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THE INFLUENCE OF ORGANIZATIONAL CULTURE IN STRATEGIC TRANSFORMATION THROUGH MERGERS AND ACQUISITIONS CASE STUDY: FOOD INDUSTRY IN ROMANIA

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ABSTRACT. The business environment is a living organism that is continuously moving and evolving. To perform in this dynamic environment, companies need to increase existing resources, including through mergers and acquisitions. Mergers and acquisitions in Romania have had significant growth in recent years, and among the most dynamic sectors of the economy is the food industry. During the pandemic, according to Global Data, M&A in the Food Sector dropped 38%, however, it is expected that the trend will increase in the next few years. The experience proves that, despite their popularity, many mergers and acquisitions are not successful because they anticipate synergies that are not fulfilled. In addition to strategic fit, there is a strong relationship between the success of an organizational transformation and the organizational culture. The present study tries to identify the mechanism that ensures the success of the transformation process through mergers and acquisitions. The research aims to identify the models and mechanisms that ensure the success of the transformation process, from an organizational culture perspective. Finally, summarizing the results of this research, we could suggest helpful interventions in the organization going through mergers and acquisitions. In this way, businesses can limit the negative effect of the transformation processed and improve their chances of performance.

Keywords: organizational transformation, organizational culture, mergers and acquisitions, food industry

JEL Classification: G34, L2

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Introduction and literature review

The business environment is a living organism in continuous movement and transformation. The only constant thing is perpetual change. The opportunities are continuous and dynamic, and companies are living effervescent lives. To perform in this dynamic environment, companies must adapt their capabilities, competencies, and resources at all times. To win and consolidate competitive advantage, they need to grow resources. The issue of creating and growing resources and capabilities is an all-time strategic focus of companies, and sometimes the tools used to respond to these needs are mergers and acquisitions.

The mergers and acquisition (M&A) market in Romania was constantly growing – according to Deloitte, the estimated value of those M&A transactions in 2019 was between 1.4 and 1.6 billion euro (https://www.romania-insider.com/romania-mergers-acquisitions-2019). PwC estimated that in 2019 there were more than 200 transactions and that this market would increase in 2020 (https://www.pwc.ro/en/press-room/press-release-2020/pwc-romania-study--romanian-m-a-market-increased-by-4--year-on-y.html).

FMCG and the food industry are among the most dynamic sectors. According to Global Data, in the first six months of 2020, the global M&A market was valued at 10.09 billion dollars with an annual increase of 7.6%.

The decision of merging has multiple reasons: lower costs, higher competencies, reducing the intensity of the competition, increasing the competitive advantage, new capabilities, new distribution channels, and generally increasing the added value. The logic will then assure us that, being the spring of increased added value, the M&A should work flawlessly every time. But the experience shows us that “despite their popularity, M&A are not always working. A lot of M&A are not providing value to shareholders because they anticipate synergies that do not materialize (Rothaermel, 2017).

Beyond strategic fit, there is a strong bond between organizational culture and the success of the organizational transformation.

The company culture means that the organization members are sharing and living collectively the values and norms of the organization, and this eventually models their behaviors and attitudes. Understanding how organizational culture impacts the transformation process is essential.

There are two ways companies are growing: organically, by reinvesting profits, or by M&A. Sometimes, in order to gain/keep the competitive advantage, the companies need VRIO (value, rarity, imitability, organization) resources. Those resources can be built, borrowed, or bought.

