



How do Organizational Culture and Leadership Style Influence Employee Readiness in an Acquired Company?

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Abstract

Transformation in an organization can occur due to developments in technology, new rules, social aspects and the environment. The organization transformation process will push the organizational culture that exists to adjust with the occurring changes. One of the forms of transformation in a company is company acquisition which is done to enhance the company's ability to overcome business competitions that keep on developing. Company acquisition will affect the company's readiness in terms of both material resources and human resources that the company owns, which makes it necessary to analyze the employees' readiness in overcoming changes after acquisition as well as the role of leadership in motivating the employees in reaching the company's performance. This research's purpose is to analyze the organizational culture transformation process in an insurance company in Indonesia that experiences an acquisition done by a governmental company. Individual readiness character identification in overcoming changes can help organizations in developing and implementing more effective changes. Professional organizational development in business is an initiation in changes intervention to create improvements in the organization's performance. Organizational changes run effectively in a long term only if the members of the organization are ready to change.

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The data collection method was done by distributing questionnaires to the employees of the insurance company who have been working there since before the company was acquired. The number of respondents who have filled the questionnaires are 208 people from all the work units in one of the insurance companies in Indonesia. The data processing was done descriptively for the respondents' characteristics analysis and the organizational culture's profile, leadership style and the readiness to change in the company after acquisition. The relationship among the variables was analyzed using Structural Equation Model (SEM). The research results show that the dominant organizational culture before and after acquisition is the Communal culture. This means that the employees in the company have had high level of sociability and solidarity. The employees have had strong emotional bonds with each other and a high level of understanding in terms of their work tasks in order to reach the determined targets. On the other side, the dominant leadership style is the task-oriented. The employees' readiness dimension that is shown is the participating dimension. The relationship among the research variables shows that the organizational culture before acquisition does not give significant effects on the leadership style and the readiness to change. On the other side, the organizational culture after acquisition gives significant effects on the leadership style and the employees' readiness to change. The leadership style gives significant changes on the employees' readiness to change.

Keywords: communal culture; participating; task-oriented; transformation.

1. Introduction

Generally, companies face different challenges in organizational transformations. Companies do acquisitions in order to expand their business activities. The purpose is to enhance the competitiveness through the process of acquisition. Acquisition processes often turn into complicated problems and fail to reach the intended purposes [1]. Various studies show that organizational culture transformation can enhance the performance significantly when compared to organizations that do not do transformations [2]. The alteration process in every organization is unique in every situation in accordance with the organization's characteristics, business characteristics, work culture and values, management, leadership type, attitudes and employees' behaviors. The risk of failure that is bigger that is generally experienced is employees' resistance to change [3].

Some of the roles of organizational culture are as the boundary in an organization, to provide the organization's identity, to strengthen the employees; commitment, as the action referrer, and as the organizer in the organizational life [4]. Organizational culture consists of four types based on the sociability and solidarity relationships which are Fragmented, Mercenary, Networked and Communal [5]. There is a strong relation between corporate culture and performance. Corporate culture brings significant effects on economical performance in a long term. A culture that displays a deteriorating performance causes a negative financial performance [6].

Employees' readiness to change is influenced by three factors at the workplace which are management or leadership, knowledge and working skills, and work demands. Researches show that those three factors influence employees' readiness to change. The employees' relationship with their leader is the strongest indicator in the readiness to change [7]. There are three dimensions that form leadership style which are task-

oriented, relations-oriented and change-oriented [8]. Employees' readiness to change is interpreted as the mental and physical readiness to react quickly, improve differently or perform a certain modification. Characteristics identification of the readiness to change can help develop the organization in determining and applying changes interventions that are more effective [9]. If the influencing factors can be identified as those that have positive impacts on the readiness to change, then the leader must focus on the development of those factors as attempts to make the employees ready to face irresistible changes [10]. Vakola [11] in his research uses characteristic individual variable and core-self evaluation on the readiness to change. Employees who are certain about their abilities have a high level of readiness to change. Atmosphere of trust and positive communication bring positive impacts on individuals' readiness to change. There is a tendency in employees' minds that is uncertain and afraid to lose their jobs after the acquisition and limits their work because they feel threatened by people from outside the organization. In order to minimize this, it is necessary to have a good communication among fellow employees so that they stay stable and remain [12].

