Leadership Challenges When Companies Merge

By Andy J. Yap , INSEAD

Lessons from an Indonesian telco merger success: When organisations merge, people must come together.

Mergers have become the norm in the telco sector recently. Far EasTone and Asia Pacific Telecom in Taiwan in 2022, True and DTAC in Thailand, as well as Celcom and Digi in Malaysia both in 2023. These represent a global shift towards an **era of two-three players** in each market, especially in Asia.

Increased competition, the pressure for infrastructure investments and digital transformation are all driving this trend. Mergers promise extra capital, potential cost savings and the continued growth of digital consumer services.

Merger misgivings

Yet the track record of mergers is patchy, with **studies estimating** a failure rate of between 70 to 90 percent. The telco sector is no exception. From **Sprint and Nextel** in the US to the ill-fated union between **Vodafone and**

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Idea in India, there are plenty of examples where mergers haven't gone to plan.

This reality probably explains the scepticism that followed news of a planned merger between Indonesia telcos Indosat Ooredoo (IO) and Hutchison Tri Indonesia. Such was the pessimism that American credit rating agency Fitch placed Indosat on **negative watch** when the plans were announced in 2021.

There were reasons for these doubts. Typical post-merger issues include differences in organisational culture and operational structures, insufficient network integration, and a tendency to prioritise cost savings over consumer experience. All these factors were evident in this specific case.

Yet results since the official merger in January 2022 seem promising. Not only did revenues of the newly formed Indosat Ooredoo Hutchison (IOH) grow by 49 percent, subscribers increased by six million in the first-year post-merger. And it did so while increasing employee satisfaction. How did IOH manage to buck the trend for failure and what learnings can its experience offer?

From my observations, it seems the key for successful mergers is a focus on leadership challenges. Organisations do not just merge names – when organisations combine, people must also come together. Here are some leadership lessons from the IOH experience.

Addressing issues of trust

One major challenge with any merger is how to successfully integrate different individuals and teams who may never have met, let alone worked together before. In fact, in this case many new colleagues had recently been direct competitors. The need to align different working cultures further increased the complexity for IOH.

IO was the latest iteration of a long-standing, well-respected Indonesian corporation whose roots could be traced back to the 1960s. PT Hutchinson was less than 20 years old and had a relatively contemporary business

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structure. Assimilating the two entities wasn't just a case of people getting to understand different ways of working. The new senior management team of IOH had to develop a level of trust in their new colleagues.

For the merger to be a success, the firm needed individuals to play their part in implementing the post-merger strategy. Drawing upon existing **research on trust**, the course I teach on **executive presence and influence** highlights that people judge the trustworthiness of others based on three dimensions:

1) Ability-based trust: Do I trust you are competent and can get things done at work?
2) Benevolence-based trust: Do you have good intentions towards me? Are we on the same side?
3) Integrity-based trust: Do you adhere to a set of values and principles that I find acceptable?

Learning how to trust

At IOH, a lot of time and resources were spent building trust among C-Suite members. This involved intensive training sessions and workshops conducted by external partners. Employees not only got to experience working together, but also learning together. This allowed employees to better understand one another's abilities and help each other sharpen their skills. Teams that learn together stick together, and these initiatives helped foster ability-based and benevolence-based trust.

Fostering benevolence-based trust can be even more challenging if one organisation involved in the merger is seen as acquiring a smaller firm, yet both teams view themselves to be of equal standing. This was a sensitive dynamic that needed to be managed. If not, a detrimental organisational phenomenon known as **upward status disagreement (USD)**, where individuals disagree about who has a higher status in an organisation, might occur. USD is the precursor to status conflict, which undermines organisational performance and collaboration.

Interestingly, one of the stipulations from shareholders was that the C-Suite needed to incorporate executives from both organisations equally. Consistent with my **research**, this might have helped alleviate USD and

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ensured that the status hierarchy at IOH remains stable and fair.

