LUISS 🏛

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Course of Organization Design

Organisational culture and internal changes through M&A: the case Microsoft-Activision Blizzard, a "Call of Duty" for a better company

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"We shall not cease from exploration

And the end of all our exploring

Will be to arrive where we started

And know the place for the first time."

T.S. Eliot

from Little Gidding, Four Quartets

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INTRODUCTION

In a fully globalized reality, characterized by the mutability and fast-moving nature of markets subject to constant external shocks, and driven by new technologies, the imperative for companies is that of growth and innovation to compete, gain a significant and lasting advantage over competitors, continue to thrive, and survive.

In such a context, which requires immediate adaptation in responding to markets, the strategy of growth through external lines is an increasingly frequent choice for both large and small companies to pursue their objectives, due to the undeniable advantages of speed, compared to internal development, and effectiveness in acquiring the necessary skills. The merger and acquisition (M&A) market has experienced further expansion worldwide in recent years, with a record value of $5.9 trillion in 2021 (Bain, 2022), with a significant growth in deals concluded in the technology industry sector. Indeed, the tech industry is the one with the greatest growth, with continuous innovations and new products and services that are changing the way we live and work, with an acceleration due to the pandemic and the search for new solutions, the speed and size of this industry make M&A more attractive as a growth strategy.

The decision to resort to M&A, an extraordinary finance transaction, along with several economic and financial advantages and benefits, entails changes in the configuration of the organization, both in its structure and in its decision-making processes and strategies, and the need for the integration of the two companies. The success of the deal depends precisely on being able to harmoniously integrate the different strategies, organizational structures, and corporate cultures. Lack of or poor integration is one of the main reasons why an acquisition does not generate the expected value and synergies and essentially fails.

Culture is one of the hallmarks of an organization and often determines its success, resilience, and survival, so cultural and value differences between the companies involved are a significant challenge in an M&A transaction and during the integration. Yet in the initial stages of an M&A deal, the organizational culture of the companies is still an overlooked element; it is only considered in the post-merger period or when the first problems are encountered, which may prove to be insurmountable.

This thesis aims to analyze how an M&A transaction can led to changes and issues in the organization design and culture of the companies involved, and to assess the benefits of implementing an acquisition integration plan to manage strategic change. The proposed case study is Microsoft's acquisition of Activision Blizzard King (ABK), a leading gaming industry company but affected by

a toxic culture, where it will examine whether, through a careful integration plan, the acquisition will be a benefit to Microsoft and a new opportunity for the target company.

Several reasons make this topic and this acquisition relevant to the organization design research and market strategy. Organizational Design is a field that must support the strategy of a company, with the decisions to be made for organizational planning as a managerial response to the challenges and innovations present in the markets and to the continuous evolution of the conditions in which companies operate, with the aim of becoming increasingly competitive and efficient.

In this time always more digitally influenced, the videogame industry has over time become more than just a popular entertainment activity, evolving into both a cultural and social phenomenon of ever-increasing scope. video game market is a big reality in the technology industry and predominant in the entertainment sector, it is worth 300 billion a year and is expected to be able to reach one trillion by the end of the decade. This transformation and expansion in recent years has been in part due to the global pandemic and lockdown measures that have allowed videogames to take a central role in people's lives, including as a virtual bridge to stay connected. The intersection that occurs in these products between human interaction, the use of technology and creativity make them more than just a form of entertainment. The strategic implications this industry could have in Microsoft's many businesses and sectors to fully capitalise on its potential are various, such as the integration of innovative and technological solutions to support existing ones as Cloud and AI, or the creation of new digital ecosystems.

In the first chapter of this dissertation, will be recalled the theoretical part related to the framework in which this thesis is inscribed, with a careful analysis of the sources and the topics.

Starting from the need for companies to pursue a strategy aimed at growth and what paths are followed, M&A transactions, their characteristics and types, and the objectives that drive a company to expand through these tools and the motivations of the other party to enter a new entity will be presented. The key steps and processes of the deal to complete the integration will be described, and what are the changes within the companies involved and the consequences in terms of organizational structure and culture. An analysis of the factors and contingencies that can determine the failure of the deal will be conducted; in particular, the Burgelman-McKinney conceptual model will be introduced to manage acquisition integration through four sequential processes. Organizational culture will be described and what types exist, how it operates, and how important it is to focus on corporate culture, and how it influences both the outside and inside of the company and can support a business strategy. The importance of cultural integration will be assessed, along with internal

communication and the role of leadership in avoiding clashes and culture shocks to maintain balance and succeed in integration.

Second chapter will present the context of the chosen case study, will describe the gaming industry and focus on the analysis of the two companies involved in the deal, Microsoft and Activision Blizzard. The video game market has reached enormous numbers in recent years with more than three billion players worldwide and is becoming the most popular form of digital entertainment; the current landscape and prospects of an industry expanding after the pandemic and under the push of technology will be analyzed. The production process of video games, how video game companies are organized, and their culture and leadership will be described. Also, the gaming industry in recent years has been affected by several acquisitions and mergers, aimed at increasing in size to be more competitive in the market, gaining easier entry into sectors and markets where one is not present, and aimed at giving one's customers a more diversified service and new gaming experiences.

Addressing the Microsoft-ABK deal, the two players, their history, organization, culture, and economic achievements will be introduced, the acquisition for $67,8 billion announced on January 18, 2022, and concluded on October 13, 2023, after a two-year process, will be evaluated regarding the motivations and needs of the two companies. Special attention has been paid to the approval process of the acquisition at the antitrust authorities, especially the UK's Competitions and Market Authority (CMA) and the US Federal Trade Commission (FTC), which have tried to block the deal, considering the operation a risk to the competitiveness of the console and cloud market and the future of the industry.

The third chapter will analyze the Microsoft-ABK acquisition using the theoretical approaches conducted in the first part. The entire integration process will be examined with a conceptual model inspired by that with which Burgelman and McKinney managed the strategy of the HP-Compaq merger, concluded by two technological giants at the beginning of the millennium. The model adopted will give a timeline of the case study acquisition from its beginning and throughout its evolution. The integration will be broken down into four processes: spanning pre-acquisition, during the acquisition up to the closing phase, and post-acquisition in the short and long term, and verified through feedback loops. The analysis will look at the alignment between the two organizational structures and the necessary fit of corporate culture, leadership, industrial policy and technology. An attempt will be made to identify critical and improvement areas for management to focus on.