Several researches show that acquisition influences organizational culture and organizational commitment [7, 13, 14]. This research will analyze the transformation of organizational culture due to company acquisition as well as the influence of organizational culture and leadership style on the readiness of the employees of a commercial insurance company that is well-known in Indonesia. This research is focused on the organizational culture and leadership style typology theoretical aspect on the employees' readiness to change using the descriptive method.

2. Research Methodology

2.1 Type and Data Resources

The types of data that were used are primary data and secondary data. The primary data was obtained through survey which was done by distributing questionnaires online and interviewing the company's management. They type of scale that was used in the questionnaires is the likert scale with 5 categories which are; (1) strongly disagree, (2) disagree, (3) uncertain, (4) agree and (5) strongly agree. The secondary data was obtained from the company's internal data which has been processed as well as published data from literature, journals, websites which were used as information resources.

2.2 Data Collection Method

The samples in this research are employees who fulfill the research criteria. These research samples are the employees of the insurance company who had been working there before the acquisition occurred which consist of staff members and those in the managerial level. The sample collection technique that was used is the non-probability sampling. The determination of samples was done using purposive sampling which is based on certain criteria that are in accordance with the research's purposes. The number of respondents who have filled the questionnaires is 208 people from all the work units of the company which consists of everyone from the staff level to the managerial level.

2.3 Research Model

The frame of mind in this research uses latent variables and indicators as well as models of latent causal construct relationship. Some of the hypotheses in this research are:

H1: There are differences between organizational culture before acquisition and after acquisition

H2: Organizational culture before acquisition brings positive impacts on the readiness to change

H3: Organizational culture before acquisition brings positive impacts on leadership style

H4: Organizational culture after acquisition brings positive impacts on leadership style

H5: Organizational culture after acquisition brings positive impacts on the readiness to change

H6: Leadership style brings positive impacts on the readiness to change

The model framework of the research is shown in Figure 1 to analyze the relationship of organizational culture and leadership style and employees' readiness to change

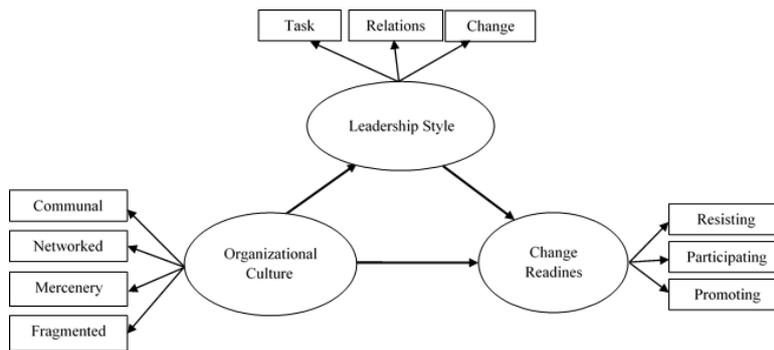


Figure 1: Research Framework

2.4 Data Analysis

Descriptive analysis was maximized in order to turn a set of raw data into more concise information so that it could be easier to understand. The first step is doing tabulation of data regarding respondents' characteristics. The next one is interpreting the data resulted by the tabulation.

2.4.1 Structural Equation Model (SEM)

Evaluation on the data's level of compatibility using the SEM model was done with three stages which are [15, 16]

1. Overall model fit

This compatibility test is meant to generally evaluate the compatibility degree or Goodness of Fit (GFI) between

the data and the model.

2. Measurement model fit

After the compatibility between the model and the data is deemed to be generally good, the next stage is evaluating or testing the measurement model fit which was done on every construct or measurement model. This means the relation between the latent variables and several variables were observed or indicator.

3. Structural model fit

This evaluation covers an examination on the significance of the observed coefficients.