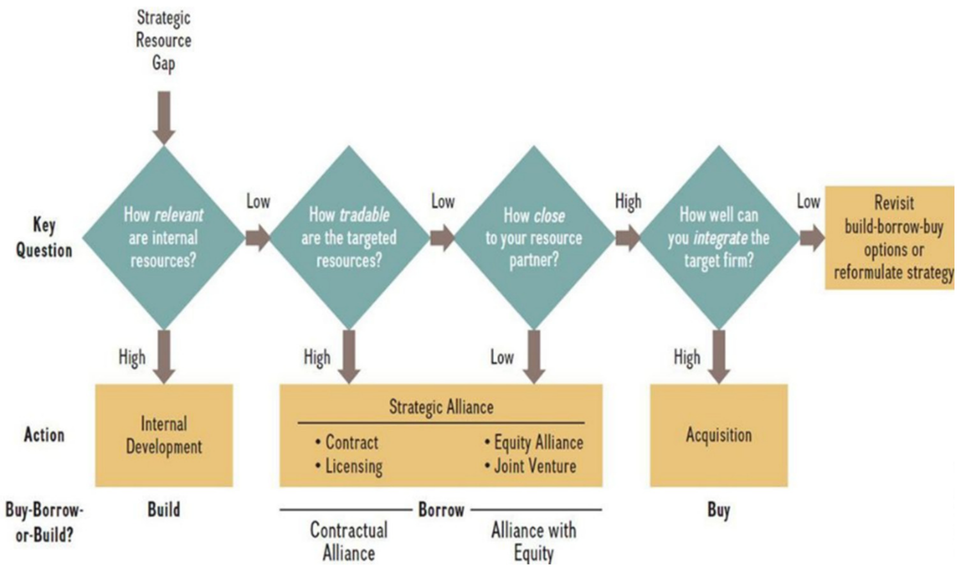

Fig. 1. Strategic decision for growing
Source: Rothaermel (2017), Strategic Management; www.chegg.com

This research focuses on buy and its implications. It is obvious that when it comes to buying, we are speaking, in fact, of the takeover of a company by another one. In that case, the size really matters – when the two entities have about the same size, there is a merge. When one of the companies is significantly smaller, we deal with an acquisition. We will refer to both as M&A.

Strategic Management

Effective strategic management is the foundation of the real competitive advantage, and the first step to creating it is to establish the mission, vision, and core values. The purpose of the company, the ultimate objective from where the building begins is the mission. The mission is the expression of the highest aspiration: I communicate where the organization wants to go and inspire the members of the organization, but also the partners. As Rothaermel (2017) notices in strategic management, there are two types of mission statements:

- **Mission statements oriented to the products,** a rather nearsighted perspective which defines the mission as a good product or service;
- **Mission statements oriented to the customers,** the kind of statements defining the mission depending on the client s expectations, assuming to offer them solutions that are meeting those needs. As Rothaermel (2017) notices, there is a link between the overall performance of the company and the mission statement; generally, those mission statements focused on the customer, with a clear vision behind and with structure following the mission statement are better performing.

The vision describes what the organization does to fulfill the mission. Usually, the vision is expressed by action verbs and represents the strategic commitment over 5-7 years. Being a commitment, the vision has an obvious cost – it is difficult to review it.

The cornerstone of the strategy is the value set, those principles in which the organization strongly believes and that shape the way to act, to decide, or to assess performance, meaning the organizational culture.

Strategic leadership describes the way leaders use power and influence to fulfill the company's strategy.

Strategy formulation involves answering concrete questions: Where and how are we acting on the market (industry, markets, geographies). The business strategy refers to the way we are competeing on the market, choosing between *cost leadership, differentiation, and value innovation*.

The functional strategy covers the implementation of the business strategy. Companies with a healthy strategy create added value. They can offer products and services at a competitive price while generating profit; both parties benefit from the added value, and this way they influence the overall society. The strategy represents the difference between success and failure, and even more when transformation processes occur.

Organizational culture

The concept became popular in the 80s-90s, and it was pretty vague at first, mentioning some of the things that portray the organization, but with no details. However, in recent years, the literature enriched the concept and today we have extensive references to organizational culture.

The dominant idea is that the culture of the organization is created by formal and informal values and norms, developing naturally while the organization adjusts to different internal and external pressures. So, the identity is created, the soul of the organization is shaped. Briefly, the organizational culture is about thinking, attitudes, beliefs, and rules that exist in an organization, sometimes well-known not only by the organization s members but also by other players in the market. To this set of values and norms, first, adhere shareholders, followed employees, and other players.