Indeed, one of the objectives of this thesis is to provide a new perspective on an acquisition and an industry still unknown to many but of great interest and with enormous potential, through the study and analysis of a current and still open case and the new organization that will be created. The work

was conducted by keeping constantly updated on the changes that occurred before the acquisition and in the months following the closing, using multimedia and paper texts, interviews, participation in conferences, and information from the Internet as research tools. It will be interesting to observe the evolution of this takeover and the positive and critical aspects that may result from it and how it will affect not only the two organizations and their workers, but also industry and consumers.

Paraphrasing Margrethe Vestager, EVP of the European Commission, who commented on the solution found by the European regulator to the acquisition by calling it a 'Call of Duty', taking up Activision's famous franchise (European Commission, 2022), in this thesis my goal will be to show the current need for a "call of duty" also for the improvement of Activision Blizzard and its management within Microsoft.

CHAPTER 1 - Theory Part: Mergers and Acquisitions and Organizational Culture and its Integration

1.1 Organizational design and corporate strategy choices

In a dynamic and competitive global business environment, organizational design emerges as a key lever for business success and sustainability. The effective design and management of an organization are critical and essential to guide companies through the changes, opportunities, and challenges that are present in the modern world; the ability of companies to be capable to expand, adapt and survive depends on it. Its importance transcends a company's structure alone and manifests itself in other circumstances as an element to coordinate plans that lead to success, manage change, and create sustainable value in the long term. A full consideration of organizational structure and its functioning becomes even more crucial when exploring mergers and acquisitions (M&As), a phenomenon increasingly present in today's business landscape.

This chapter aims to investigate the complex function of corporate organization, focusing on how it affects M&As and is affected by them, and with an eye on the dynamics that drive its design and evolution; the dynamics of integration and organizational culture in the context of acquisitions will be analysed, highlighting what challenges and opportunities arise when two distinct entities converge. The theoretical foundations of corporate acquisitions and organizational design and culture will be presented also, useful to introduce the model that will be described in the third chapter.

A company's organization is the system that governs the lives of its workers, the wheel that enable the entire mechanism to function and pull forward. In analysing a company, it is important to distinguish two types of dimensions that interact with each other: structural dimensions and contingent factors (Daft, 2017). The former describe the internal characteristics of an organization, including formalization, specialization, hierarchy, complexity, and centralization; the analysis of the structural dimension, however, is not sufficient for a proper design and understanding of an organization. Contingent factors are essential to examine as they shape the processes and structure of a company and the work done: culture, environment, technology, size, and goals and strategy affect the structural dimensions. Together they can say a lot about an organization and how it differs from others. In this thesis it will be discussed how corporate culture is one of the factors to be analysed and not overlooked (*Fig. 1.1*).

Fig. 1.1 - Interacting Contextual and Structural Dimensions of Organizational Design   *Source: Daft, R.L. (2017). p.18*

1.1.1 Centrality of "fit" and Contingency theory

A central element of business organization is the *fit* [1] to contingent factors, the design of an organization needs to be fit in the situation and context in which the company finds itself (Donaldson, 2001). It is a key principle that emphasizes the importance to adapt the organizational structure and its processes and culture to the specific contingencies to each reality in which companies are present. This convergence is not a static balance, but a dynamic adaptation to the changing contingencies of the external and internal environment. Contingencies, with their ability to influence and shape organizational design, are key variables in determining an organization's success in achieving its strategic goals, and a prudent business strategy, likewise, is essential in dealing with the complex acquisition landscape.

The *centrality of fit* proves that it is not possible to treat all organizations the same: when something works in one situation it will not necessarily be fit in another, there is no one-size-fits-all solution. The diversity present among the various industries, contexts, and strategic ambitions of each company makes it critical to recognize that there is no universal formula for organizational design that is considerable as suitable for everyone. Adopting an approach that is uniform for any organisation may also ignore the peculiarities present in the external environment such as market conditions, competition, regulations, and other contingent factors that vary from one sector to another. Also, the corporate culture is extremely unique to each organization, ignoring the nuances such as the cultural

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[1] The concept of "fit" of organizations has been discussed and developed by various scholars in the field of organizational design and organizational theory. Galbraith J.R. made one of the earliest contributions, in his work, emphasized the importance of a consistent "fit" between organizational structure, internal processes and the external environment to ensure organizational effectiveness. Porter M.E. highlighted the concept of strategic "fit," indicating that the organization's strategic choices should be cohesively aligned to achieve competitive advantage.

ones may lead to a breaking point with internal tensions, resistance to change and inefficiencies. For these reasons, organisational design should reflect an awareness of these variables to enable companies to adapt, innovate and thrive in specific contexts and dispose of a structure that is both effective and sustainable eventually; an organisational design fit-centred is therefore imperative for sustainable success in today's dynamic business landscape.

The concept of *contingency*[2] identifies what structure will allow the company to follow in the right way the strategies, goals, and management it aims for, without going out of its patterns and needs (Donaldson, 2001). The better the design that you use for your company fits in the context, the higher is the organizational performance, as well as the financial: on the contrary, a misfit will lead to internal disorganization that will continue until it leads to lower performance. *Contingency Theory* argues that there is no single model of organization or leadership that is suitable for all situations, instead, it must be adapted to the specific contingent circumstances in which an organization operates.

Organizational systems and structures do not work in the same way and depends on three contingent factors, competitive strategy, organization size and task uncertainty; these influence the organizational design and the management of a company.

Competitive strategy refers to the corporate strategy the company wants to pursue and is driven by the level of diversification the organization has. The organization size requires a fitting structure that gets more complicated as the size expands. Task uncertainty[3] defines the level of formalization the organization should have, and how tasks inside and outside should be performed, depending on the context in which the organization is located (*ibid.*).

A change in one of the contingencies leads to a misfit in the organization, and it is the managers who must intervene by identifying the problem and making the appropriate adjustments to re-design their organization. The implication of this contingency theory is that there is an undetermined plurality of organizational forms to choose from.

1.2.1 Build-Borrow-or-Buy.

Business environment in recent years is showing how it is constantly changing, with new business and investment opportunities, and with few actors can access them. In an economic environment that is increasingly globalized and difficult to predict due to the changing nature of markets, which

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[2] Contingency Theory was developed in the 1960s-70s with contributions from Woodward J., Fiedler F., who developed the "Fiedler Contingency Model", Lawrence, P.R. Lorsch, J., Burns, T., and Stalker, G. M. applied to the needs of the environment and those of innovation. This theory contributed to the stakeholder theory. The discussion about structural dimensions and contingent factors has also been strongly influenced by Hall, R.H. (1996).

