Assessing cultural transformation from local to global company: Evidence from Indonesian PR Company

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Abstract

Cultural transformation from local to global company as a result of merger and acquisition (M&A) had caused radical changes in corporate culture of Indonesian Public Relations Company. Major changes in communication process and management style had caused remarkable grievances among employees which have affected organizational effectiveness. Objective of this study is to examine cultural gap between current and required global company culture. Using Organizational Culture Assessment Instrument, descriptive analysis of 67 respondents was used. Results showed company has not completely successful in transforming its culture after M&A because of lacking competencies in managing employees to be more competitive.

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Keywords: Cultural gap analysis; cultural transformation from local to global company; indonesian public relations company; managerial competencies; merger and acquisition

1. Introduction

Becoming a part of the world’s largest Public Relations (PR) firm and one of the global market leaders in the industry brings PT. XYZ Indonesia a different set of challenges. The challenges do not come abruptly, as the condition of the company today is a result of an acquisition of ABC PR–an Indonesian PR company–by XYZ, a global PR firm based in the United States. The merger and acquisition (M&A) process in 2007 had brought about major changes; starting from changing company’s name, organizational structure, systems and procedures, communication process,

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to management style. “Organized chaos” management style was used to address the challenges of the changing business environment and to keep driving toward organization effectiveness and business excellence in products, services and people that the headquarter values. Executing this style has brought a radical change to the way the firm operates internally and breaking the status quo of ABC PR culture.

This substantial transformation in the organization is in line with the finding of McKinsey study which states that one of the critical challenges of Global Company is managing people in cultural transformation (Dewhurst, Harris, and Heywood, 2012). It appears that in this ever-changing world, organizations are in constant challenge to keep pace with the changing business environment. PT. XYZ Indonesia employees need to change their attitude towards change itself, and bringing forth “Organized Chaos” as a strategic approach.

The achievements and credentials of PT.XYZ Indonesia being a part of the largest PR global firm would point them as organization with a great culture and robust managerial skills and competencies. However with the prevalence, degree and rapidity of change associated with XYZ internal initiatives and external environment, there were some remarkable grievances such as silo-communication across departments, casual versus formal office suits, not solid culture, and unclear direction on how or where the culture would be headed. These grievances should be addressed accordingly as not to become any hindrance in achieving PT. XYZ Indonesia strategic goals. Therefore, the firm should be prepared and would be well-advised to diagnose its dominant organizational culture and further identify the managerial skills and competencies that are crucial to reinforce their change initiative and strive to maintain and develop the firm’s organizational effectiveness. Hence, the objective of this study to examine cultural gap between the present and preferred culture as compared to the required global company culture. This study further explore whether the level of managerial competencies has accomplished the required culture.

2. Literature Review

Organizational culture is referred to as the beliefs (Schein, 1978), philosophies of management (Ouchi, 1981), values (Deal and Kennedy, 1982), or feelings that employees within the organization believe to exist within the makeup of the organization (Whitaker, 2011). An employee’s understanding of an organization’s guiding philosophies and principles would direct employees as to how to interact with internal and external stakeholders. In addition, top and middle management are a reflection of the organizational culture (Dackert, Jackson, Brenner, and Johansson, 2003).

Previous studies suggest that organization culture has both direct and indirect relationships with effectiveness. Evidence suggests that corporate culture can affect directly organization performance, while indirectly affects performance through its influence on the organization’s ability to implement change and through its influence on a firm’s ability to operate in different countries (Cummings and Worley, 2008).

Organizational culture creates a feeling of belonging, builds a feeling of collective commitment, promotes social stability and shapes behavior among employees (Kreitner and Kinicki, 2008). A particular pattern of values and assumptions that once was a source of strength for a company can become a major liability in successfully implementing a new strategy (Cummings and Worley, 2008).

Therefore, it would raise the importance to diagnose the managerial competencies to enable an effective organizational culture change by utilizing Competing Values Framework developed by Cameron and Quinn (2006). Almost all organizations develop a dominant type of organizational culture from one or more of these four culture types. If the culture is not dominant in one of the four types then the culture is either unclear or the organization adjusts equally between the four types. The four culture types are clan, adhocracy, market, and hierarchy.