The organizational culture has multiple roles, but the most important is to create the company's identity. In addition, it facilitates involvement and participation beyond personal interest. Culture reinforces the social system. Culture dictated the standards and the working procedures; this is the way we do things here. Culture is the social glue that influences organizational behavior and climate.

Organizational culture consists of lived values, dominant leadership style, language, symbols, procedures, and routine, and the success definition. Within the organization, the different departments, subsidiaries, functions, and hierarchies may have different cultures, in fact, subcultures. Generally, any organization has one dominant culture and a set of subcultures.

In fact, this is how we must perceive the terms of strong or weak with regard to the organizational culture: they are not negative or positive attributes but describe how the organization has an accepted and reinforced culture at all levels and at all the organizational layers. *In a strong culture, the values of the organization are equally held and shared intensively, unanimously* (Robbins, Judge, and Breward, 2003). This unity of principles, values, and thinking generates a strong culture that causes engagement, low turnover, and better performance.

Although initially the analysis of M&A and strategic transformation were dominated by a strategic, financial, operational perspective (Lee & Coleman, 1981, Smith, 1993), the subject of the dynamic of human relationships and organizational culture is considered (Bowdieth & Buono, 1982, Fletcher, 2006, Schroeder, 2012, Cooke & Lafferty, 2015).

Bowdieth & Buono (1892) understood that no matter what the purpose of the M&A is, no matter what the hostility level is, no matter what the chronology of events is, there are quite abundant psychological consequences of the organizational transformation. We are talking about stress, fears, tensions, and incertitude. And that the organizational culture influences the humans behind those psychological issues.

To ensure the success of the transformation processes, Fletcher (2006) recommends a special focus on five key elements: leadership, *governance*, communication, processes, and performance management systems. The researcher recommends that we assess the organizational cultural elements early in the transformation so that the harmonization conversations are as open and constructive as possible. Issues related to cultural integration have significant risks in any M&A process *that can affect and destroy the added value of the transaction* (Fletcher, 2006).

Gunter (2006) warns that in M&A processed, the organizational culture is a key point, especially when it comes to entities of different nationalities and different geographies. The willingness to change of employees is critical, and this willingness is the result of a learning process. *Where companies understand that integration is a learning process and the acquired company is regarded as having complementary values rather than opposite values, capabilities will be by far used to achieve post-acquisition performance. Successful integration depends on how well it is managed by elementary humans.*

Schroeder (2012) also feels that the greater risk when it comes to organizational transformation is the low consideration for the organizational culture. To mitigate those risks, Schroeder is proposing an approach based on art and science. This also includes a communication strategy and the development of a system to measure performance (Schroeder, 2012).

Cooke & Lafferty introduce a model of the organizational culture inventory. According to OCI, there are 3 types of culture: (1) constructive, (2) passive defensive, and (3) aggressive defensive. This diagnosis system uses a tool named Circumplex, based on the perception of the individuals, teams, managers, and organizations (https://www.human-synergistics.com.au/about-us/the-circumplex). OCI assesses 12 norm sets that describe the behavior implicitly or explicitly expected by the organization. In fact, Cooke and Lafferty (2015) believe that it is not the strategic elements – mission, vision, core values – that create the organizational culture, but the structure, the system, the technology, and the competencies that shape the culture. According to them, culture is shaped by structure, and we face an *ideal culture* and an *operating culture*.

While using this tool, Cooke & Szumal (2005) notice that the framework still needs to be tested and validated.

Cameron & Quinn provided us in their paper *Diagnosing and Changing Organizational Culture* (1) validated tools for the diagnosis of the organizational culture and management skills (2) a theoretical framework for understanding organizational culture (3) a systematical strategy in order to conduct changes in organizational culture and organizational behavior.

