hard copies obtained at university libraries. The data selection was based on the developed themes. The gathered information was analysed employing a meta-analysis technique involving data classification, abstraction, and write up conclusions.

RESULT AND DISCUSSION

Results of this study were based on reviews of new cultural integration strategies implemented by high performing mergers. These were derived from meta-analyze results of studies on merging companies in several countries (Siswoko, 2005; Handayani, 2004; Aritonang, 200; Wijiono; 2011; Fikhru & Gautier; 2016; Prasetyo; 2011; Erni; 2002; Khoiruddin; 2010; Nakoh; 2005; Olivani, 2007; Prestiwanto, 2002; Rachmawati, 2000; Zulkarnain, 2011; Sutrisno, 1999; Wardani, 2009; Willianti, 200; Wiryaningsih, 2004; Foucreault, et. al, 2016; Hanafi, 2002; Ismail, et.al, 2016; Roziek, 2011; Valentino & Brunelle, 2004; Łupina-Wegener, 2013; Moffat & McLean, 2009; Dauber, 2012; Schraeder & Self, 2003; Nguyen & Kleiner, 2003; Klindzic, 2015; Łupina-Wegener, et. al, 2015; Benton & Austin, 2010; La Piana, 2003; Davidson & Ferret, 2006; Greenwood, et. al, 1994; Zhang, 2014; Wigger, 2012; Friedman, 2016; Hill, et. al, 2008; Moressi & Pezzi, 2014; Larsson & Finkelstein, 1999; Rossi & Volpin, 2003; Pfister, 2009; Alvesson & Speningsson, 2016; Sinha, 2008; Marks, 2003; Sutelaand & Cai, 2016; Putra, 2016; Sutarto, 2013; Fahlevi, 2013; Ovseiko, Melham, Fowler, & Buchan, 2017; Yamanoi & Sayama, 2013; Stinchcomb & Ordaz, 2007; Dauber, 2012; Wegener, Schneider & Dick, 2015; Kroon, 2015).

The findings are classified into four parts. First, values within new cultural integration. Internal values of new cultural integration includes: (1) new institution vision and mission clarity, (2) institutional and internal environment strategy that sustainably proactive in solving problems as merger carried out, (3) unique information system from merger company should be put together and maintained, (4) manager and leader hardness in leading new post-merger institution, (5) leader hardness in providing *urgent* as well as conditional decision, (6) strength in emerging and maintaining organizational new identity, (7) clear work allocation and organizational structure to prevent any confusion, (8) network technology that could support post-merger work requirement, (9) institution commitment or focus on customer needs, (10) clear and directed communication, (11) open, honest, multi-directions in communication, and performing work commitment, (12) trust between staff and leader in work, (13) organizational capital to run post-merger life, and (14) employees work guarantee.

External values of new cultural integration include: (1) policy protection based on opportunity grant to increase organizational condition due to environmental effect, (2) market response in responding post-merger new institution existence, (3) inter-institution competition, (4) customer (market) need change, (5) knowledge and technology sophistication outside merged organization environment, and (6) economic growth of certain area (city/regency, province and country).

Those findings support previous research studies, these are: (1) new cultural formation as many as merger process originated from their own values (Anonymous, 2011), (2) company should integrated entire variative votes through balanced policy consistently (Christensen, Firat, & Torp, 2008), (3) organizational cultural value positively correlated with entire cultural dimension and dimension could be attained should they use flat approach for all (Zao, Z., Huo, B., Li, Y. & Zhao X, 2016).

Second, findings of this study concerning on new cultural integrations at pre, during, and post-merger include (1) **pre-merger** consist of the following activity: (a) *benchmarking* on similar sector, (b) self-evaluation and decision for whether or not to merge, (c) reviewing legislation of merger process, (d) assessing strength-weakness-opportunity-threat; (2) **during merger process** by performing: (a) supervision and control function of target achievement, (b) observing stock value condition curve and assets