[3] "Task uncertainty is the difference between the information required to perform a specific task and the amount of information possessed by the decision maker" (Galbraith, 1974).

imposes the need to act, it is important for companies to be able to develop new capabilities, resources, and skills to sustain themselves and aim to gain a competitive advantage over their competitors. The firms need to grow and search for new objectives to achieve, to survive challenges and prosper in the future on the market with high levels of performance. Growth is a necessity and condition for the existence of organizations, imposed by the environment where they are present, to reach like an internal obligation. An essential condition for the realization of growth is the opportunity to create new value for the company.

But how do firms grow? There are three main strategy paths too choose that can be shown by the *Build-Borrow-or-Buy framework*[4] that helps strategists decide whether to aim: for *organic growth* conducted with a development internally (build), or an *external growth* through a strategic alliance (borrow) or the acquisition of a firm (buy). This model (*Fig. 1.2*) provides companies a structured way to evaluate growth options based on internal resources, collaboration opportunities, and acquisition possibilities, and helps guide strategic decisions in the context of market challenges and opportunities. The choice of business strategy to pursue the goal of growth presents itself as one of the most crucial decisions to be made.
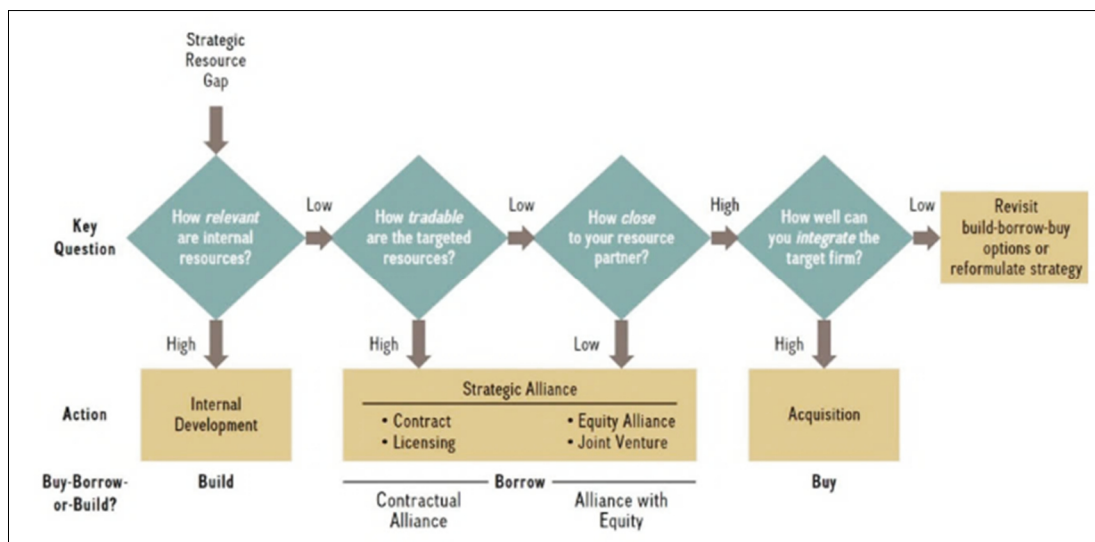
Fig. 1.2 - The Build-Borrow-or-Buy Framework   Source: Rothaermel, F. T. (2021). p. 323

The alternative between building organically (build) and acquiring resources from outside (borrow or buy) is not just a simple strategic dilemma, but a path that requires careful thought and understanding of all the market dynamics present, the resources you have internally, and the competitive opportunities that may be present. Those who can choose the right way in this framework,

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[4] The Build-Borrow-or-Buy framework was developed by Capron, L. & Mitchell, W. in 2012.

to match and fit the choices with the strategy to obtain new resources, are more likely to gain a competitive advantage.

The resources are a central and strategic element in this framework as it represents the competencies and capabilities to be acquired, necessary for growth, and should be valuable, rare, difficult to imitate. However, a company should not only derive resources from outside but also leverage the existing ones. Strategic leaders need to verify the applicability of four conditions: whether existing internal resources are relevant, whether external resources needed are tradable and need to be close, and lastly how much the targeted firm can be integrated. Based on the answer they, whether high or low, they get the type of strategy the company should rely on.

The decision to undertake an M&A is closely linked to all the contingencies surrounding an organization and include external and internal variables such as the economic environment, industry structure, corporate culture, and internal resources. These key elements allow to assess how feasible the M&A operation is and what are real opportunities of growth.

Analysing internal environment's contingencies assess the organization's suitability to accomplish self-growth. In case of internal growth, the financial aspect is much more variable, depending on the needs of the company, and can be controlled and managed multiple times, the same is for the organizational and technological aspect, the internal choice allows for a wider number of alternatives and be more flexible on the decisions to be made or the processes to be conducted, compared to the case of a buy option that involves a more rigid pathway. However, if the internal resources, such as the skills and capabilities, are not sufficient to achieve strategic objectives, the option of integration becomes the tool, sometimes the only one, to fill these gaps quickly and efficiently.

Analysing external contingencies may suggest the need to search new opportunities outside the traditional growth modes or those used to date to accelerate its development. In this case the last question is whether it is possible the integration of the two companies resorting to M&A transactions. By making the choice to integrate there will be financial, organizational, and technological effects different from those for internal choice. The buy option is the most expensive one, with a long process to follow, difficult to execute and to reverse, compared to a strategic alliance (borrow); the growth will lead to changes in the configuration of the organization, in its structure and in procedures by which decisions are made and situations are dealt with. In this context assumes importance the organizational "fit", representing the alignment between the different strategies, organizational structures, and corporate cultures, of the two entities involved in the M&A transaction; the success depends primarily on the ability to be able to integrate these components harmoniously, going on to create an environment in which contingencies are all managed synergistically.

The decision to look outward and make a transaction is a clear strategic response to the contingencies that surround an organization, and organizational "fit" becomes its essential glue to unite these complex variables. This integrated perspective allows for a more deliberate approach to growth that, considering specific circumstances, creates the basis for a successful and sustainable integration.

1.1 Mergers and Acquisitions

The operations of M&A are a popular means used to execute corporate strategy for opportunities to grow, achieve a restructuring or change of a company's organizational design. Porter in 1987 had already shown how acquisitions were the main tool used by large companies to achieve substantial differentiation and growth.