Clan culture is representative of an organization that is internally maintenance with flexibility, cohesive and collaborative, facilitator style of top management, concern for employee development, and sensitivity for customers. Adhocracy culture is externally positioning with a high degree of flexibility and discretion, open to innovation and creativity from its employees, and entrepreneurial and visionary leadership style. For market culture, organization focuses on external maintenance with a need for stability and control, customer-focused, aggressive marketing strategy to achieve profitability and market share, fiercely competitive management style, hard-driving leadership styles. Hierarchy culture type represents the primary emphasis on internally focused with stability and control, controlling leadership style where they endorse being timely, efficient, and consistent, coordinating and organizing activities to achieve the control and efficiency that associated with organizational effectiveness.
Cummings and Worley (2008) further addressed that in organizational diagnosis, the interest is in understanding the current culture well enough to determine its alignment with the way people think, their values and assumptions, the ways they process information, and the other organizational design components. Matching between the dominant culture of the organization and its management roles and human resource management contribute to higher levels of performance than mismatches do (Cameron and Quinn, 2006). Each of the four culture types has three managerial competencies. Competencies for (1) clan culture: managing teams, interpersonal relationships, and the development of others; (2) adhocracy culture: managing innovation, future, and continuous improvement; (3) market culture: managing competitiveness, customer service, and energizing employees; and (4) hierarchy culture: managing acculturation, control system, and coordination.

3. Research Method

A quantitative approach was used in this study. Utilizing purposive sampling with the criteria of non-managerial employees who have worked for more than one year in the company and with their superiors, respondents were asked to rate their direct superiors’ competencies and their perception of present and preferred cultures. From a population of 70 non-managerial employees, a total of 67 responses were received in the form of online and hardcopy submission; giving a 95.7% response rate.

Prior to data collection, Organizational Culture Assessment Instrument (OCAI) and Managerial Skills Assessment Instrument (MSAI) adopted from Competing Values Framework by Cameron and Quinn (2006) were translated from English to Indonesian language and back translated to English. A final Indonesian version was pre-tested for reliability and content validity with a panel of experts. To ensure the reliability of the scales that was used in the questionnaire, coefficient of internal consistency was calculated using Cronbach’s alpha. OCAI has OCAI has consistent reliability between .62 and .88; while MSAI between .74 and .85.

Descriptive analysis was used to examine cultural gap of the present and preferred culture. Furthermore, to assess the required global company culture, analysis on corporate mission, values, culture, and CEO statements was performed to be compared with the perception of present and preferred culture. Deeper analysis was also done by exerting personal interviews on certain key people to enrich the findings.

4. Result

The culture profile of PT. XYZ Indonesia was rated based on the six cultural dimensions of Organizational Culture Assessment Instrument (OCAI) by Cameron and Quinn (2006). Table 1 illustrated the proportion of each dimension.

Table 1. Present and Preferred Culture Profile in PT. XYZ Indonesia

<table>
<thead>
<tr>
<th>No</th>
<th>Dimension</th>
<th>Present</th>
<th>Prefer</th>
<th>Present</th>
<th>Prefer</th>
<th>Present</th>
<th>Prefer</th>
<th>Present</th>
<th>Prefer</th>
<th>Present</th>
<th>Prefer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Dominant Char.</td>
<td>26.56</td>
<td>31.33</td>
<td>23.36</td>
<td>25.31</td>
<td>30.00</td>
<td>24.53</td>
<td>20.08</td>
<td>18.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Organizational</td>
<td>22.97</td>
<td>30.55</td>
<td>22.14</td>
<td>24.61</td>
<td>30.52</td>
<td>22.11</td>
<td>24.38</td>
<td>22.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Management</td>
<td>27.66</td>
<td>32.03</td>
<td>22.19</td>
<td>22.58</td>
<td>30.39</td>
<td>21.95</td>
<td>19.77</td>
<td>23.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Strategic Emphas</td>
<td>24.61</td>
<td>30.08</td>
<td>24.11</td>
<td>25.63</td>
<td>30.31</td>
<td>22.81</td>
<td>20.97</td>
<td>21.48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Criteria of</td>
<td>22.11</td>
<td>30.63</td>
<td>23.52</td>
<td>23.83</td>
<td>28.98</td>
<td>23.05</td>
<td>25.39</td>
<td>22.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUM</td>
<td></td>
<td>145.23</td>
<td>185.23</td>
<td>139.45</td>
<td>147.42</td>
<td>181.69</td>
<td>136.95</td>
<td>133.63</td>
<td>130.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td>24.21</td>
<td>30.87</td>
<td>23.24</td>
<td>24.57</td>
<td>30.28</td>
<td>22.83</td>
<td>22.27</td>
<td>21.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CULTURE GAP</td>
<td></td>
<td>6.67</td>
<td>1.33</td>
<td>-7.46</td>
<td>-0.46</td>
<td>-0.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data from OCAI
From Table 1, the six dimensions of market culture (dominant characteristics, organizational leadership, management of employees, organization glue, strategic emphases, and criteria of success) have the highest scores as perceived by the non-managerial employees in PT. XYZ Indonesia. Hence, the dominant culture that is presently felt is market culture with the overall average of 30.28. Whereas the dominant preferred culture desired to be adopted further by majority of the non-managerial employees is clan culture (30.87).