Structural Equation Model is a multivariate statistics analysis tool. SEM is a combination of factor analysis and path analysis that is developed into a complete statistics methodology. There are five stages in SEM analysis which are model specification, identification, estimation, model compatibility testing and respecification. Model specification shows the initial model submitted by the researcher before being estimated. Identification shows whether it is possible to find a unique value, a single solution for the parameter that is specified or not. The determination of the estimation method depends on the data variable distribution. The next thing to be done is testing the model's consistency with the data [17].

3. Results and Discussion

3.1 Organizational Culture Profile

In Table 1, the average values of organizational culture for the four organizational culture dimensions based on the questionnaire filling are presented.

Table 1: Organizational culture variable value

Culture Dimension	Acquisition	Average	Standard Deviation
<i>Fragmented</i>	Before	2.54	0.4965
	After	2.56	0.5764
<i>Mercenary</i>	Before	3.50	0.4244
	After	3.61	0.4913
<i>Networked</i>	Before	3.90	0.5058
	After	3.86	0.6414
<i>Communal</i>	Before	4.00*	0.5560
	After	3.91*	0.7187

Note: Significance sign test if the p-value < 0.05

Based on the average values of organizational culture before and after acquisition, the organizational culture dimension before acquisition is communal culture with the score of 4.00. After the acquisition process, the dominant organizational culture remains the same, which is communal culture with the score of 3.91. The results of organizational variable difference test using t test with the trust level of 95% is known from organizational culture's t-count for the four organizational culture dimensions have lower score compared to t-table (1.972). Hence, it can be concluded that there is no real difference regarding the organizational culture after the company acquisition occurred. The results of the organizational culture average value show that the existing organizational culture has already been on a high sociability and solidarity level in the company.

After acquisition, the organizational culture value experienced deterioration in two culture types where the communal culture decreased for as much as 0.083, and the networked culture decreased for as much as 0.039. This shows that changes that occur in the company do not affect the company's cultural shift. The result of the sign test obtained from the research is 0.888. Hence, it can be concluded that H0 received which means that there is no difference in terms of organizational culture before and after acquisition.

Communal culture shows that the employees of the company have close friendships and high level of understanding in terms of their respective tasks and responsibilities in their jobs. Even though there are changes in the organization, the sociability and solidarity level among the employees which have been formed are not affected.

The results of this research are different from a research done by Rashid [3] regarding the influence of organizational culture on employees' readiness to change. The dominant organizational culture is mercenary, which is high level of solidarity with low level of sociability.

3.2 Leadership Style

The average values of leadership style are presented in Table 2 for each leadership style variable dimension.

Table 2: Leadership style variable average values

Leadership Style	Average	Standard Deviation
<i>Task oriented</i>	3.90	0.6927
<i>People oriented</i>	3.78	0.6885
<i>Change oriented</i>	3.61	0.6880

Based on the leadership style variable average values, the leadership style that is task-oriented becomes the most dominant dimension when compared to the other leadership styles. This shows that the applied leadership style focuses on the implementation of tasks on employees. As a company that provides health insurance services, good relationship orientation whether it is internal or external is a main need as the level of services provided to customers is the main goal.

The leadership style applied by superiors to their subordinates in the place of study focuses on the tasks and responsibilities. If the leadership style that focuses on relationships is low, it will affect the subordinates' emotional level and make the superiors have low sensitivity in terms of the need of support to help the subordinates develop. The results of this research is in accordance with a research done by Ajie [18], which is that the task-oriented variable is a dimension that is dominant on leadership style in a services company.

3.3 Employees' Readiness to Change

The average values of the variable of the readiness to change are presented in Table 3 for each dimension of the variable of the readiness to change.

Table 3 The average values of the variable of the readiness to change

Readiness to Change	Average	Standard Deviation
<i>Resisting</i>	2.38	0.5773
<i>Participating</i>	4.11	0.5236
<i>Promoting</i>	3.99	0.5845

Based on the average values of the variable of readiness to change, it was obtained that the highest average value is the participating dimension. This shows that the changes in the company have readiness with positive dimensions on the changes. This means that there is a tendency from the employees in a form of support for changes and showing employees' involvement in accepting the changes that occurred and low resistance level. The profile of the readiness to change on changes is in accordance with a research done by Suwaryo [13] with a dominant value on the participating variable.