Merger is an extraordinary financial transaction, as it provides for the change of the company bylaws and can be performed in two different ways. The *full merger* occurs with the establishment of a new entity (newco), with its own unique organizational structure, composed by two independent companies that have decided to merge by losing their legal and economic features. With this dynamic, the shareholders of the two companies will obtain participating shares or shares/stock in the new entity, with an exchange ratio with those previously held in the company, that now no longer exists. The second mode is *by incorporation*, with the absorption by one company of one or more other firms. In this case, the only firm to lose its legal identity is the incorporated one; the incorporating one, on the other hand, gets a capital increase and retains its own characteristics and identity (Brealey, et al., 2020). There is a third option known as a *reverse merger*, in which, upon completion of the deal, it is the buyer company that is absorbed by the target firm.

Acquisition, on the other hand, consists of the purchase, or takeover, of one company by another, the acquired company ceases to exist at the end of the transaction, or its control passes under the management of the acquiring company, which retains its legal identity; a firm is acquired when is bought the total ownership or the majority share package (more than 50%). In big companies, where there is a large, well-segmented shareholder base, control can be obtained when a substantial portion is acquired, with a larger percentage than that of other shareholders, without it representing the majority. A pure takeover allows direct access to all its assets, liabilities, and resources and thus greater control over common outcomes.

The purchase can be of shares, a *share deal*, or of assets, an *asset deal*.

M&A, when dealing with this topic, it is the general term that is commonly used for any activity in which companies end up joining togethers to reach certain strategic goals and is well regarded by shareholders and stakeholders. Moreover, it is rare if not unlikely for a merger to result in an equal outcome for the parties involved, since usually one party is more powerful and larger than the other.

These transactions can take place either *by friendly agreement* between parties (mainly in mergers), or *by hostile takeover* when the firm that is being targeted does not want to be acquired.

A takeover is a transaction that does not always take place voluntarily through a mutual decision: the larger company may initiate a hostile takeover that aims to secure a company that is opposed to the transaction, and thus resists it. The buyer usually makes the offer directly to the target's shareholders with a cash price per share or with the acquiring firm's shares, according to a specified conversion ratio, to reach a controlling interest.

The firms that are in negotiations, in an M&A deal that is friendly, agree to work together voluntarily to reach an agreement that leads to mutual benefits. The contacts between the two will lead to negotiations, exchange of information, and a cooperative approach between the two companies' deal management teams. Consensual cooperation can only simplify the post-acquisition/merger integration, while sharing more detailed information gives a more accurate assessment of the opportunities of the challenges present and to be faced when the deal is done. Other factors that contribute to fair agreement are the active involvement and participation of the management of both companies for a smooth transition, by paying attention to change management in the organization, and a reduced resistance from the stakeholders, who may be an obstacle as they may have different interests. These negotiations are usually more transparent and have the potential to lead to a positive outcome for both parties due to their uniformity. In general, transactions that turn out to be friendly between the parties are more likely to be successful eventually. The choice of how one approaches an acquisition certainly remains tied to other factors such as strategic goals, the circumstances of the target market, and the present corporate culture.

1.2.1 Why firms merge or acquire.

M&A are the most widely exploited financial transactions for the pursuit of a growth strategy because of the speed and flexibility they provide, they allow to improve the strategic position by integrating the company acquired; different types of integration are realized based on the relationship between the buyer and the target company. *A horizontal M&A* (or integration) occurs when a company integrates a direct competitor that operate on the same stage on the industry value chain, focuses on the same business. These operations have been very popular to achieve economies of scale and market dominance, to the extent that they have drawn the attention of antitrust authorities to prevent a reduction in competition. *A vertical M&A* involves companies that are present in different stages of the same industry's value chain of, in this way they increase synergies and gain a cost reduction. *A conglomerate M&A* integrates companies that operate in unrelated industries; this operation provides access to different markets, both in terms of products and geography. *A concentric M&A* involves

firms that are in the same industries but offer different products and are not direct competitor; they are conducted to diversify their market and realize synergies in the distribution and technologies.

Regarding the reasons for undertaking M&A deals, a significant benefit of acquiring a company is speed. It may demand years to build a team or obtain a technology organically than acquire them, which might cause a company to fall back in a highly competitive market where competitors are moving quickly and to give others a tactical advantage.

Effectiveness is another benefit. A company may make a few of errors while scaling up if it lacks internal knowledge for the new venture, overcoming integration difficulties can be less hard than attempting to launch a new business without the necessary experiences and knowledge.

M&As involve significant expenses, but at the same time they are repaid by the of other significant costs; creating a new business brings hight initial costs related to organizational restructurings, executive initiatives, and bonus to attract key personnel prior to the organically formed organization starting to fulfil its objectives.

Horizontal integration is chosen when the target company is more valuable within the acquiring company than as a stand-alone company in the market and with a competitor; its acquisition leads to value creation and in gaining a competitive advantage. The benefits of a horizontal integration strategy include:

- *cost reduction* and the ability to achieve and exploit economies of scale. It is mostly useful in industries with high fixed costs, so it achieves larger outputs. A consequence of this transaction is the eventual overlap of offices and expertise in the companies, with the downsizing of the present workforce for better cost optimization.

- an *increase in the differentiation* of services and products that a company offers thus strengthening its competitive with a more comprehensive or exclusive offering, diversification of one's portfolio is a crucial goal for companies that want to grow. With M&As, companies can acquire specialized skills or innovative technologies that allow them to better address the complexity of the market.

- a *reduction in the competitive intensity* within the home market, as there is one less company, with the consolidation of its market share. (Rothaermel, 2021)

In a *vertical integration* the focus of corporate strategy is on a greater scale of production, on standardization of price in production, for greater control and attention to quality, for improved contractual power, and to improve the agency efficiency, which concerns the internal coordination and transaction costs.

There are other reasons why a company decides to take advantage of M&A operations:

- *The strategic pre-emption,* with which you are integrating competitors that do not exist at that moment but have the potential to become one, it is worth to invest in promising companies that in the future could become competitors. In addition, this allows other companies in the industry from acquiring it and exploiting its potential.
- *The ability to expand international presence*, and to gain access to new markets or distribution channels that one would not have been able to participate in due to barriers to entry.
- *The access to new skills and resources,* that the firm did not have before, and the ability to develop operational synergies to become more efficient. Acquisitions allow to increase the economic capital, infrastructure needed for production, human resources present, knowledge, and the access to more customers (Capron, 1999).