The large cultural gap existed in market culture (-7.46) and clan culture (6.67). It means majority of the respondents wanted working culture of clan which has friendlier environment instead of market which is tough and demanding. Some relevant comments from respondents showed why they preferred clan culture to flourish:

Managers should not just put on pressure, but need to also support and try to understand the issue or needs of the team (respondent 30) in order to improve employee’s performance (respondent 16) by being a good mentor to spend time training subordinates to do the job (respondent 29) and creating sense of togetherness (respondent 20).

To assess the required global company culture in PT. XYZ Indonesia – which has adopted XYZ culture since the acquisition – analysis on XYZ corporate mission, values, culture, and CEO statements was done. The analysis was conducted by classifying those statements into the culture types as described by Cameron and Quinn (2006). It is revealed that the required global company culture by XYZ is market culture as the dominant culture, combined by clan and adhocracy. This finding shows that there is an alignment with the XYZ global company culture with the present culture perceived by non-managerial respondents in PT. XYZ Indonesia, in which market as the dominant culture, followed by clan, adhocracy, and hierarchy culture.

However, there is a cultural gap between preferred and the required global company culture. Majority of the respondents preferred clan as the dominant culture combined with adhocracy-market-hierarchy culture. This gap is caused by top and middle management’s competencies which were analyzed from Managerial Skills Assessment Instrument (MSAI) and shown in Table 2.

Table 2. Present and Preferred Managerial Competencies in PT. XYZ Indonesia

<table>
<thead>
<tr>
<th>Managerial Competencies</th>
<th>Culture Type</th>
<th>Present</th>
<th>Preferred</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Teams</td>
<td></td>
<td>3.29</td>
<td>4.14</td>
<td>0.85</td>
</tr>
<tr>
<td>Managing Interpersonal Relationships</td>
<td></td>
<td>3.26</td>
<td>4.03</td>
<td>0.77</td>
</tr>
<tr>
<td>Managing the Development of Others</td>
<td>CLAN</td>
<td>3.24</td>
<td>4.11</td>
<td>0.88 0.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.26</td>
<td>4.09</td>
<td></td>
</tr>
<tr>
<td>Managing Innovation</td>
<td></td>
<td>3.35</td>
<td>4.08</td>
<td>0.73</td>
</tr>
<tr>
<td>Managing the Future</td>
<td></td>
<td>2.83</td>
<td>3.78</td>
<td>0.95</td>
</tr>
<tr>
<td>Managing Continuous Improvement</td>
<td>ADHOCRACY</td>
<td>3.24</td>
<td>4.08</td>
<td>0.84 0.84</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.14</td>
<td>3.98</td>
<td></td>
</tr>
<tr>
<td>Managing Competitiveness</td>
<td></td>
<td>3.03</td>
<td>3.83</td>
<td>0.80</td>
</tr>
<tr>
<td>Energizing Employees</td>
<td></td>
<td>3.23</td>
<td>3.76</td>
<td>0.53</td>
</tr>
<tr>
<td>Managing Customer Service</td>
<td>MARKET</td>
<td>3.15</td>
<td>3.81</td>
<td>0.66 0.66</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.14</td>
<td>3.80</td>
<td></td>
</tr>
<tr>
<td>Managing Acculturation</td>
<td></td>
<td>3.15</td>
<td>3.88</td>
<td>0.73</td>
</tr>
<tr>
<td>Managing the Control System</td>
<td></td>
<td>3.17</td>
<td>3.92</td>
<td>0.76</td>
</tr>
<tr>
<td>Managing Coordination</td>
<td>HIERARCHY</td>
<td>3.07</td>
<td>3.84</td>
<td>0.77 0.75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.13</td>
<td>3.88</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed data from MSAI

Table 2 showed that the present managerial competencies of top and middle management of PT. XYZ Indonesia are clan culture in a moderate level (3.26), followed by adhocracy-market-hierarchy culture. Therefore, majority of respondents prefer their managers to increase competencies into high level in the same order of culture.

Following the culture preference of respondents (clan), managing the development of others and managing team are managerial competencies that need to be improved. But in order to keep pace with a very tough competition and to be aligned with the required global company culture, managing competitiveness, managing customer service, and
energizing employees are market culture’s competencies which are still lacking among respondents’ superiors. This means that the level of managerial competencies has not accomplished the required global company culture.

