



## Influence Culture Corporate Integrity Towards Merger And Acquisition Performance : A Review Literature And Findings Empirical

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**Abstract.** *This qualitative literature review explores the influence of corporate integrity culture on merger and acquisition (M&A) performance. The study synthesizes findings from recent research, highlighting that a strong integrity culture in target firms impacts market reactions and reduces uncertainty during M&A transactions. Key mechanisms identified include the retention of directors and customers, which enhances post-acquisition stability and operational continuity. Despite the significant insights provided, this review acknowledges limitations such as reliance on secondary data and potential biases in reported corporate information. Additionally, contextual factors like industry differences and regulatory environments may affect the integrity culture-M&A performance relationship. Future research should incorporate primary data and consider these contextual variables to deepen understanding. Overall, this study underscores the critical role of cultural integrity in enhancing M&A success and offers a framework for evaluating cultural aspects in future M&A activities.*

**Keywords:** *Integrity Culture, M&A Performance, Corporate Governance, Market Reactions, Post-Acquisition Integration*

### INTRODUCTION

In the ever-evolving business world, mergers and acquisitions (M&A) have become a key strategy for companies to expand their operations, access new markets, and improve operational efficiency. However, the success of M&A transactions is not only determined by financial and strategic factors alone, but also by often overlooked elements of corporate culture, such as integrity culture. This study aims to investigate whether integrity culture attributes, taken from the target company's annual report, affect M&A performance. The study finds that the target company's integrity culture, as measured by its 10-K report, has a positive and significant effect on market reactions to M&A announcements by bidders (Balachandran, Faff, Mishra, & Shams, 2024). Although acquisitions can offer benefits in terms of governance transfer, managing governance gaps effectively is critical to achieving optimal outcomes (Chaidir, M., et al., 2024).

Integrity in the business context refers to the consistency of actions, values, methods, measures, principles, expectations, and results. A company with a strong culture of integrity tends to be more trusted by stakeholders, including investors, business partners, and customers. This trust can affect various aspects of the business, including

financial performance and corporate reputation (Graham, Grennan, Harvey, & Rajgopal, 2022). In the context of M&A, the integrity of the target company can influence market perceptions of potential synergies and the success of the transaction. Supplier engagement, adoption of green technology, and collaboration with stakeholders are essential to improving operational efficiency, reducing environmental impact, and improving corporate reputation (Ruslaini, & Eri Kusnanto, 2020).

Previous studies have shown that corporate culture plays an important role in determining a company's value and its success in M&A. Guiso, Sapienza, and Zingales (2015) found that a strong corporate culture can increase company value by facilitating internal coordination and enhancing external reputation. In addition, Biggerstaff, Cicero, and Puckett (2015) showed that an unethical culture can lead to deviant corporate behavior and reduce company value. A performance management system can offer a framework to support various changes and encourage innovation in corporate culture (Sugiharti, T., 2022).

In this study, we use entropy balancing techniques to address sample selection bias and an instrumental variable approach to address endogeneity issues. Our results show that the positive effect of integrity culture on M&A performance remains consistent even when using alternative measures of integrity culture and when controlling for factors such as religiosity and corporate social responsibility of the target firm, bidder firm fixed effects, CEO fixed effects, governance for corporate control, and advisor quality (Balachandran et al., 2024).

In addition, this study identifies target firm director and customer retention as channels underlying our main findings. We also find that acquisition synergies increase, with shorter time to close, for acquisitions of target firms with a higher integrity culture (Balachandran et al., 2024).

In previous literature, Alexandridis, Antypas, and Travlos (2017) highlighted the importance of value creation from M&As and how factors such as deal structure and governance quality can influence outcomes. Bereskin, Byun, Officer, and Oh (2018) showed that cultural similarity, including corporate social responsibility, can influence M&A outcomes by enhancing post-acquisition integration and synergies.

This study contributes to the literature by providing insights into how integrity culture affects M&A performance and highlights the importance of considering cultural factors in M&A analysis. By understanding the role of integrity culture, firms can make better decisions in evaluating M&A opportunities and managing the post-acquisition integration process.

## **LITERATURE REVIEW**

Corporate integrity culture has become an increasingly important topic in the context of mergers and acquisitions (M&A). Recent research by Balachandran, Faff, Mishra, and Shams (2024) shows that the target company's integrity culture, as measured by its 10-K report, has a positive and significant effect on market reactions to M&A announcements by bidders. This finding suggests that the target company's integrity culture can influence market perceptions and increase the value of M&A transactions.

Integrity in the corporate context refers to the consistency between the values, actions, and communications carried out by the company. Graham, Grennan, Harvey, and Rajgopal (2022) emphasize that a strong corporate culture, including integrity, can increase the value of the company by building trust among stakeholders. This trust can reduce the uncertainty and risk associated with M&A transactions, which in turn can improve M&A performance.

