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Barriers to cultural and organizational integration in international holding groups – nature, scope and remedial measures

1. Introduction

Efficient management of economic entities functioning in a holding setting[1] is a difficult task, due to the organizational complexity, intricate internal relations of capital and financial nature, as well as wide and often diverse scope of economic profiles of companies that constitute a holding group. Holding management tasks are further aggravated when the group functions as a supranational entity, when such factors as multicultural collision and complicated organizational structure come into play. Such factors generate strong barriers that tend to obstruct social, cultural and organizational integration within a holding, which is, after all, one of the key components of holding efficiency in business. It must be noted that professional literature defines multicultural organizations (including holding groups) as entities that managed to reach a sufficiently high level of diversity that allows them to make the most of the resulting benefits, while certain problems raised by multicultural diversity as such can be easily overcome [D'Souza 1991, pp. 22–30]. However, the latter argument is disputable in the light of a number of recent studies, which suggest that obstacles to internal integration in multicultural organizations do exist, and are typically related to cultural differences between constituent organizations located in different

[1] A holding group, often identified with a capital group, is defined as a multi-party group of companies devoid of legal entity (as opposed to legal status of its constituent companies), but possessing economic and organizational identity. Based on such distinction, a holding group may be regarded as a single entity of unified decision-making and functional attributes, with parent (superior) company wielding the power to affect and control any and all constituent (subordinate) companies on the power of regulations stated in a holding group agreement.

countries or continents [Trompenaars, Hampden-Turner 2002, pp. 215–249]. This applies also to companies grouped under a single international holding that cater for business needs of the same cultural setting (e.g. Europe), but are otherwise diversified in relation to their respective organizational cultures.

This paper aims to identify the scope, nature and effects of the most important barriers that affect cultural and organizational integration in multinational holdings, as well as to postulate methods for overcoming such barriers.

The epistemological fundament of the reasoning presented in this paper is construed on the basis of the author's studies of professional literature on the subject, as well as his own observations of operational practices of large multinational corporations operating in the economic sphere[2].

2. The most important barriers to cultural and organizational integration in multinational holdings – their scope, nature and effects

Internal integration of a holding is meant here as the strength of internal ties as the product of 'centripetal' and 'centrifugal' forces constituting its cohesion and organizational functioning [Sułkowski 2002, p. 37].

The level and range of internal integration in a holding should be examined in accordance with such factors as: the type (dimension) of such integration – i.e. economic, organizational, productive and social (including cultural), the holding management model that defines the position of superior (dominant) company and the autonomy level of subordinate (dependant) companies, the number and size of entities that constitute the holding, territorial dispersion (national vs. international), and character of its economic activities. The postulate of combining socio-cultural integration with that of systemic-procedural nature, as formulated by S. Cartwright and C.L. Cooper for corporations that take over or incorporate other companies within their own organizational structure may effectively be extended to cover all types of holding groups [Cartwright, Cooper 2001, pp. 107–115].

To obtain the effect of synergy within the framework of multi-party economic groups, it is necessary to ensure certain level of integration in relation to people and tasks involved. Limiting the integration to tasks only – with the neglect of socio-cultural problems – may hamper the process of internal integration, due, among other things, to such factors as an employee's resistance, inefficient internal communication, cultural dissonance resulting from inadequate use of motivational and integrative functions of organizational culture, the low level of involvement on the part of company employees and managerial staff in professional matters, as well as from insufficient work motivation. People-

[2] As made in the course of own studies carried in the years 2004–2008 on social and organizational problems of 10 large companies of Wrocław and Jelenia Góra region, which were subject to recent mergers and acquisitions.

oriented approach, on the other hand, does not offer the benefits of synergy. Thus, it seems that the proper strategy should incorporate both approaches on the strategic and organizational level.

On the strategic level, internal integration may involve e.g. joint personnel strategy for all constituent companies and careful distribution of positions in supervisory boards, or even boards of directors of subordinate companies, manned by board members or other key management personnel of the supervising company (the so-called personal union).

On the operational level, internal integration of the holding group may be obtained using such methods as: the rotation of specialists between constituent companies, forming multi-party task forces to address joint projects, the provision of joint training programs or homogenization of tools and instruments, such as operating systems and human resource management techniques.

It must be stressed here that perfect unification and harmonization of all constituents of a holding group (or any other type of highly complex organization) is not viable. One may only aim for a certain minimal level of internal integration necessary to provide basic functioning of the group as a whole and to enable efficient management of the group. Moreover, the level of such integration may change with time. It is hard to forecast the level of integration in the long run, due to the highly complex nature of contemporary business environment, with no practical method for precise predicting external changes. Those changes result, among others, from globalization and virtualization of economic processes, including such unforeseeable factors as mergers and acquisitions that may significantly impact the existing organizational structure of a holding group, together with sudden shifts of power structure of the group [Zając 2006, Ch. 3].