5. Discussion

Based on the analysis of corporate mission, values, and culture statements, the required global company culture of PT. XYZ Indonesia is market as the dominant culture combined with clan and adhocracy. Being a PR firm, and a service company, PT. XYZ Indonesia faces circumstances where survival depends on flexibility, innovation, creativity, and entrepreneurship. Therefore aside from a strong market culture to ensure a leading position, it needs a solid clan culture to maintain a robust workforce as their most important capital and also adhocracy culture to foster more innovative and creative products/services to customers. According to Cameron and Quinn (2006), organizations may require a more balanced culture where similar emphasis is required on each of the four culture types. As with the case of PT. XYZ Indonesia, the combination of market-clan-adhocracy culture is seen as an appropriate mixture that had helped the organization to thrive within the industry.

With dominant market culture, company should focus on external positioning and differentiation with a need for stability and control. This culture is required by PT. XYZ Indonesia as part of global PR firm, in which they believe that by working together on their clients’ behalf to deliver excellence in products and services and build deep, long-lasting client relationships, they could achieve long-term growth and financial success (XYZ website, n.d-a; n.d-b).

Another required global company culture that is present in PT. XYZ Indonesia is clan culture. PT. XYZ Indonesia is required to retain the family values that have shaped company culture since the founder of the firm in 1952 in which their success comes from great teamwork and exceptional individual effort (XYZ website, n.d-a; n.d-b). These values are needed in order to survive in the fierce competition faced by PT. XYZ Indonesia.

The last required global company culture is adhocracy culture, which means that the organization focuses on external positioning with a high degree of flexibility and individuality. Employees in PT. XYZ Indonesia are required to have entrepreneurial spirit and a culture of innovation which must come from experimentation at the edge.

The results of this study showed that the present organizational culture in PT. XYZ Indonesia perceived by the respondents is revealed to be in line with the required global company culture which is market culture as the dominant culture combined with clan and adhocracy culture together with hierarchy culture. However, there is a cultural gap between the dominant preferred and global company culture because respondents desire clan to be the dominant culture followed by adhocracy-market-hierarchy culture. The gap is also caused by top and middle management’s competencies which are still performing competencies of clan-adhocracy-market-hierarchy culture.

The prevalence of change that is experienced by the organization brought by the merger and acquisition (M&A), strategy, technology and structure as well as human resource management have significantly influenced the culture of PT. XYZ Indonesia. However, culture transformation from the dominant local company culture (clan) to the dominant required global company culture (market) has not completely successful. This condition is supported by the interviews with employees that have been working with PT.XYZ Indonesia before the acquisition. They admitted that previously a friendlier, solid and loyal culture was more apparent; moreover, flexibility, creativity and adaptability were nurtured by the top management. Therefore they are still longing for friendly and supportive environment while accomplishing their projects; instead of very tough and high pressure working atmosphere.

This finding is similar to the previous studies done in Indonesian local private companies using the same instruments in which market as the present dominant culture and clan as the preferred dominant culture (Sugiantoro, 2012; Hendrawan, 2013). Clan culture is favored by majority of the respondents and preferred to be the dominant culture because majority of Indonesian employees want to work in a very friendly working place, solid and loyal culture. This condition is aligned with the Indonesian cultural profile developed by Hofstede (2001) which stated that Indonesian employees are considered collectivist in which individuals are expected to conform to the ideals of the in-groups they belong. Effective manager is a supportive one, decision making is achieved through involvement, and conflicts are resolved by compromise, negotiation, and consensus (femininity); hence, relationship and harmony in the workplace are maintained (low uncertainty avoidance).

The expectation to lower market culture in PT. XYZ Indonesia by the respondents could be related to the power distance culture. Indonesian employees would expect to be clearly directed by their superiors that bring the need for
a manager with good communications skills (Hofstede, 2001). Majority of non-managerial respondents are young (60.9% aged below 30 years old) who belong to Generation Y or Millennial and are relatively new in the company (59.4% had worked below 2 years in the company). Being the youngest generation, Gen Y employees are longing for more inclusive and development-oriented work environment. With the condition that majority of Indonesian employees are generally evasive toward conflict and direct competition (Hofstede, 2001) which is in contrast with market culture (strive-to-compete and tough to face very demanding environment), it means that PT. XYZ Indonesia should focus on developing managerial competencies within market culture. Lack of cultural strengthening programs would not foster the required global company culture because most of the top and middle management are still implementing clan-adhocracy-market-hierarchy culture.