M&A operations do not always lead to real value creation, and the achievement of competitive advantage, indeed often the company's interest in completing the transaction does not coincide with stakeholder interest, and seems to be more about intrinsic motivations, which are suggested by:
- *Principal-agent problem,* within a company, the managers must act in the best interests of the shareholders, who are the owners, the "principals;" a corporate problem derives from the presence of a divergence between the interests of the principal and those of the managers, the "agents" (Park, 2004). The main causes of divergence are information asymmetry, conflict of interests between profits and incentives, monitoring and control costs, and the possible presence of moral hazard and adverse selection related to agents' competences and reliability. Growth as a major goal is being increasingly pursued by managers using M&As, which allows the company to become richer and larger, securing manager's remuneration and power. Possible solutions are an initial careful selection of the skills and values of the managers being hired, policies focused on incentive and compensation programs, the use of reports and reviews that provide greater transparency and reduce opportunistic behaviour to work for the success of the organization and ensure alignment between the interests of the two players (Rothaermel, 2021).
- *overcome competitive disadvantage,* sometimes the company's main goal has never been to gain a competitive advantage, but the effort to catch up with the competition and recover a competitive disadvantage.

The acquiring company must possess the necessary capabilities to conduct a successful merger or acquisition transaction, investing energy and time in the integration phase of the acquired company, harmonizing different corporate cultures, creating synergies among the diverse functions present. Disney is the example of acquisitions conducted all successfully, with an "holistic" approach, the company has managed to expand its size, diversify its portfolio, and integrate new and different

realities[5]; the key to Disney's success has been to gain a competitive advantage by preserving the peculiarities belonging to the acquired companies without imposing a standardized model.

The reasons why a company decides to be acquired by others are diverse and follow objectives and strategies aimed at achieving certain business goals including accelerate growth and see its market presence expanded. Some are like those listed for the acquiring company: expanding rapidly their organization, obtaining new customers and technologies, territorial expansion, and new distribution channels to facilitate business. Entering in a larger and more stable structure can guarantee the use of immediate liquidity, create a stronger and more competitive company, achieve operational synergies, increase efficiency, and reduce one's costs. The operational scale and new financial and technological resources of a larger company can provide robustness and greater competitiveness for survival.

1.2.2 Trend of M&A in recent years

The study of M&A activities shows a wave trend over time, so-called merger waves, with historical periods and economic phases favorable to their expansion and others recessionary, caused by economic, technological, and regulatory shocks and changes. Since 1897, six historic waves have been, and the seventh is ongoing.

First wave (1897-1904): or *Merger for monopoly*, with a great number of horizontal consolidations.

Second wave (1919-1929): or *Merger for oligopoly*, with many vertical consolidations.

Third wave (1965-1974): or *Merger for growth*, with predominance of conglomerate mergers.

Fourth wave (1984-1989): *with hostile and bust-up takeovers* undertaken as Leveraged buy-out.

Fifth wave (1992-2000): or *wave of the megadeals*, due to globalization, with congeneric mergers.

Sixth Wave (2003-2008): with dominance of Leveraged *buy-out and private equity operations*.

The last 10 years, the *seventh wave*, have been characterized by great transformations in the market, in several sectors and business realities, by changing economic situations, great technological innovations, and the resulting sectoral challenges; M&A activity had a constant and progressive boost reaching large numbers. The key elements of this wave are:

- *globalization and internationalization*, M&A transactions have shown a strongly international character and nature with companies looking beyond the national borders to seize new market and business opportunities and the emergence of China, India, and Brazil among the main players.

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[5] Disney in 2006 acquired Pixar Animation while preserving its unique identity and creative culture; in 2009 acquired Marvel Entertainment by incorporating the Marvel Universe characters into its own system; in 2012 announced the acquisition of Lucas Film and the Star Wars saga; in 2019 it was the turn of 20th Century Studios. In all these cases, the acquired resources generated value by exploiting synergies in the various marketing, distribution, and merchandising channels.

- *new technologies*, which have driving M&A deals; the firms aim is to secure a high degree of innovation, digitization, and access to new platforms.
- *resilience*, the pandemic and resulting the market's uncertainties induced many companies to take strategic decisions for the long term.
- *sustainability*, interest in ESG[6] elements, and for those companies that respect and share values and commitments on corporate social responsibility, which are ever more in demand in the market[7];
- large presence of companies that deal with *private equity* for targeted investments.

The overall volume of activity in recent years has remained elevated, only the impact of the pandemic was severe in several sectors in the first half of 2020, the uncertainty caused a decrease in M&A transactions and a slowdown in the finalization of some mega deals.

The wave reached the peak in 2021 (Statista, 2024), with almost 60.000 M&A deals for a value of $5.9 trillion (Statista, 2023), mega-deals (valued at least a billion dollars) were around 1,000, with a value of $3.7 billion (Statista, 2023, June 6).

In 2022 approximately 50,000 M&A transactions were finalized globally when there were over 63,000 agreements (Statista, 2023, June 6) were worth $3.4 trillion (*Fig. 1.3*). The United States are still the most desirable market for M&As, both domestically and internationally.
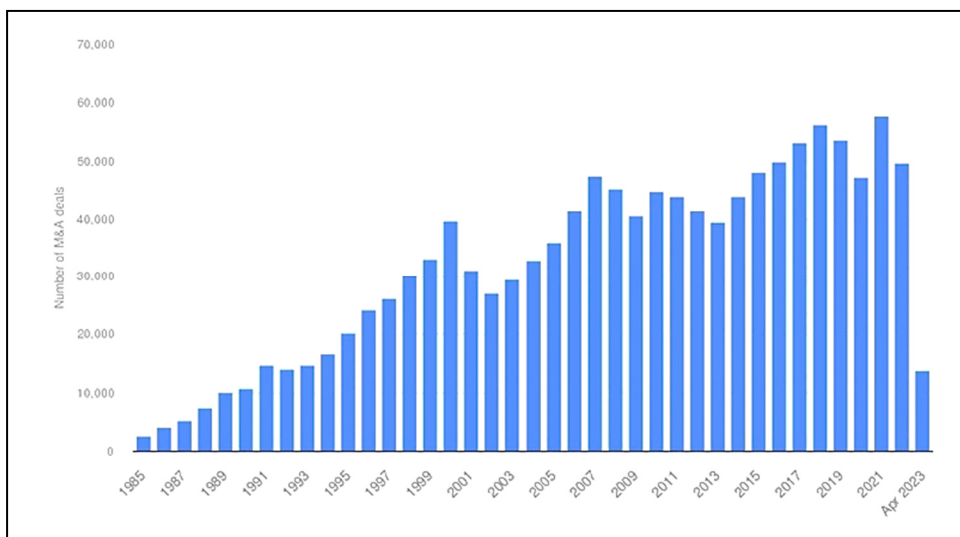
Fig.1.3- Number of M&A transactions worldwide from 1985 to April 2023   *source: Statista, 2023.*