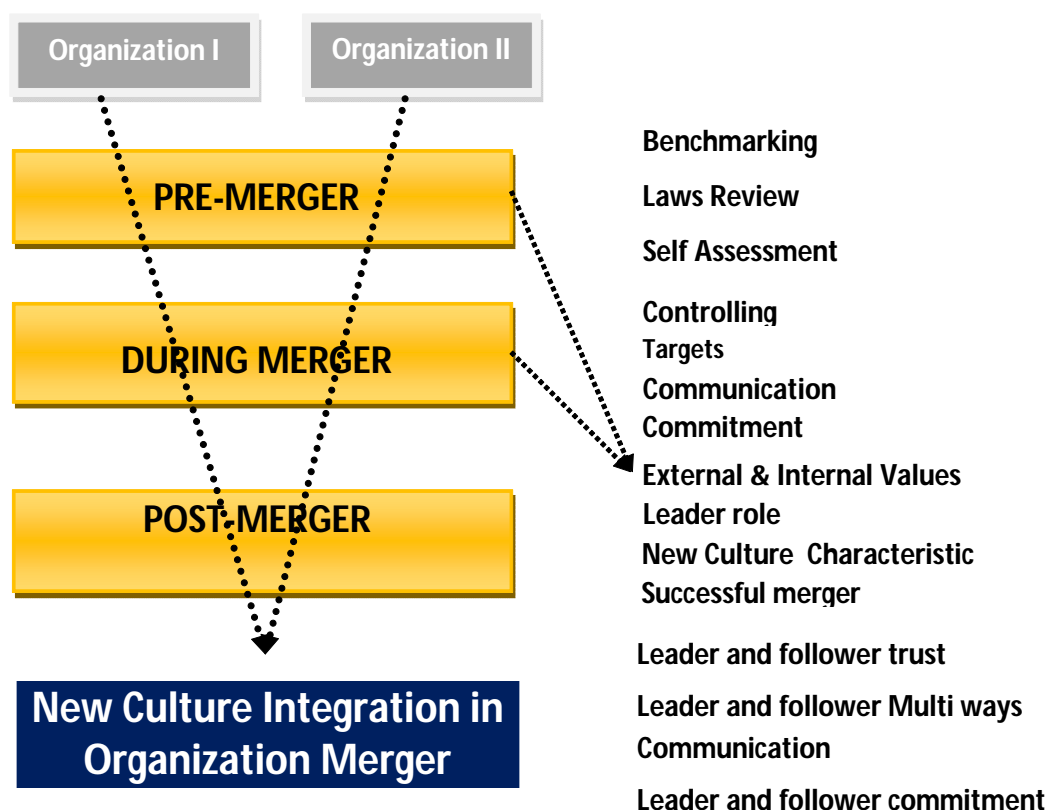


Figure 2. Finding of the Current Study on New Culture Integration Process in Successful Organization Merger

owned, whether it is beneficial and safe or not to carry out merger; and (3) **post-merger** by performing: (a) evaluation, (b) in form of performance appraisal activity, stock value and competitive increase with other competitor, (c) its product serve as decision fundamental to make re-merger or terminate merger. These are illustrated in Figure 2.

The findings support successful mergers of the previous studies as well as factors the influencing factors of merger success in every stage. More successful merger stages were obtained by combining or integrating the merged corporations, formulating missions, accelerating integration plans, constructing integration processes, and composing activity priorities (Marks & Mirvis, 2015). This research needs to be followed up focusing on integration mechanism that could be selected and developed following the lines of organizational processes and cultures (Karlsson, Taylor, & Taylor, 2010).

Third, role of leaders in *new cultural integrations*. Leaders role to transforming current organizations are very important in managing companies during post-merger stage. Leaders should: (1) continuously inspire and motivate people to attain desired goals, (2) to be creative to find solutions as well as new

strategies, leader and manager should be able to build honesty among people, (3) to be open, and (4) provide mutual communications in describing the vision, goals, and tasks, (5) demonstrate effective leadership, (6) develop effective internal measurements, (7) demonstrate charismatic role in the process of generating effective integrations, (8) provide right decisions, and (9) make sure members are well informed about their companies mission and goals.

Fourth, constructing new cultural integrations through several strategies carried out by managers and leaders: (1) balance collaborations between human and non-human resources in a company, (2) encourage strong human roles in merger process, (3) create good relationships between leader and employees, (4) empower employees or subordinates to work independently, (5) develop a supportive working culture, (6) provide well-integrated system and asset, (7) provide effective benchmarking, (8) develop high values of selling and investment. The new cultural integration process will be successful if human and non-human factors have been integrated sufficiently as suggested in Figure 2.

However, Krohwinkel, and Svensson (2015) studies found difficulties experienced by leaders in manag-

ing the change of management within the new cultures of the companies. Thus, merger would be succeed if the cultural aspects are considered properly. Leaders need to take active roles in developing and encouraging their performance behaviours, employees, and companies in performing successful merger transitions. They also have to encourage employees or members to satisfy all customers, demonstrate creativity and actively involved in the process, use sense, provide acknowledgments, and keep sound communications (Thach & Nyman, 2001).