A people-centric approach

Developing trust among employees beyond the C-Suite also presented challenges. In pre-merger surveys, 45.4 percent of staff listed their employment status as a leading concern, while 49.4 percent identified post-merger organisation as a worry. Both were valid fears, as mergers typically result in major streamlining and restructuring.

With the concerns of employees identified as a major obstacle to success, the human resources teams from both IO and Hutchinson began sharing knowledge eight months before any official ratification was signed. The teams entered into a gentleman's agreement to share details of processes and structures with the understanding that any shared information would not be used for competitive advantage if the deal did not proceed.

Management continued to focus on the people agenda post-merger. In the first year, there were no less than 72 Board meetings focused on organisational and people mapping. A dedicated training programme for teams to undertake joint activities allowed them to learn about each other, while bringing them together under a new common purpose as one entity.

Fostering integrity, trust and fairness

As with **most mergers**, redundancies were a reality. In total there was a 15 percent reduction in staff numbers in the first year. The challenge was how to be transparent about the decision-making process. Accusations of favouritism towards one set of employees over another can be extremely damaging and impact the morale of those who remain at the new firm.

Indeed, the first complaints of bias arose within a few days of the merger's completion. Although there was no foundation in the claims, senior management knew they needed to take them seriously. "It was important to work with the idea that perception is the reality," explained CEO of IOH, Vikram Sinha. "You have to take the noises seriously, as if they are factual."

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IOH therefore developed an objective approach to the restructuring process. The messaging was clear: it was all about finding the right people for the right roles in the new organisational structure, regardless of any legacy. This saw them embracing data analytics, combining multiple data points to inform the needs of the company now and in the future.

To further remove accusations of bias, IOH brought in independent and credible third-party consultants to conduct staff assessments and formal reviews. At the end of this process, 800 people, including 40 in leadership positions, were made redundant. Yet due to the transparent and objective approach, there was 100 percent acceptance on the first day. Even if you can never please everyone when redundancies need to be made, the procedures and processes can be fair – in that they are transparent and consistently applied to all employees.

Communicating a unified vision

A lack of clarity (and unity) over the organisation's aims and direction post-merger can also lead to problems. For IOH, the decision for both firms to continue operating under their respective brands added a further level of complication. There was a potential for conflicts of interests when making day-to-day business decisions that benefited one company at the expense of the other.

It was therefore essential to develop a clear vision for the post-merger firm. With this in mind, a Guiding Principles project team was set up in May 2021 to ensure this vision was ready to roll out once the merger was ratified. These six guiding principles offered a clear framework to help leaders in their decision-making process.

With time needed for these principles to trickle down in such a large organisation, it was vital that leaders felt empowered by the guiding principles. In the words of CEO Sinha, they could provide them with a "mantra to make decisions without supervision and committees. The top team needed to be solid and invested."

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This objective was addressed from day one post-merger at a luncheon for the C-Suite to ensure collective agreement and shared ownership of the principles. The next day, there were meetings with the top 100 executives to ensure their buy-in. Then over the first 30 days, key members of the C-Suite travelled across Indonesia to conduct multiple town halls with all relevant employees, distributors and stakeholders from both companies. Indeed, leaders can never under-communicate in a merger. Rule number one: communicate, communicate, communicate.

This vision was clearly and carefully imbued in all aspects of the organisation. Even the new logo was designed to place Indosat as overarching and dominant while equally connected to both Oredoo and Hutchinson. The key message was constantly reinforced: the merger was not just going to be good for an individual company but good for all Indonesians.

Mergers and acquisitions are an uncertain business and evidence shows they are fraught with pitfalls. The IOH example can offer useful pointers for firms entering a merger. It has shown that rigorous planning to manage the issue of trust, a clear vision and impactful communication can help mitigate the challenges that arise in the process.

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About the author(s)

Andy J. Yap is an Associate Professor of Organisational Behaviour and the Academic Director of the Centre for Organisational Research at INSEAD.

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