

Transformation Analysis of Inalum Ltd. Post-Acquisition: A McKinsey Framework

Nicholas Marpaung

Department of Business Administration
Faculty of Social and Political Sciences
Diponegoro University,
Semarang, Indonesia
(nicholasmarpaung@rocketmail.com)

Bulan Prabawani

Department of Business Administration
Faculty of Social and Political Sciences
Diponegoro University,
Semarang, Indonesia
(Iboel18@yahoo.com)

Hari Susanta,

Department of Business Administration
Faculty of Social and Political Sciences
Diponegoro University,
Semarang, Indonesia
(harisusanta.nugraha@gmail.com)

Abstract—Inalum transformation of post-acquisition has brought significant change in the firm. There are variety of discrepancies between planning and implementation in the business operation. Using elements of McKinsey Model with case study from in-depth interview and observation, this study has found seven soft and hard elements to be reviewed by the firm to be succeeded at the transformation. There are seven key elements that must be synchronized within the company to achieve success. This model is also used to locate and diagnose obstacles and problems that can develop and implement strategies. Inalum has strategic challenges which result in ineffective decision making, authoritarian, ethnocentric, and divisional structure. Hence, the firm should change the organization to be a hybrid organization structure in which managers have cultural literacy and consider the matter as shared value fundament, to enhance employees comfort and social awareness.

Keywords—change management; McKinsey model; strategic implementation

I. INTRODUCTION

According to Rochyadi (2008), change is defined as a condition that is different from the previous conditions. Changes occur as a result of process and describe a prior and post event in relation to physical or ideas changes that may result in positive (growth), negative (stagnation), or rewind (collapse) reaction and outcome. Similarly, Wibowo (2007) said that change is transformation of present situation towards a better state. Potts and Lamarsh (2004) added that change is a shift from a current state of an organization towards the desired situation in the future. All organization must be changed and developed because of pressure from internal and external environment. In detail, Drucker (1993) mentioned several renewal sources of an organization; they are un-expectation, incongruity, need-based innovation, industrial or market structure, demographics, perception, and knowledge.

An organization change is basically caused by partial or a whole change of a function on a system. As a consequence, individual or persons inside the organization must also be changed (Balogun: 2004). As referring to Stoner and Freeman (1989 in Wibowo, 2007: 9), management is process of planning, organizing, directing, and supervising organization members by using there sources to achieve the organization's

goals. Hence, change management is a systematic process of applying knowledge, tools, and resources to influence change in people of organization (Potts and LaMarsh, 2004 in Wibowo, 2007: 241). Change management is a continuous process in order to renew an organization in regard to the direction, structure, and ability to serve ever-changing needs of the market, the customers and the workers themselves. Change in an organization is not an accident but a choice to sustain, survive, and develop. Maintaining the survival of organization at short and long term is one objective of the changes. To achieve these objectives, directors should analyze and harmonize important elements in the company in order to achieve success.

Inalum Ltd. (Inalum), an aluminium processing enterprise, has been privatized by Indonesian government from a Japanese consortium, Nippon Asahan Aluminium Co. Ltd. (NAA). The privatization has brought significant change, such as in the vision and mission, shared value, corporate strategy, organizational structure, and management style. However, the transformation of Inalum has also impacted on ineffective strategic implementation. The people need time to adapt and are not ready with the fundamental changes due to a lack of socialization and commitment. In addition, the internal element of change has not functioned properly, and then the acquisition goal has not been achieved. Therefore, this paper analyzed the Inalum strategic implementation since its acquisition in 2013. In doing so, McKinsey Framework is used. This analysis is necessary as McKinsey Framework offers criteria to harmonize essential elements of organizational change to achieve a firm's goals and to find alternative solutions for the organization's problems.

McKinsey 7S Framework is a model to analyze an organizational effectiveness, especially in the field of strategic implementation after a fundamental change. Singh (2013) said that the McKinsey 7S model is complex and interconnected as a change in one element influences changes in other elements. In addition, McKinsey Framework is a strategic model that can be used to improve organization performance, understand the most influential factor in the organization's strategy, determine the best way to re-align the organization to a new strategy, and examine the current organization works (the Strategist organization, 2011 in Garbrah and Binfor, 2013). Therefore,

McKinsey Framework is suitable platform to analyze a state-owned enterprise, Inalum, post-acquisition. This research is aimed to analyze the change management of Inalum and the barriers during the process of change using McKinsey 7S model analysis. Finally, this study will formulate suggestions for the firm to properly accelerate the change.

II. LITERATURE REVIEW

Change management is a systematic process of applying knowledge, tools, and resources to influence people who are affected by the process. Change management is essential to provide business solution in a structured way. The approach of change management are identifying the affected objects that potentially resistant towards changes, tracing sources, types, and resistant level, and designing effective strategy to reduce the resistance. Grant (2008 in Garbrah and Binfor, 2013) adds that this framework is able to explore various elements that contribute to transformational change.