3.4 Measurement Evaluation Model

3.4.1 Overall Model Fit

The compatibility test for the whole model is shown in Table 4. With GFI fitness criterion for each has to be at least in the Marginal Fit category.

The RMSEA criterion results the score of $0.057 \leq 0.08$ which means the model created is good (good fit). The use of the other goodness of fit criteria which are GFI, AGFI, CFI, NFI, NNFI, IFI and RFI results scores that are > 0.90 which means the model created is good (good fit). The same thing applies for the other goodness of fit measurement criterion which is RMR which results the score that ≤ 0.1 , which means the model is good (good fit). Because the conclusion results of several criteria create a goodness-of-fit model conclusion then theory hypothesis test can be done.

Table 4: Results of compatibility criteria

<i>Goodness-of-Fit</i>	<i>Cut-off-Value</i>	Result	Note
RMR (<i>Root Mean Square Residual</i>)	$\leq 0,05$ atau $\leq 0,1$	0.030	<i>Good Fit</i>
RMSEA (<i>Root Mean square Error of Approximation</i>)	$\leq 0,08$	0.057	<i>Good Fit</i>
GFI (<i>Goodness of Fit</i>)	$\geq 0,90$	0.93	<i>Good Fit</i>
AGFI (<i>Adjusted Goodness of Fit Index</i>)	$\geq 0,90$	0.89	<i>Marginal Fit</i>
CFI (<i>Comparative Fit Index</i>)	$\geq 0,90$	0.98	<i>Good Fit</i>
NFI (<i>Normed Fit Index</i>)	$\geq 0,90$	0.96	<i>Good Fit</i>
NNFI (<i>Non-Normed Fit Index</i>)	$\geq 0,90$	0.98	<i>Good Fit</i>
IFI (<i>Incremental Fit Index</i>)	$\geq 0,90$	0.98	<i>Good Fit</i>
RFI (<i>Relative Fit Index</i>)	$\geq 0,90$	0.95	<i>Good Fit</i>

3.4.2 Measurement Model Fit

The second stage is measurement model fit validity test which is presented in Figure 2 by testing the estimation score of loading factor before company acquisition.

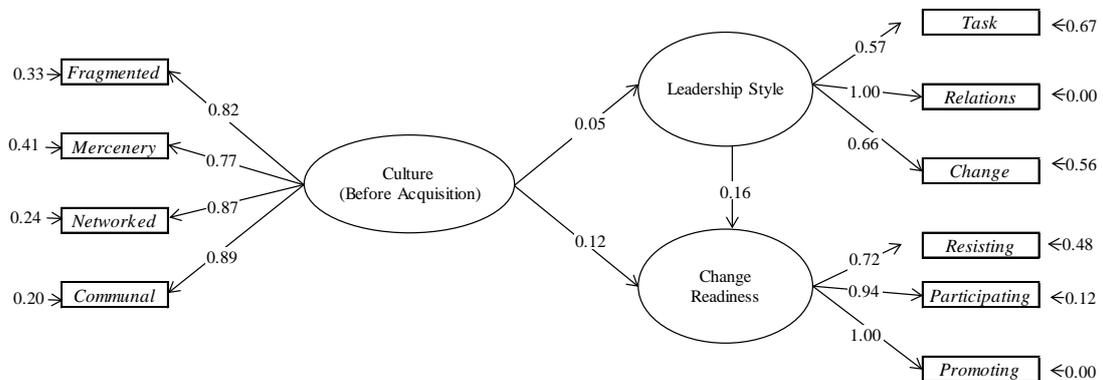


Figure 2: Estimation score of standard loading factor (SLF) before acquisition

An indicator variable is deemed to be valid when it has a standardized loading factor (SLF) score that is above the tolerated loading factor which is ≥ 0.50 and has a t-value score that is above 1.96 [19]. The estimation result of loading factor before company acquisition is above 0.50, so it brings significant impacts. The SLF score after acquisition process is presented in Figure 3. Based on the SLF score that is above 0.50, then the estimation result of loading factor after acquisition brings significant impacts. The criterion for this research’s measurement model fit is having a SLF score that is above the loading factor threshold score that is tolerable which is ≥ 0.50 , then the research indicator variable is valid.