One of the elements that help the holding group ‘read’ properly its complex relations with the external environment, especially on international level, is making use of its intellectual capital and proper application of its knowledge about the management system. These two factors provide suitable background for ‘organizational learning’. The development of organizational learning helps improve management processes and operation in the rapidly changing environment and in the conditions of high uncertainty [Senge 1998, Ch. 2].

Within the confines of the subject matter and for reasons of space, further discussion will be limited to social (cultural) integration as well as organizational integration within the holding groups functioning on international scale, in the context of barriers that hamper or obstruct such integration in practice.

2.1. Barriers to cultural integration

Barriers to cultural integration are the result of multicultural aspects of a holding group operation, perceived both on the level of national cultures (this applies especially to global-scale holding groups) and the level of organizational cultures involved. These may significantly hinder the processes of strategic and operational management of the group as a whole. The most important barriers of cultural dimension include, in this author's opinion, the following:

– 'cultural shock', as a result of considerable cultural diversity of companies constituting a holding group;
– 'cultural maladjustment' on the part of board members of dependent companies, 'delegated' by parent company to subsidiary companies;
– 'dualism of power', seen here as a specific form of polyarchy properly, as it refers to board members of subsidiary companies;
– management style differences between companies constituting the holding group.

The first of the above barriers is evident in holding groups that incorporate companies of diverse cultural environments (on continental, national or regional level). International holding groups typically represent all the above levels of cultural diversity. Consequently, they may display marked differences in respect to the cultural identity and value systems. If any such differences are pronounced, they may lead to 'cultural shock' that affects the way the employees and managers of diverse companies perceive the organizational reality of the group. The main source of 'cultural shock' in a holding group is thus the clash of diverse organizational cultures, strongly affected by national cultures of the respective countries of origin [Fukuyama 2001, p. 14]. Processes of globalization and cultural unification, characteristic of the modern macro-surrounding of contemporary business organizations, may be seen here as 'absorbers' of such cultural clashes [Sikorski 1998, pp. 8–71].

From the viewpoint of economic effectiveness, it seems important to preserve a certain degree of cultural differences, as long as they contribute to the effective management of human resources of the group and as long as they pose no cultural barriers to the realization of the group's principal goals and tasks [Schweiger, Walsh 1990, pp. 143–145].

Sustenance of deep cultural differences in the long run may lead to another important barrier that hampers integration within multinational holding groups, resulting from 'cultural maladjustment' of board members delegated by a parent company to subordinate companies. If the fundamental dimensions of values represented by such personnel collide with those present to date in a subordinate company, delegated personnel may find it extremely hard to find 'common grounds' with managers of the subordinate company in question. In an extreme approach, it may be observed that the clash between hierarchical vs. egalitarian, individualistic vs. collective, or high vs. low risk avoidance attitudes may lead to misunderstanding or even serious conflicts on top management levels. Thus, the anticipated effects of the personal union may prove limited or even unattainable.

The limited autonomy of subordinate companies, resulting from high level of centralization within a holding group, is usually accompanied by 'dualism of power'. This phenomenon may be perceived as a specific form of polyarchy in respect to board members of such companies, forced to seek compromise between interests of the parent company and those of the subordinate company they are part of. This may result in strong 'corporate diplomacy' and self-advertisement tendencies at the cost of limited endeavor to reach business goals and tasks, limited contact with own employees and neglect for personal development.

Large economic entities display a variety of management styles. Such diversity, in case of international holding groups, is relatively high, due to the size of their organizational structure, multitude of management posts, as well as the aforementioned cultural diversity of their constituents, territorially dispersed entities. The 'organizational confrontation' of an employee participation (democratic style) with autocratic styles or any combination of the two approaches has a strong negative effect on 'soft' management sphere of the holding group as a whole and may seriously affect the focus on principal goals and tasks.

2.2. Barriers to organizational integration

The most important barriers to organizational integration within international holding groups are:

- inconsistent organizational standards and disparate management practices in companies constituting a holding group;
- incoherent operational management systems and different approaches to human resource management within the group;
- lack of integrated IT strategic management systems;
- prolonged information and decision-making processes, resulting from multi-instance and organizational complexity of a holding group, as well as territorial dispersion of its constituent companies.

The former three factors may in practice pose serious problems in respect to organizational integration within an international holding group. Negative effects of these three factors are displayed in high cost of management due to relatively low level of standardization on strategic, operational and instrumental level across the group, with resulting amplification of the negative effect of the latter barrier to integration mentioned above. It is admittedly difficult to establish a reliable threshold for optimal standardization level, but the holding group administration should, nonetheless, strive to obtain a certain degree of unification in respect to management processes across the group, making good use of modern IT and telecommunication instruments available. Such an approach contributes to the improvement of exchange of information and decision-making processes, both in terms of time needed and their methodological rationality, which, in turn, leads to more informed business decisions reflected in the overall efficiency of the group's regulatory sphere. Detailed suggestions for eliminating or weakening of the above barriers are presented in the following chapter of the study.