The framework proposed by the Canadian researchers describes organizations based on two dimensions. The first dimension – flexibility vs. stability – differentiates the organizations depending on focusing on dynamism, changes, autonomy, and organizations focusing on control, order, stability. The second dimension, internal focus versus external focus, differentiates organizations based on focusing on integration and unity versus rivalry, competition, and market. *What is notable about these four core values is that they represent opposite or competing assumptions. Each continuum highlights a core value that is opposite from the value on the other end of the continuum, flexibility versus stability, internal versus external. The dimensions, therefore, produce quadrants that are also contradictory or competing on the diagonal. For example, the upper left quadrant identifies values that emphasize an internal, organic focus, whereas the lower right quadrant identifies values that emphasize an external, control focus. Similarly, the upper right quadrant identifies values that emphasize an external organic focus, whereas the lower left quadrant emphasizes internal control values. The competing or opposite values in each quadrant give rise to the name for the model, the Competing Values Framework.* (Cameron & Quinn, 2012).

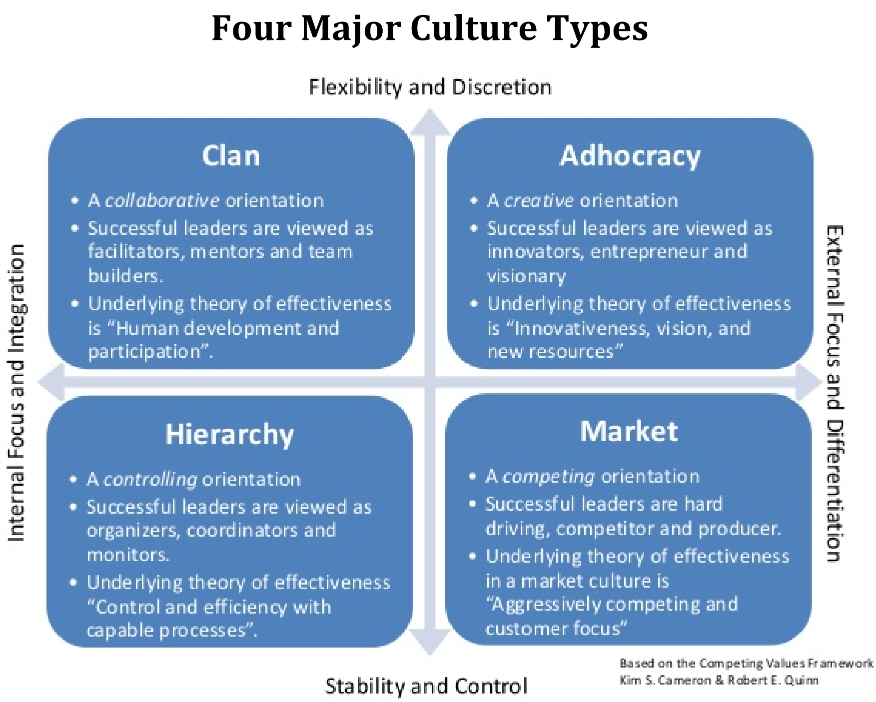

Fig. 2. Competing Values Framework
Source: Cameron & Quinn (2012); https://opinno.com/

Cameron & Quinn (2012) propose thus four major organization culture types:

1. **The Hierarchy Culture** – In the early 1900, the sociologist Max Weber studied the organizations that are challenged to produce goods and services in an effective way. He proposed seven attributes of the classical hierarchy culture: *rules, specialization, meritocracy, hierarchy, separate ownership, impersonality, accountability.* These seven characteristics will always create effectiveness and efficiency and ensure predictable results. This culture creates a structured and formalized workplace, where procedures govern what employees are doing. Leaders are proud to be coordinators and good organizers. All activities are a flow, and the effective way is an objective. The keyword is governance, standard, and procedure. The organization is bound by procedures and rules. Everything is well planned; the deadlines are met, and people focus on predictability and safety.
2. **The Clan Culture** – Defined by cohesion and shared values and principles, this culture offers a friendly workplace where belonging is the feeling of all members. People trust each other and share information openly, both professionally and personally. The organization is a large family, and the leader is a father figure, a mentor in the organization. The glue that holds the organization together is loyalty and trust. The level of engagement is high, and the morale of the troupes is rather high. The organization is highlighting the advantages of long-term development and pays special attention to developing people and taking care of customers. Teamwork is natural and conflicts are resolved constructively. The managerial style is a participative one.
3. **The Market Culture –** This culture itself is a market and plays by the rules of the market, economic mechanisms, and economic exchanges. The organization is highly focused on results, and the main concern is to fulfill the business objectives. Employees are highly competitive, and leaders are tough. Competition is embraced, even loved, and expectations in terms of performance are high. Profitability, financial results, and achievement of targets are valued. Success, reputation, and results are the key drivers. The desire to win is what holds the organization together. Success is measured exclusively in terms of market share, profitability, and financial results. The general climate is a conflicting one.