2022 was a year with multiple perspectives. Following 2021's record year, the first half of 2022 saw sustained robust M&A operations, including Microsoft's $69 billion bid for Activision Blizzard; after

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[6] Environment, Social, Governance

[7] Portfolios of energy and natural resources (ENR) are evolving rapidly, a growing number of industrial entities seeking to advance wider environmental and social aims are making acquisitions motivated by ESG considerations.

followed a period of macroeconomic uncertainty, including geopolitical conflict and supply chain instability, inflation, high interest rates, low capital availability. (Bain, 2023). The sectors leading M&A in 2021-2022 was those dedicated to technology, business and financial services, pharmaceutical, medical, and biotech (PMB), media and telecommunications (TMT), consumer goods, energy, and oil and gas (Statista, 2022), because of the end of pandemic restrictions, increased demand for energy, the shock of conflicts between Russia and Ukraine, and in the Middle East.

Instability, the rise of interest rates, and the recession concerns slowed down M&A transactions in the 2023, which marked the lowest values since the period following the global financial crisis in 2008. There were 27,000 deals announced, for a global value of about $2.4 trillion, from the year before fell by 15% (Bain, 2024). Healthcare and life sciences, energy and natural resources industry draw in M&A in 2023, mainly in vertical consolidations, instead deals in tech decreased by 43% year-over-year. Megadeals fell by 60%, less than 60 operations, but there are still many healthy mid-market transactions as businesses follow their strategic growth objectives, rather than the mega-deals, and the rate of small operations a was remarkably steady; growth and transformation can be driven also by these smaller transactions (PwC, 2024). Moreover, many countries are taking measures and applying more aggressive rules on regulatory control due to national security and competition concerns; the Biden administration in the US has expanded the meaning of "anticompetitive", Eu and UK authorities also increased their controls. This tightening of legislation and controls has slowed the progress of some deals in 2022-2023, $361 billion in deals have been challenged, and companies remain increasingly under scrutiny with post-transaction investigations by antitrust agencies (Bain, 2024). In this environment of extended regulatory and investor scrutiny is necessary rethinking the way to approach the merged firms' strategic framework, due diligence, integration, and management. The companies themselves, who met each other, must be aware of the possible regulatory obstacles present, to be removed and prevent them with anticipatory actions. (Bain, 2019).

1.2.3 The acquisition process and its risks

M&A operations have several stages and steps to follow, which are interdependent and not necessarily in line with each other; their sequence and duration is given by the contingencies of the transaction; sometimes the process does not comply with certain procedures and formalities because it suffers from the secrecy and speed in which the initial part of the operation is conducted.

The process involves a *pre-deal* phase that covers the decision-making process leading to the decision to undertake an M&A transaction, the strategic analysis of the possible deal, and the search for the target company; this stage is based on management skills, a mindset open to a new strategy, a

comprehensive view of the business, and strong leadership guiding their company through change and to encouraging learning (Haspeslagh & Jemison, 1991).

The negotiation phase, often guided by outside professional consultants, begins with the identification of the target company and negotiating strategy, followed by initial evaluation and the negotiation, and the delicate step of due diligence, in which the objectives and synergies of the deal are reevaluated, the structure of the new entity is articulated, and finally the deal is defined and signed. The *post-deal* phase marks the conclusion of the deal and focuses on the process of integrating the two companies and their presence in the new entity, this process can take a long time, properly no less than two years, but it must be carefully evaluated and prepared in the previous stages.

The negotiation process starts with the target's willingness to put itself up for sale, or more simply, with a direct expression of interest from a potential buyer. After concluding any kind of corporate or legal affairs related to the past, an initial valuation is estimated, analyzing the present interest from the market, identifying, and contacting potential buyers, and initiating the first step related to negotiations. In the M&A phases, specific competencies, management skills, and the creation of a suitable environment for sharing, are crucial to the success of the operation.

Companies interested in the acquisition will have the opportunity to consult a prospectus containing the target company's business, taxes, and financial information. It is common requirement for interested companies to give consent to sign a confidentiality agreement, *Non-Disclosure Agreement* (NDA), avoiding the disclosure and use of the information within it for interests outside the evaluation of the purchase and proposed transaction, because of the importance and delicacy of confidentiality. It is up to the target to assess what information are sensitive and what are not to be included in the NDA.

A limited number of those who show the most interest in the deal is consented to conduct *due diligence* investigations, which allows them to have an in-person presentation and meeting with their managers and the opportunity to gain deeper access to confidential information regarding plans, business, and financial statements. There are two types of due diligence: *business due diligence*, which relies on quantitative factors and economic or financial data, and *legal due diligence*, with target company overview (legal structure and statuary book) and other elements, to uncover possible legal problems. From this analysis there are several elements present in the target that focuses on the business conducted by the company and all those business variables that play a role internally, such as culture, human resources-related components, best practices, performance of its staff, etc. It can be preventive if it is completed prior to the Share Purchase Agreement, or subsequent, if it is conducted following the conclusion of the contract. The due diligence phase is certainly one of the most delicate moments in the entire timeline of an M&A deal, the complete picture of the company

it can provide, with its potential and critical issues, can turn out to be definitive on the choice to pursue the deal or even deal-breaker by the buyer. The due diligence is important as a roadmap for integration, in fact, the companies that succeed the most are the one that identify the fundamental problems, supporting the value, including estimations into the financial model and reserving the funds required for the desired integration to be as realistic as possible about the expenses to be incurred. Many times, this kind of vigilance is neglected, and the integration plan is the most inadequate component of diligence (Bain, 2023). The merging parties should exercise caution when disclosing information throughout the diligence and integration planning stages, particularly if they are rival businesses in the market. Perceived infractions may lead to expensive and time-consuming investigations, monetary sanctions, or even criminal penalties.