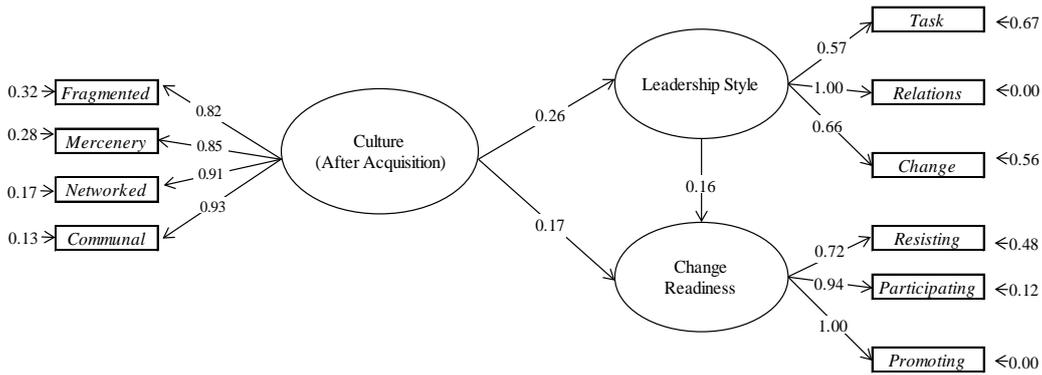


Figure 3: Estimation score of standard loading factor (SLF) after acquisition

3.4.3 Structural Model Fit

Structural model evaluation was done using t test with the standard minimum t table of 1.96. The t count test results of this research before acquisition are shown in Figure 4.

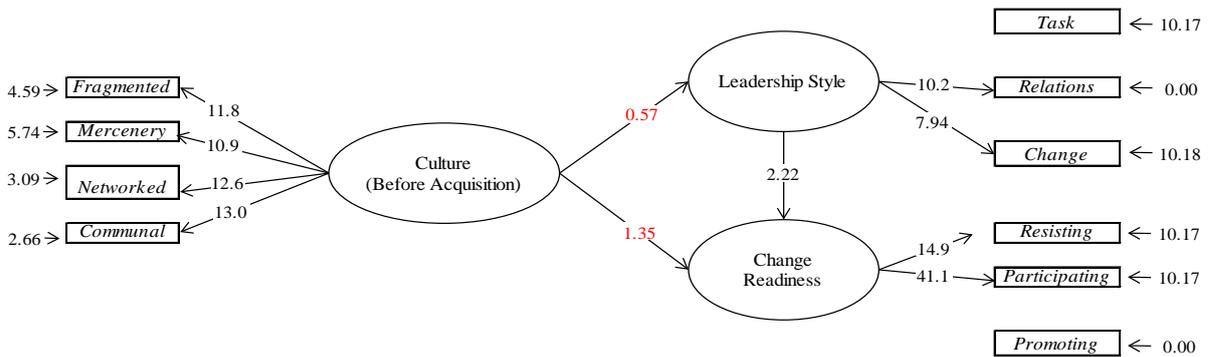


Figure 4: Structural model t-test score before acquisition

Based on Figure 4 it is found that organizational culture variable before acquisition has the t test score of 0.57 on the leadership style variable. This means the organizational culture before acquisition does not affect the leadership style. The same thing happens with the organizational culture before acquisition on the readiness to change which has a t test score of 1.35, which means it does not affect the readiness to change.