4. **Adhocracy –** In a dynamic era, where we are going from industrial to informational, where the life-cycle of the products is significantly smaller, innovation is the key to success. This culture is very dynamic, entrepreneurial, and creative. People take risks to bring innovation, and leaders encourage that. What brings people together is the commitment to creativity, experimentation, and the challenge to go the extra mile for innovation. The organization is very focused on gaining resources and on growing in order to be able to deliver more innovative new products. People are free to experiment, and everything is agile, fast, flexible, and on speed. Ad hoc is the keyword.

Cameron & Quinn (2012) observe that the organizations have, generally, a predictable evolution: usually, they start having a strong adhocracy footprint. As the organization grows, it becomes a clan. Continuous development brings a crisis that turns the organization into a hierarchical one, and in the end, the focus is changed, from the focus on internal effectiveness to the focus of being effective on the market, becoming a market culture. (Cameron & Quinn, 2012).

But when it comes to M&A, in a mature organization going through strategic transformations, the change of the organizational culture is not that predictable – in that case, we can discuss about a strategically planned transformation, and the success factor is the congruence between dominant culture, leadership styles, managerial roles, HR policies, and the quality management *(…) The congruence of these diverse elements in the organizations is the premise for high performance and the model we introduced here is a useful guide to improving the overall effectiveness of the organization and for facilitating the cultural change* (Cameron & Quinn, 2012).

Material and method

The present research wanted to prove, on scientific grounds, the mechanism that ensures a successful organizational transformation. What elements impact organizational transformation and how they impact it was the main research question. To do that, we reviewed the literature and we also developed a case study. In the case study, we looked at pre- and post-integration status of the company. A combination of the theoretical approach and a practical one was used.

It was aimed to conduct similar research on 4 other food industry companies in Romania to examine the influence the organizational culture has on the transformation process during M&A. Also a combination of qualitative and quantitative methods was used: the qualitative research was used to deeply understand the organizational transformations during M&A. This area will include SWOT, Ishikawa, 5 Why analyses conducted with 16-18 key persons from the 4 food industry companies, together with semi-structured interviews. The quantitative analysis will validate the findings in the qualitative area. It was aimed to implement a relevant questionnaire and to validate the correlation between the success of the M&A process and the cultural fit of the entities. The sample will consist of 400 employees in the 4 companies.

Case study – SC Solina Romania SRL Alba Iulia

In 2017, the newspapers announced that Supremia Alba Iulia, the most important spices processor in Romania, is taken over by the French company Solina.

Headquartered in Alba Iulia, Supremia was at that time the leader in the food ingredients sector in Romania. The company was established in 1993 by the businessman Levente Bara. In 24 years of activity, the company managed to export food ingredients in over 30 countries across the globe, with a portfolio of more than 2.000 customers. Gathering around him a team of passionate professionals, Levente Bara managed to fulfill his vision and became the leader of the Romanian food ingredients market. The rise of Supremia Grup is due to the constant investments in developing the employees, in the investments in state of art equipment, and to the Kaizen management system. The mission of the company, strongly oriented towards customers, has two pillars: on one hand, the company is offering innovative, dynamic performance to the customers, and on the other hand, it offers a development environment for the employees. *These two pillars of our mission compel us to have an innovative portfolio but also to focus on the organizational culture,* says the founder of the company.