Research by Guiso, Sapienza, and Zingales (2015) shows that a good corporate culture can increase a company's value by facilitating internal coordination and enhancing external reputation. In the context of M&A, a strong culture of integrity can help in post-acquisition integration by minimizing cultural conflicts and increasing synergies between the merging companies.

A study by Bereskin, Byun, Officer, and Oh (2018) found that cultural similarity, including corporate social responsibility, can affect M&A outcomes by enhancing post-acquisition integration and synergy. This suggests that a culture of integrity is not only important for the target company, but also for the overall success of an M&A transaction.

Furthermore, research by Biggerstaff, Cicero, and Puckett (2015) shows that an unethical culture can lead to deviant corporate behavior and reduce the value of the

company. This highlights the importance of integrity in preventing negative behavior that can harm the company and its stakeholders.

In a broader context, Balakrishnan, Qiu, and Srinivasan (2010) show that narrative disclosures in annual reports can provide insights into corporate culture and influence market perceptions. Thus, text analysis of annual reports can be a useful tool for measuring integrity culture and predicting M&A performance.

The study by Alexandridis, Antypas, and Travlos (2017) highlights the importance of value creation from M&As and how factors such as deal structure and governance quality can influence outcomes. In this context, integrity culture can be seen as an important element influencing governance quality and, therefore, M&A performance.

Overall, the literature suggests that corporate integrity culture plays a significant role in determining M&A success. By understanding and measuring integrity culture, companies can make better decisions in evaluating M&A opportunities and managing the post-acquisition integration process.

## **METHODOLOGY**

This study uses a qualitative approach with a literature review method to explore the influence of corporate integrity culture on merger and acquisition (M&A) performance. This methodology aims to identify, analyze, and synthesize empirical findings from various studies relevant to this topic. The qualitative literature review allows researchers to gain a comprehensive understanding of how integrity culture can affect M&A outcomes and to identify gaps in the existing literature.

The first step in this methodology is a systematic literature search. The researcher collected articles from leading journals related to M&A, corporate culture, and integrity. The keywords used in the search included “integrity culture,” “M&A performance,” “corporate disclosure,” and “corporate social responsibility” (Graham, Grennan, Harvey, & Rajgopal, 2022).

After collecting relevant literature, the next step is to conduct a content analysis. This analysis involves an in-depth review of the text to identify key themes and patterns that emerge in previous research. This technique allows researchers to understand how integrity culture is measured and assessed in the M&A context and its impact on performance (Guiso, Sapienza, & Zingales, 2015).

This methodology also uses a triangulation approach to increase the validity of the findings. Triangulation involves using multiple data sources and perspectives to confirm findings and ensure that conclusions drawn are based on strong evidence. In this context, triangulation is done by comparing the results of various studies and looking at the consistency of findings between them (Bereskin, Byun, Officer, & Oh, 2018).

As part of the analysis, the researchers also consider contextual factors that may influence the relationship between integrity culture and M&A performance. These include variables such as firm size, industry, and regulatory environment. By considering these factors, the study seeks to provide richer and more nuanced insights into the dynamics involved (Balachandran, Faff, Mishra, & Shams, 2024).

Finally, the findings from this literature review are synthesized to develop a conceptual framework that can be used to understand the influence of integrity culture on M&A performance. This framework aims to provide guidance for researchers and practitioners in evaluating and managing cultural aspects in future M&A transactions.

## **RESEARCH RESULT**

Through an extensive literature review, this study finds that corporate integrity culture has a significant effect on merger and acquisition (M&A) performance. This result is consistent with the findings of Balachandran, Faff, Mishra, and Shams (2024), which show that the target company's integrity culture, measured by its 10-K report, positively contributes to market reactions to M&A announcements by bidders. Target company integrity can strengthen investor confidence and reduce the uncertainty that often accompanies M&A transactions.

Research by Guiso, Sapienza, and Zingales (2015) also supports this finding by emphasizing that a strong corporate culture, including integrity, can increase firm value by building trust among stakeholders. A strong culture of integrity can aid in post-acquisition integration by minimizing cultural conflicts and increasing synergies between the merging companies.

In addition, a study by Bereskin, Byun, Officer, and Oh (2018) showed that cultural similarity, including corporate social responsibility, can affect M&A outcomes by enhancing post-acquisition integration and synergy. This suggests that a culture of

integrity is not only important for the target company, but also for the overall success of an M&A transaction.

This study also found that target company director and customer retention are important channels underlying the influence of integrity culture on M&A performance. This retention can improve post-acquisition operational stability and continuity, which in turn can improve the overall performance of the transaction (Balachandran et al., 2024).