The t test scores of the research variables after acquisition are presented in Figure 5. The variable of organizational culture after acquisition has the t test score of 2.87 on the leadership style and 2.01 on the readiness to change. Hence, the variable of organizational culture after acquisition has significant impacts on employees' readiness to change. The t test score for leadership style is 2.22, so it has significant impacts on the readiness to change.

The hypothesis test results show that the culture after acquisition influences the leadership style and the readiness to change, this can be seen in the [t-count] score that is higher than 1.96. The positive sign on the

culture's path coefficient after acquisition influences the leadership style and the readiness to change. This shows that the higher the culture after acquisition is, the higher the leadership style and the readiness to change will be. Leadership style influences the readiness to change, which can be seen in the [t-count] score that is higher than 1.96. when the leadership style increases, the readiness to change will increase.

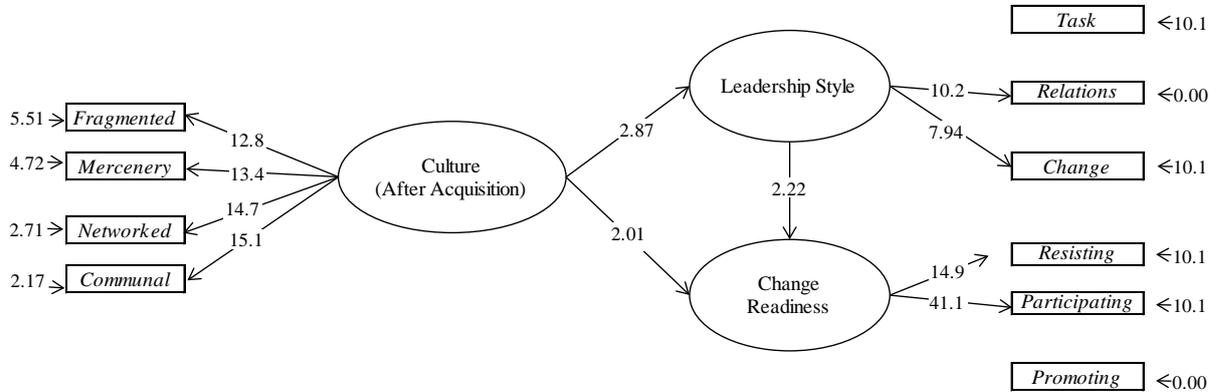


Figure 5: Structural model t test score after acquisition

Before acquisition occurred, organizational culture did not bring significant impacts on leadership style and readiness to change. After acquisition, the company's culture brought significant impacts on leadership style and readiness to change. The company's acquisition process caused changes in the top management positions, changes in terms of employees' performance targets and adjustments of work patterns for the company that performed acquisition. The communal organizational culture that had been formed shows that the bond among the employees is quite high and the understanding about task completion is good, which is supported by directions from the company's leaders. The employees' solidarity level on the task completion influences the applied leadership style which is the task-oriented one. This is because the company's target experienced an increase after acquisition. The sociability and solidarity level that pushes leadership pattern on tasks pushes the employees to be ready to face the occurring changes. The employees' level of readiness to change is participating which means employees have positive attitudes about changes. This means that the employees support the changes that happen in order to reach the company's visions.

4. Conclusions and Recommendations

The company that experienced acquisition has the communal culture in the company before and after the acquisition which shows high level of sociability and solidarity. The changes that occurred in the company only shifted the value of the communal culture which deteriorated but did not have any real difference compared to the situation before the acquisition. The organizational culture before the acquisition does not have significant impacts on the leadership style while the organizational culture after the acquisition brings significant impacts on the leadership style. The organizational culture before the acquisition does not have significant impacts on the readiness to change while the organizational culture after the acquisition brings significant impacts on the employees' readiness to change. The dominant leadership style is the task-oriented culture. Leadership style has significant impacts on the employees' readiness to change. The employees' readiness to change that is dominant

is the participating one, which is where the employees have given positive support for the changes that occur due to the acquisition.

It is suggested for the company to perform audit on the organizational culture that has been performed in the company in relation to the values that are applied by the employees. Besides that, the company can also develop the leadership in order to enhance the employees' readiness to face both internal and external changes.

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