The formalization of the transaction begins with the *Letter of Intent*, which may be signed by both parties, that describes in brief terms the deal that is taking place with the addition of the preliminary commitments and intentions of both parties to pursue the transaction and do business together, determines what are the main terms of a likely upcoming agreement. This document is non-binding, and the parties could stipulate differently.

There is another document, the *Memorandum of Understanding*, which sets out the bilateral agreement of the parties involved describing where agreement has been reached and where there is still distance and work needs to be done.

Next, all negotiation agreements between the two parties take place, with the target company engaged in preparing the disclosure schedule. The closing date of the deal is then determined, preferably at a time reasonably later than the date of the signing, so that all the necessary regulatory approvals take place, also from the antitrust authorities, whose word on the deal is important and can overturn its outcome, and so that there is time to adjust the contracts or take appropriate action.

Before the deal closes there are several conditions that are enforced for the two companies, such as covenants, which determine what actions the target company may take during this period, and the closing conditions. These determine what are the agreements, warranties, and representations that at the closing of the deal must be met and not breached, so that there is no possibility for the buyer or the target company to walk out of the deal due to default. All these components are present within the *Share Purchase Agreement*, signed by the committed companies, along with other elements such as objects, price, indemnity closes and governance of the company after acquisitions. Can be inserted also indemnity clauses aimed at protecting the buyer in case of warranties that become unfulfilled; it is an indemnity system that allows to obtain relief in case some situations occur that should not have arisen according to the information and representations provided by the seller.

The last process is the *Closing*, that determinates the compliance with all clauses, such as interim ones, and agreements made, and establishes when the buyer receives the power to exercise over the company being integrated. It involves the delivery of further documents, the selection of new members for the Board and for other central positions, the payment of the purchase price and/or the presentation of proof of payment. The legal and financial transfer of the company to the new proprietor is finished when all closing requirements and procedures are satisfied and completed. This brings the acquisition to a legal close, a closing memorandum often serves as documentation for the transaction's completion.

In mergers, the procedures have two processes worth noting: the draft terms of a merger, and approval of the merger by the general meeting. The *draft terms of a merger*[8] is proposed by the board of both companies involved in the transaction, it is published in the national register and includes information related to the company, the terms relating to the allocation of shares, the share exchange ratio, and the date that establishes when the transactions of the acquired company are accountable for the purposes of the acquiring one. The *approval of the merger by the general meeting*[9] of the companies that are going to merge cover for the draft prepared by both, and for the possible changes that are made to the articles of associations and the memorandums.

M&As offer opportunities for growth and a competitive advantage to the companies; however, it is essential to recognize the risks associated with such transactions and to highlight that acquisitions do not always lead to results and performances considered satisfactory for the companies involved. A very high percentage of M&As fail and lead to the destruction of value over time, especially with respect to the acquirer; approximately 10% of all big mergers and acquisitions end in cancellation (M&A Community Portal, 2023). The main causes of failure of an M&A deal or that lead to undesirable results are unclear goals and timeline, poor due diligence, synergies, overestimation, overpaying, poor post-merger integration, lack of management involvement and proper communication, cultural clashes, operational difficulties, regulatory issues, high recovery costs.

Abandoning a contract can have serious repercussions for the parties involved, impacting their share value and reputation. In addition to the evident one-time expenses, such as advising and termination fees, firms also frequently feel that top management in these organizations wasted time and money on a strategic course that proved to be fruitless. There were cases of investors becoming unfriendly or interfering. The market may also react negatively to an M&A transaction by affecting the stock

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[8] Art. 91 Directive 2017/1132/EU, EUR-LEX - 32017L1132 - EN - EUR-LEX. (n.d.). https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32017L1132

[9] Art 93 Directive 2017/1132/EU, EUR-LEX - 32017L1132 - EN - EUR-LEX. (n.d.-b). https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32017L1132

value of the companies involved; in fact, it can occur a decline in investor confidence if there has been a failure to perceive added value, with long-term consequences for the market valuation of the new company.

Among the most frequent barriers there are misplaced expectations for value creation and synergies, better offers from rival companies, regulatory difficulties, political concerns about an excess of market concentration and consequent strict regulation. Regulatory bodies nowadays pay great attention to transactions involving businesses that control significant market shares and that possess authorizations, licenses, processes, and technological advances that define the standards of the industry. M&A of particular significance can alter and affect the functioning of markets and their structure. For this reason, there are national antitrust bodies present in every country to keep under observation and control the level of competition present nationally and internationally in different sectors, to make its judgment when an acquisition takes place, and intervene on time when the balance of markets is at risk, when the principle of competition is lost or compromised, or if the creation, abuse or strengthening of a dominant position ensues. When acquisitions and mergers of a certain magnitude are announced between companies present in world markets, whose success would involve and affect economic and financial interests internationally, the antitrust authorities of the countries concerned must rule in favour or against, following an analysis. They examine specific mergers before their completion and enforces formalities that parties must adhere to prior to finalizing those deals; however, it is possible for even completed transactions to be ruled unlawful and undone. After the transaction is completed, the Agencies will assess how the market's level of competition will shift, if the merged company will obtain market dominance, if they will compromise the current price, and will hinder the degree of innovation. Also, what responses the competitors will give to this deal, and if it will harm customers. Antitrust authorities will have to send to the government the material submitted, control the time of transactions, and limit the amount of interaction between the participants. The Agencies may use structural or behavioural solutions to address competition issues when evaluating a deal.

R.A. Pitts (1977) noted that companies that use acquisitions as a growth strategy often end up investing less than those that pursue an internal growth strategy focused on research and development. Most resources and energy to innovate have been focused on the acquisition process, becoming a substitute for possible internal renewal, while avoiding any kind of risk-taking that comes from innovating, this leads to expose a lack of willingness on the part of managers to invest in Research and Development (R&D) after an acquisition.

The success of M&A transactions also often depends on the cultural differences between the companies involved, that could provide a significant challenge. Merging two distinct corporate

cultures can generate internal resistance thus going to weaken team cohesion and negatively impacting productivity. Lack of clear and complete cultural integration can lead to a tense organizational climate that affects employee satisfaction in the workplace and the achievement of company goals. Giving more importance and recognition to these aspects, and to cultural and organizational changes, could influence post-acquisition integration processes in a positive direction. M&As inevitably involve several organizational changes especially in the management mechanism. Signature failure to act and properly manage these changes can lead to the loss of key talent, employee resistance to change, and operational inefficiencies: the failure to mitigate these impacts can highly compromise the overall success of the operation. The post-acquisition integration process may turn to be far more complex than expected, the convergence of systems, processes and infrastructure requires considerable time and resources. The inability to effectively manage this process may result in operational delay, with negative impacts on financial performance and the achievement of expected synergies.