In 2011, the mission and the vision are reviewed, and the management system started to be implemented in the entire organization. In 2013, the company became the international food industry Kaizen benchmark (Stoller, 2015).

The activity in Supremia is based on six values strongly shared among the organization members: integrity, continuous improvement, excellence, common prosperity, trust, and developing people.

Solina Group was created in France by a young and ambitious entrepreneur and is one of the top players in the food ingredient industry, having 14 production facilities, multiple research and development centers, and sales offices across Europe. The engagement of Solina Group is to their customer – customer-centricity is the value of Solina, together with the entrepreneurial spirit. This entrepreneurial spirit was developed also developed due to the long line of M&A the company conducted. The growth of Solina is both organic and by M&As.

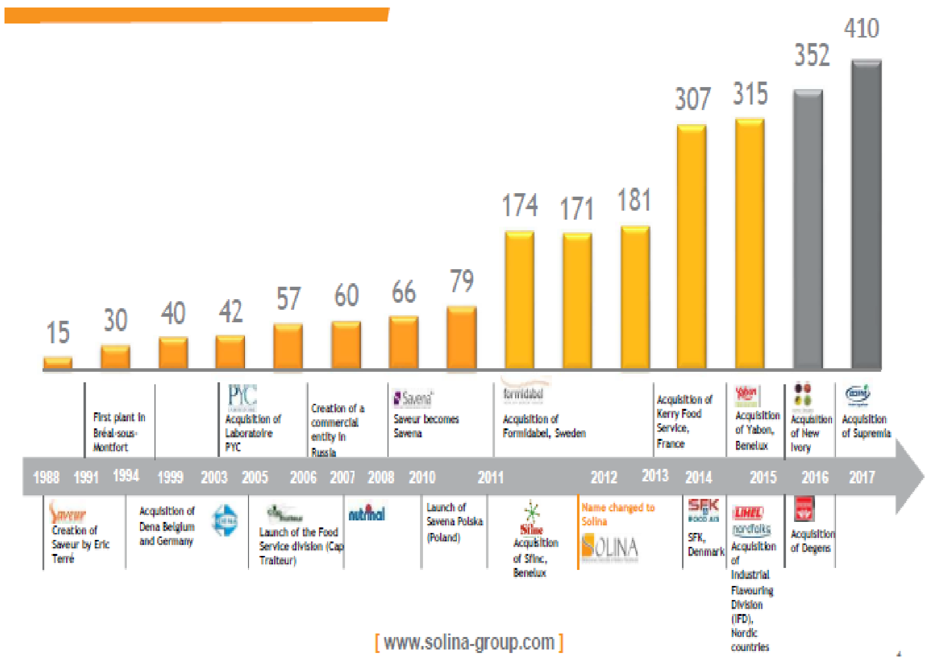

Fig. 3. The history of M&A of Solina Group
Source: the company's website

Fig. 4. Production sites of Solina Group
Source: the company's website

If we look at the profiles of the two companies, the resemblance is quite high, and the M&A process seems logical:

- Both companies are built by a local entrepreneur and have constant and healthy growth.
- The client portfolio is quite similar: B2B clients, big producers in the food industry but also small butcher or HoReCa businesses that are served while developing new distribution channels.
- The quality of the products is essential for both companies. Both are implementing strict certificates specific to the food industry.
- Innovation is essential, and the ***research and development*** activity is a core one. The biggest investments are in the research process and the innovation is guaranteeing long-term success.
- Modern technologies, technical equipment is important.
- In addition, by acquiring Supremia Grup, Solina - the leader in the West Europe market – can have a footprint in Eastern Europe. The geographies covered are complementary and the new company, resulting after the transformation, can be a success.

Therefore, to ensure the success of the organizational transformation, the Solina management decided to also address the subject of organizational culture. They decided to assess this complex system, unseen but very much felt that is the organizational culture. Both cultures are highly impacted by the personalities of their founders, the strategical fit is obvious. What about the cultural fit? A work task was created, consisting of 20 members from Solina Grup and 12 from Supremia, coordinated by the HR Department. The purpose of this project is to ensure the cultural synergies in a one-year time frame.