The change of the leadership style had also influenced the resistance to cultural change from clan to market culture as the dominant culture. The tenure of the ABC PR founder as the first CEO which lasted until the period of ABC XYZ (1997-2011) had created a friendly and personal working atmosphere and had made a tradition of indulging employees with celebration over wins and achievements (clan culture). The leadership style under the new CEO of PT. XYZ Indonesia (2011-present) wants to put into practice market culture to be in line with the global company culture. Transforming fourteen-year-solid-clan-culture into market culture in three years period would be impossible without any continuous cultural change program.

Adhocracy culture as the third required global company culture has matched with the present culture. The management strategy of “Organized Chaos” that was coined by XYZ CEO matched the adhocracy culture that emphasized on creating a vision of the future, organized anarchy, and disciplined imagination. However, employees felt there is still room for improvement especially in communicating a clear vision of the future and facilitating its accomplishment (managing the future).

With the alignment of the present PT. XYZ Indonesia organizational culture with the required global company culture, the next issue to be addressed would be to minimize the discrepancy between the managerial competencies with the organizational culture. Based on the gap analysis between the present and preferred managerial competencies in each culture category, it shows that the largest gaps in the managerial competencies are on the managing the future and continuous improvement (adhocracy) and managing the development of others and teams (clan). However, to align the managerial competencies with the required global company culture, management should focus on the market competencies (managing competition, customer service and energizing employees) and adhocracy competencies (managing the future, continuous improvement, and innovation).

With the present market-clan-adhocracy culture aligned with the global company culture, the management should further reinforce the managerial competencies within the market and adhocracy culture that are still lacking in the organization to promote the needed alignment. Having relatively strong clan culture, PT. XYZ Indonesia needs to further direct its focus on the effectiveness criteria that emphasize external orientation, differentiation, and rivalry (market culture) and flexibility, discretion, and dynamism (adhocracy culture). Previous research indicated that alignment between the organizational culture and managerial competencies would lead to a higher organizational performance. However, the culture should be changed to reinforce the business strategy, and not following the preference of employees.

Middle level of management will play very important role in ensuring the adoption organizational culture as intended by the XYZ headquarters through the implementation specific managerial competencies endorsing market and adhocracy culture. Special attention should be given to narrowing the large gaps of the managerial competencies, namely managing competitiveness and customer service among the employees to further build up the market culture; and managing the future and continuous improvement to be innovative to strengthen adhocracy culture.

6. Conclusion

The organizational culture that is promoted by XYZ global in particular order is dominantly a combination of market and clan, that focuses more on goal achievement, market share and profitability; where human development, teamwork and participation is expected and the organization is a very friendly place to work where people share a lot of themselves; and also adhocracy that emphasizes innovation, creativity and change. The organization does not really give emphasis to the hierarchy culture that oriented in control and stability.
However, cultural transformation from the dominant local company culture (clan) to the dominant required global company culture (market) has not completely successful after the merger and acquisition process in 2007. Employees in PT. XYZ Indonesia are still longing for friendliness, collaboration, and interaction working environment. Cultural transformation process such as change in company strategic directions, new corporate values and competencies needed to bring the company achieve the bottom-line results were not fully understood and embedded by the employees in performing their tasks. If not well managed, PT. XYZ Indonesia has a potential of not meeting the global company’s aggressive marketing strategy to compete for higher market share in Indonesia. Moving away or changing the present dominant market culture to employees’ preferred culture (clan) would not be an advisable idea as the competitiveness of the industry is high and being one of the leaders in the industry would demand a commitment toward market share, goal achievement, profitability and customer-focus approach.

The management of PT. XYZ Indonesia would be well-advised to reinforce the managerial competencies within the market and advocacy culture to transform the employees’ perception and ensure they understand the direction of the organizational culture. The upper-middle level of management will play a very important role in this culture transformation process both to the higher level and the lower level. To build up market culture, continuous development programs such as team building with the top management and also the whole employees can improve the interpersonal and group process issues to endorse the employees in accomplishing competitive tasks and increase team performance. On top of this, merit-based-oriented performance management should be redesigned and clearly communicated to accustom employees with competition in order to motivate and transform employees’ perception in understanding strategic direction of the global company. Moreover, continuous strengthening programs to internalize the global company culture should be done to all employees, from top management to non-managerial employees.

Research implication of this study is the process of transforming from local to global company culture should consider Indonesian working culture which mostly prefer friendly and supportive atmosphere in which personal relation takes precedence over task. Being cultural insensitivity would create resistance to cultural change among the employees which might jeopardize the organizational performance. Hence for further studies, this study can be used to explore whether Indonesian employees prefer clan culture in the workplace as compared to market culture to win the competition in the 21st century’s turbulent economic environment.

References