In practice, organizations that implement a merging program will go through three phases including *pre*, *process*, and *post-merger*. Implementation of every phase relates to each other in integrating new cultures into merging organizations. The first phase have three important components: *benchmarking*, *legal review*, and need assessment. But at the initial stage, benchmarking and legal review are conducted at the same time in many companies. This *benchmarking process is based on* the results of legal reviews. Legal reviews are accomplished by two interested companies those are being involved in deciding merger as a strategy as well as problems and risks of management. Both companies overview ideas, vision, mission, strategies, structure, market targets, and organizational formats in establishing new institutions with new cultures in order to improve organizational stability and sustainability. The next step is need assessment in identifying conditions of new coming organizations and deciding what kinds of needs and strategies must be provided. Results of this assessment are used to formulate strategies in dealing with competitors, supervisions, and new culture integration models for the new formed companies

Implementation process. In this stage, leaders have to consider several aspects: controlling or supervision, target, communication, commitment, and both internal and external values. Controlling is exercised by new leaders upon the team performance and achievements. They also have to examine whether organizations operated in referring to the designed vision, mission, and policies. Leaders and their team members must have commitment in building new companies where certain cultures may be adopted, create stability, conducive atmosphere, and appropriate new cultures. They also have to be able to establish mutual communications in coordinating any works and solving the problems faced by companies. Job related coordination need effective communications and su-

pervisions. Managers must be familiar with difficulties or constraints members had in the merging process to ensure that the new organizations attained their targets.

The existence of new integrated organizations or merged companies is characterised by new values brought into the new organizations. These may originate both from internal and external. The internal values include strong commitment of leaders and their institutions, self confidence in undertaking jobs, feeling of security and trust among members and staff, openness, respects, and honesty among stakeholders. Further, the strength of leaders and managers in dealing with problems, the availability of new information system and technology, proactive behaviour in responding people ideas in making decisions during urgent situations. Exsternal values also will be embedded in new companies. These include (1) the policies of legal protection for the new integrated or merged companies; (2) market responses to the new companies; (3) sophisticates of science and technology that influence institutional development; and (4) economic and political situation in the region determine performance of new companies.

The last stage is *post merger*. This is aimed to assess how the integration program achieves its targets. The reliability of attitudes, commitment, and leadership strategies implemented in during *process* and *post-merger*—all are assessed. Leaders are required to be creative in evaluating a merging performance and find solutions to the encountered problems based on internal and external factors. Supportive or good cultures must be kept, while the destructive one needs to be avoided. This merger performance can be measured concerning on its achievement indicators in order to find whether its objectives are achieved. Furthermore, the performance of an integration program can be used to detect how the management of merging companies integrate two or more companies with their differing values and other dimensions.

New cultural integration structure could be accomplished first time and only happen at the beginning of merger. Such a condition influences cultural changes. This must be acknowledged by merging companies to ensure its contribution to merger success (Teerikangas & Laamanen, 2014). Structure of *new cultural integration process* needs to be supported by high level technologies (Karlsson, Taylor, & Taylor, 2012) in order to ease the merger process attain its designed goals.

CONCLUSIONS

New cultural integration strategy in company succeeded in performing merger stood from several of the following aspects: (1) internal values in new cultural integration include vision and mission, proactive in solving problem as merger carried out, one information system, manager and leader hardness in making decision, strength in emerging and maintaining new identity, clear work allocation and organizational structure, network technology in supporting work, commitment focus on customer needs, clear and multi direction communication, staff and leader trust in working, organizational capital to perform life, and work guaran-tee; and external values in new cultural integration in-clude policy protection by increasing organizational condition due to environmental effect, market response in responding merger existence, knowledge and technology sophistication, and economic growth; (2) technical stages: (a) *pre-merger* that include similar sector *benchmarking*, self-evaluation and preparation to merge, reviewing legislations, assessing strength-weakness-opportunity and threat in merger process, (b) *during merger process* by performing supervision, observing stock value condition curve and asset owned, (c) *post-merger* by performing evaluation in form of performance appraisal, stock value and competitive increase which product serve as decision mak-ing fundamentals related to merger; (3) leader role should continuously inspires and motivates every employee in achieving goals, strong leadership, and creative in finding solutions as problem occur, creating open, honest and multi direction communication, managing change during merger process, making planned change framework, demonstrating charismatic leader, providing right decision and describing to member; (4) new cultural integration construction consist of balance collaboration between human and non-human, positive leader and employee relations, leader influence and manage employee activity, employee move system in forming organizational culture, well-integrated non-human (system and asset/stock) factor, system constructed through *benchmarking* process, law and policy analysis that regulate merger, right supervision and decision making process, and asset/stock with high selling value.

Results of this study lead to some recommendations for *stakeholders* of the merging companies: (1) obtain indispensable knowledge on important values of organizational culture within new organizations or merger companies; (2) overview the merger stages

as a guide in understanding the merger process as well as benchmarking, evaluation, and decision making; (3) leaders have a vision, to be charismatic, proactive, demonstrate a strong leadership, have a high expectation for excellent performance, maintain the balance between leadership and technical demands, become an inspirator, motivator, become an initiator to problem solutions, create open and mutual communications; and (4) the integration process is carried out through a collaboration concerning both human and non-human factors.

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