Specific objectives:

- Generating awareness of the strategic fit (target population: every employee in Solina Solina România and key persons in Solina Group);
- Awareness of organizational fit;
- Voluntarily involving Solina România managers in all communications related to the transformation;
- Eliminating those uncertainties, the employees felt regarding job security and future plans;
- Facilitating a smooth transition.

The expected results were as follows:

- The retention of key employees.
- Business and financial KPI.

The first step was to establish the organizational culture, using the Competing Values Model of Cameron and Quinn (1998).

In June – July 2017, the survey was conducted in 20% of the population of every entity, in order to see to what type of culture each organization belongs to. The results were to be used in the integration process, to ensure an effective transformation. The survey showed that in Solina Group the employees appreciate the flexibility and agility of the company. They like to constantly adjust, and they feel the organization has a Market culture but also an Adhocratic one. Solina România, on the other hand, is positioned in opposition, a *Clan*, *Hierarchic* culture.

The results of the survey were published to the managers of the two entities during a two-day event, organized on September 13th-14th, 2017. Workshops were held in small or larger teams were conducted to understand the common points and the main differences between the two companies. All processed, tools, and methods were shared and used in common, where the resemblance was allowing that. In addition, the gaps were identified, and an action plan was issued for the next 12 months.

Exactly one year later (in September 2018), the management teams analyzed the integration process, using Kaizen techniques, and assessed what went well, so it is subject to standardization. Also, the things not as expected were listed to be the subject of improvement.

Another survey was conducted – the key people involved in the transformation process shared their perceptions about integration, on a scale of 1 to 5. The results prove that the integration was a success:

Table 1. – KPI of the integration process in Solina Romania

Item	**Grade**
Retention of key employees	4.33
Strategical fit awareness	4.13
Involvement of the managers in communication during transformation	4.13
Eliminating incertitude	4.07
Facilitating the transition	4.00
Awareness of cultural fit	3.93
Harmonized strategies	3.80
Business KPI	3.67

Source: author's own processing based on information from Solina

Also, the KPI analysis confirms the integration was a success:

Social KPI:

- ✓ Voluntary employee turnover: 22% (in 2018 7% lower than 2017)
- ✓ Key employee turnover: 0%
- ✓ Absenteeism: 4.6% (1% lower than 2017)
- ✓ Engagement score: 85.1% (similar to the engagement score 2017 – 86.08%)
- ✓ The results of the survey conducted one year later show a satisfying degree o on the integration results of 82%.

- ✓ A positive indicator of the success of the transformation is a general atmosphere, the team spirit, and the trust level very noticeable in the organization. But the most powerful indicator is the way the management of Solina acted during the biggest crisis in the history of the company – the fire that destroyed the Aba Iulia plant- in the first 4 hours after the fire the decision to continue the Romanian business was taken. 12 hours later, the recovery action plan was issued. Between February and June 2019, the production was restored, and the clients were served. *We are more than connected, we are united, and this is how we will prevail*, the CEO of the Solina Grup declared.

Financial KPi:

- ✓ Turnover: 197,000,000 lei (2017) vs. 189,000,000 lei (2018)
- ✓ Profit: 9,000,000 lei (2017) vs. 20,000,000 lei (2018)

Conclusions

Beyond strategic fit, cultural fit is essential. How to benefit from the things they are having in common, while being totally different cultures, should be the constant focus of the management during the integration process. Working with the competing value framework, Solina and Supremia acknowledge the great cultural differences and the need to have a consistent integration plan. The integration plan was not owned only by the top management – everyone was involved. Cultural integration is a key, critical factor for the success of the merger and acquisition process. To examine the influence of organizational culture on the M&A process, our objective was to conduct similar research on 4 other food industry companies in Romania, combining qualitative and quantitative research on approximately 400 respondents. Eventually, summarizing the results of this research, we could suggest helpful interventions in an organization undergoing a merger and acquisition process. This way, businesses can limit the negative effect of the transformation processed and improve their chances of performance.

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