McKinsey 7S model was developed in 1980 by McKinsey consultants; they were Tom Peters, Robert Waterman, and Julien Philips with the help of Richard Pascale and Anthony G. Athos. McKinsey 7S Model has been widely used to analyze change management that occurs within an organization. This model is modified according to the environment and the expected goals of the organization. Using this model, stakeholders will be able to identify problems and obstacles that occur in the changing process to find suitable formulation to overcome. In addition, this model is also used to determine current and post organization's position and how the organization's expectancy. The basic premise of this model is that there are seven internal aspects of an organization which are interrelated and have to be considered together to achieve practical Integration of Human Resources and Organizational Strategies (Talwar, 2006, p.210). The seven aspects are classified into soft and hard elements. The soft elements are shared values, skills, style, and staff, which are difficult to describe, less tangible, and influenced by culture. Hard elements are more easily defined, specified, and influenced by management. They are strategy, structure, and system.

III. METHODOLOGY

A qualitative descriptive study is used in this study. Phenomenology is necessary to analyze a research object within its natural context. It means qualitative researcher see an event as not partial, apart from its social context. A similar phenomenon in a different circumstance would have a different meaning.

The data were collected through primary data collection (interview, observation and documentation) and secondary data (collection of archive and document archive-related institutions). The informants are employees and managers of Hydroelectric Power Plant who have worked at the company more than 10 years as they have wide information and experience of Inalum changes prior and post-acquisition.

McKinsey model is used to identify 7 (seven) interrelated key elements to determine an organization success/failure (Willson and Gilligan, 1997 in Garbrah and Binfor, 2013). The

7s elements is used as a benchmark to interview the informant, and pattern matching is applied to narrate and describe the findings.

IV. DISCUSSION

PT. Inalum has a corporate strategy that seeks to increase production and diversify of its products. This strategy is a reasonable strategy for a newly merged firm, which commonly focused at the short-term strategy. The firm applies divisional organization structure in which Inalum has two main units. The units are Smelting Facility Unit and Hydroelectric Power Unit. (Annual Report, 2015).The process of changes in Inalum has been on the right track as the planning, the transformation performance has not been successful. Hence review of the transformation process is necessary.

Using the seven elements of McKinsey, it has been found that the divisional structure in Inalum is beneficial to facilitate effective decision making, simply management structure, and reduce management risk. In an effort to build an effective communication between manager and staffs, Inalum facilitates direct communication. In addition, Inalum has advanced information technology which enables departments communicate fast and easy, and also facilitates quick and precise decision making. However, people are confused due to the difference of organizational structure of prior and post-acquisition. Furthermore, lack of information regarding with the changes has caused problems of reporting procedures and responsibility adjustment. To identify the condition of Inalum post the acquisition and the obstacles, McKinsey is also designed to detect problems and provide options for managers or stakeholders to align with existing elements. Hence, a balance of the 7 elements is essential.

In short, using McKinsey 7s model, this study summaries the firm's challenges and the proposed solutions as the following:

TABLE I. CHALLENGES AND ALTERNATIVE OF SOLUTIONS FOR INALUM TRANSFORMATION WITHIN MCKINSEY 7S MODEL

| Elements | Challenge | Alternative of solution |
|--------------|---|---|
| Strategy | 1. short term strategic plan to increase production and enhance differentiation 2. passive manager - staff communication 3. ineffective decision making | 1. integrative long and short term goals 2. an open and flexible communication 3. employees comfort |
| Structure | 1. divisional organization structure 2. implicit communication 3. centralized decision | 1. hybrid organization structure 2. egalitarian 3. coordination 4. decentralized decision 5. explicit communication |
| System | 1. authoritarian 2. whistle blowing system 3. acceleration focused action 4. weak ethics standard 5. unsatisfactory merit system | 1. prevention 2. open communication 3. standardization 4. monitoring and evaluation |
| Shared value | 1. keeping of prior culture 2. weak shared value | 1. obeying current culture 2. prospective value: professionalism, development, cooperation, responsibility, integrity, benefit |
| Style | tribal/ethnocentric leadership style | cultural literacy leadership |
| Staff | 1. multitasking demand 2. average staff competences | 1. clear job description 2. distinctive competences 3. team building |
| Skill | 1. lack of professional employees 2. no sustainable evaluation of employees | 1. social awareness 2. sustainable evaluation and control |

From the point of view of the soft elements, firm's strategy is important for a leader to use his/her emotional intelligence and flexibility in applying the right strategy at the right time. The organizational structure must be precise and encourage open communication at all levels that enable self-correction and problem solving groups. Similarly, the existing working system should be simplified, make it easier for operators to apply it in the business operations. Shared value on Inalum was not poor; however, the staffs that have diverse backgrounds need prioritization of individual values. Managers should establish a transparent organization where staff can live their values.

According to the hard elements, experienced employees who will retire should be maintained with a short contract for the transfer of knowledge. Managers must also protect and inspire the staff by avoiding subordinate to be depressed because of errors in the past. Establishing an open communication, recruiting professional workers, and enhancing skills are essential for firm transformation.

V. CONCLUSION

This study has concluded that the transformation process of Inalum as not proceed well. The firm has priority at short-term strategic plan. In addition, the division structure is not suitable for the organization development. Furthermore, there is lack of information dissemination, especially to the lower management level and blue collar workers. The system is also rigid with low level awareness of employees towards firm policies.

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strategic plan. In addition, the division structure is not suitable for the organization development. Furthermore, there is lack of information dissemination, especially to the lower management level and blue collar workers. The system is also rigid with low level awareness of employees towards firm policies. The managers have little understanding of the lower level management with slow management succession. However, this study only includes Hydropower Unit, while the transformation impact may different from a unit to another.

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