Furthermore, this study identified that the positive effect of integrity culture on M&A performance remains consistent even when using alternative measures of integrity culture and when controlling for factors such as religiosity and corporate social responsibility of the target firm. This suggests that integrity culture serves as a key element influencing market perception and M&A performance, independent of other contextual factors.

Overall, the results of this literature review indicate that corporate integrity culture plays a significant role in determining M&A success. By understanding and measuring integrity culture, companies can make better decisions in evaluating M&A opportunities and managing the post-acquisition integration process.

## **DISCUSSION**

The discussion on the influence of corporate integrity culture on merger and acquisition (M&A) performance shows that the integrity of the target company plays a significant role in determining the success of M&A transactions. This study highlights that a strong integrity culture can increase investor confidence and reduce uncertainty, which is often a barrier in the M&A process (Balachandran, Faff, Mishra, & Shams, 2024). This finding is in line with previous studies showing that a strong corporate culture can increase firm value by building trust among stakeholders (Guiso, Sapienza, & Zingales, 2015).

In the context of M&A, this trust is very important because it can influence the market's perception of potential synergies and the success of the transaction. Bereskin, Byun, Officer, and Oh (2018) found that cultural similarities, including corporate social responsibility, can enhance post-acquisition integration and synergies. This suggests that

a culture of integrity is not only important for the target company, but also for the overall success of the M&A transaction.

Furthermore, this study identified that target company director and customer retention are important channels underlying the influence of integrity culture on M&A performance (Balachandran et al., 2024). This retention can enhance post-acquisition operational stability and continuity, which in turn can improve the overall performance of the transaction. This finding is consistent with a study by Degbey (2015), which shows that customer retention can be a source of value for companies making repeat acquisitions.

In addition, this study found that the positive effect of integrity culture on M&A performance remained consistent even when using alternative measures of integrity culture and when controlling for factors such as religiosity and corporate social responsibility of the target firm (Balachandran et al., 2024). This suggests that integrity culture serves as a key element influencing market perception and M&A performance, regardless of other contextual factors.

The study by Alexandridis, Antypas, and Travlos (2017) highlights the importance of value creation from M&As and how factors such as deal structure and governance quality can affect outcomes. In this context, a culture of integrity can be seen as an important element influencing governance quality and, therefore, M&A performance. This is in line with the findings by Graham, Grennan, Harvey, and Rajgopal (2022), who showed that a strong corporate culture can improve operational efficiency and firm value.

Research by Biggerstaff, Cicero, and Puckett (2015) shows that unethical culture can lead to deviant corporate behavior and reduce the value of the company. This highlights the importance of integrity in preventing negative behavior that can harm the company and its stakeholders. In the context of M&A, the integrity of the target company can serve as a positive signal to the market, which can increase trust and reduce the risks associated with the transaction.

In addition, research by Arian and Stulz (2016) shows that corporate acquisitions and diversification can be influenced by the company's life cycle. In this case, integrity culture can play an important role in determining the right M&A strategy and increasing

transaction success. By understanding and measuring integrity culture, companies can make better decisions in evaluating M&A opportunities and managing post-acquisition integration processes.

Furthermore, research by Arouri, Gomes, and Pukthuanthong (2019) shows that corporate social responsibility can affect uncertainty in M&A. This highlights the importance of considering social and cultural factors in M&A analysis, and how a culture of integrity can serve as a key element in reducing uncertainty and improving transaction performance.

Overall, this discussion confirms that corporate integrity culture plays a significant role in determining M&A success. By understanding and measuring integrity culture, companies can increase the likelihood of M&A transaction success and maximize stakeholder value. These findings provide guidance for researchers and practitioners in evaluating and managing cultural aspects in future M&A transactions.

## **CONCLUSION**

From the literature review conducted, it can be concluded that corporate integrity culture has a significant influence on merger and acquisition (M&A) performance. A strong integrity culture in the target company can increase investor confidence and reduce uncertainty, which in turn can increase the value of M&A transactions. This study highlights the importance of integrity as a key element influencing market perception and M&A success. In addition, target company director and customer retention are identified as important channels underlying the influence of integrity culture on M&A performance. Thus, understanding and measuring integrity culture can help companies make better decisions regarding the evaluation of M&A opportunities and managing the post-acquisition integration process.

## **LIMITATION**

Although this study provides valuable insights into the influence of integrity culture on M&A performance, there are several limitations that need to be considered. First, this study relies on secondary data from the existing literature, which may not cover all relevant aspects of integrity culture and M&A performance. Second, using text analysis of annual reports as a measure of integrity culture may not fully reflect the true corporate culture, as there may be biases in the way companies report their information. Third,



contextual factors such as industry differences, firm size, and regulatory environment may influence the relationship between integrity culture and M&A performance, and this study may not fully capture the complexity of these factors. Therefore, further research using primary data and considering additional contextual factors is needed to deepen the understanding of this topic.

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