3. Suggestions for overcoming barriers to cultural and organizational integration within international holding groups

Elimination, or rather limiting, of barriers discussed earlier in this paper, is not an easy task, due to the highly complex nature of economic, structural, organizational, social and cultural aspects of an international holding group's functioning. Limited financial outlay, no tradition, low competence of managerial staff in addressing these aspects, social resistance resulting from frequent restructuring attempts, weak communication within organization – these and other factors also strongly impact the integration process. Some suggestions for limiting barriers to internal integration within a holding group are presented in Tab. 1 below.

Table 1. Barriers to integration within international holding groups and suggested methods of limiting their impact

No.	Type of barrier	Suggestion for limiting the impact
I.	Barriers to cultural integration: 1. 'Cultural shock' as a consequence of strong cultural diversity of companies constituting a holding group;	Cultural transformation, respecting cultural values and customs of a target country.
	2. 'Cultural maladjustment' of board members delegated by a parent company to subsidiaries;	Management through values, systems for monitoring social feelings of the target company.
	3. 'Dualism of power', seen as a specific form of polyarchy, as it refers to board members of subsidiary companies;	Efficient systems of communication within the organization as a whole.
	4. Management style differences between companies constituting the holding group.	Management through goals as a basis for work appraisal of the management personnel and employees

II.	Barriers to organizational integration: 1. Inconsistent organizational standards and disparate management practices in companies constituting a holding group;	Standardization of procedures and instruments of management across the holding group;
	2. Incoherent operational management systems and different approaches to human resource management within the group;	Unification of operational management systems and personnel instruments used across the holding group;
	3. Lack of integrated IT strategic management systems;	Introduction of integrated IT solutions for strategic and operational management across the group;
	4. prolonged information and decision-making processes, resulting from multi-instance and organizational complexity of a holding group, as well as the territorial dispersion of its constituent companies.	The use of modern IT and telecommunication tools for database management, internal communication between group members, etc.

Source: own research.

The above suggestions for reducing (limiting) barriers to cultural and organizational integration within international holding groups are only a subset of potential solutions available to managers and board members of such organizations. A range of supplementary and/or alternative approaches can be used in this respect:

- maintaining ‘cultural diversity’ (cultural mix) with attempts at changing or standardizing the existing organizational cultures, using such instruments as management through values across the group;
- preserving the freedom of subsidiaries to decide on strategic and operational management methods, even at the cost of discontinuing any attempts at unifying management instruments and methods, including those that apply to human resource management;
- carrying over the values and cultural norms of the parent company to its subsidiaries;
- choosing the most professional management solutions among those that are used to the good effect in any of the subsidiary companies;
- benchmarking as an instrument for selecting and transferring best practices in management from external sources.

4. Conclusions

Instead of final conclusions based on this paper’s reasoning, the author postulates several suggestions for management practices which may help, in the author's opinion, improve the process of internal integration both on cultural and organizational level, as applied to complex, multinational holding groups.

1. Careful and prudential use of 'cultural context' in company management processes across the holding group, both on conceptual and executive level;
2. Balanced and responsible approach to cultural transformation (if any such transformation is planned), to preserve and safeguard cultural values and norms present in a target country;
3. Use of any and all functions of organizational culture present in companies across the holding group, i.e. integrative, perceptive, identity and change-stimulating functions of organizations, so that organizational culture may be regarded as an instrument of 'social cohesion' across the group [Bate 1984]
4. Providing high level of methodological rationality in decision-making processes and activities undertaken in regard to management across the group; this may be obtained e.g. by setting up an integration task force recruited from top level specialists and managers representing all constituting companies and all major areas of interest;
5. Active decision-making and financial support for the integration task force on the part of the parent company board, acting as an 'integration sponsor', for all activities involved in the process;
6. Shaping attitudes and behaviors of management personnel and employees through proper design of HRM instruments tailored to social, cultural and organizational specificity of the target companies;
7. Warranting the consensus between goals and business tasks of the parent company and those of subordinate entities, backed by accountability in approach to employees.

Abstract

This paper discusses the most important barriers that hamper or limit cultural and organizational integration within international holding groups. The nature, scope and effects of such barriers are analyzed. Limiting barriers to integration is difficult in practical application, due to the highly complex character of economic, structural, organizational, social and cultural aspects of holding group functioning. A range of potential approaches are presented in respect to limiting and reducing the effects of barriers to integration, together with postulated remedial measures. Conclusions present a selection of postulates for managerial practice that may help improve cultural and organizational integration in the setting of a complex, multinational holding group.

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