The processes and steps of M&A transactions in future could undergo evolutions influenced by technology, market dynamics, and regulations. Digitization and automation are two tools that can be leveraged by adopting advanced technologies that could simplify some processes, such as due diligence and information management; virtual valuation could reduce meetings and thus time during the negotiation phases. s after the pandemic experience could include more in-depth analysis of the supply chain, adaptive capabilities, corporate resilience, and financial strength of the companies involved. While M&A deals offer rapid access to resources and markets, in future the choice between internal and external growth will depend by the increasing focus on resilience and internal innovation, that could make organic growth more attractive. Complexity and risks that are always associated with these transactions may also push companies toward internal growth approaches. The preference between the two options in the future will vary depending on circumstances, with an increase of organic growth strategies to respond to operational challenges and market dynamics as they arise. Certainly, changes related to regulations and antitrust laws that influence the approval process by regulators could lead to increased attention in the planning phase of M&A deals. A careful planning and change management, and an in-depth analysis of potential challenges are crucial to maximizing the benefits and mitigating the risks, helping to ensure the long-term success of M&A transactions.

1.2.4 Strategic Dynamics of Acquisition Integration

Burgelman and McKinney created a model, from their investigation to determine the competitive effectiveness of Hewlett-Packard-Compaq merger in 2002, with that identifies four integration

processes to go through in an acquisition, sequential and co-evolving with each other, and two subsequent feedback loops between them (*Fig. 1.4*).

Formulating the integration logic and performance goal: this initial stage involves the board of directors, top managements, and consultants of the two companies, who make high level decisions about the new top leadership, major strategic goals, and the overall organization. The top management of the acquiring company oversees support the formulation of the new corporate strategy, which explains how with the combining of the two companies will improve the products and the market position of the newco; how it will strengthen its distinctive competencies, and how it will leverage this to defend and exploit its improved strategic position. Moreover they 'll make assumptions about the future state of the competitive and economic environment in which they are currently present and will use this analysis to formulate strategic and financial goals, for the long and short term, for the M&A and the creation of shareholder value.

Establishing the integration planning approach: it is a stage that is more operational and has the goal to implement the strategy that was set in the first process, can begin even when this is not yet completed, and involves the decision of the new executive team and the basic organization of the combines companies. Here there is a major focus on the stakeholders, and specific goals are set for each of them; it is important for the acquiring company to convince them and the costumers that this operation is convenient for the growth of the firm and for all of them (also included employees, partners, and shareholders). To prepare the company for the processes needed, to execute with duty the strategic integration, the next step is to plan initiatives that will be taken in the coming years to achieve the objectives, face competition and develop a strong culture. At this point, the integration team starts work on the third and fourth process.

Executing operational integration: this phase starts after the deal is both signed and closed and when the process 1 and 2 are executed and so the integration has launched. This process lasts 6 to 12 months and can be considered the more complicated one, and risky as well. The two company came into contact and the acquired company starts to work for the buyer. It is applied the downsizing strategy and set up the new organizational design of the new entity. There will be a new organization structure, with a new direction and levels of management, people will find out what job and task must perform and if they still have a job. The focus here is on the short term: the logic is to obtain quick win and good results immediately (it could result in an illusion in the long term). At this point there is no more distance between the exaction and strategy to be pursued, with leadership taking a relevant role in supporting it and addressing new challenges. The goals are to maintain client relationships while achieving market share and quarterly financial targets, to focus on eliminating product redundancies, obtain procurement synergies, select the skilled and right personnel, and making the entire

organization to work. The two company's top management must oversee extremely difficult integration challenges and produce short-term results in line with the objectives.

The *execution of the strategic integration:* happens in parallel with the third process. However, in this phase the focus is to become competitive on the market by looking at the long term. The company execute a reconfiguration of its business portfolio to compete with competitors in the future years with a great attention on the changing environment (contingencies). It is important to find the best fit cause the risk in this situation is to be or become obsolete.

The initiatives taken by the company during the integration planning processes may need a review or some adjustments considering the results, the *feedback loops* are needed to revise the assumptions of the integration logic; in this model there are two feedback loops. The first feedback loop happens from the third process when the company could have reached and exceeded the performance goals they had set for the short term, but they failed to revise the one for the long term.

The second feedback loop from the fourth process occurs instead when the company failed to maintain the capacity needed for an effective and successful strategy change, missed long-term performance objectives, and failed to execute on multi-year strategic ambitions.
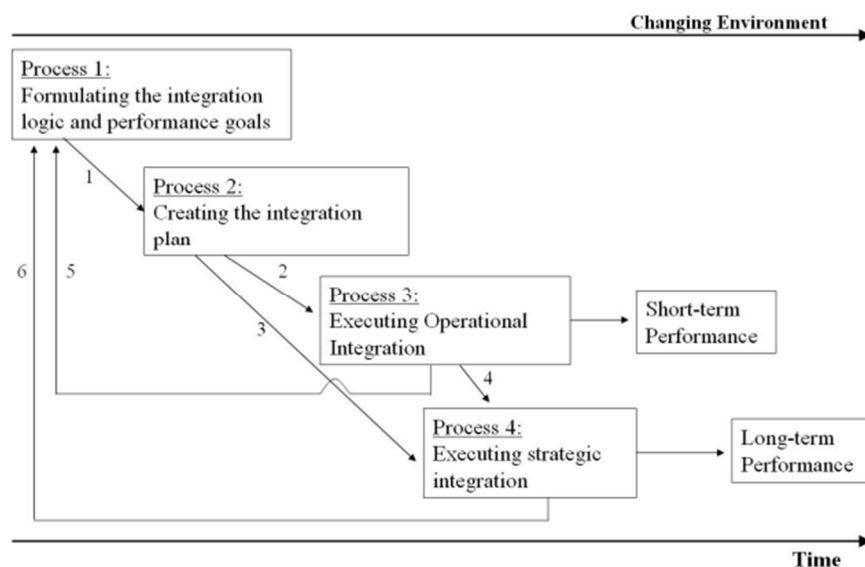
Fig.1.4 - Strategic Dynamics of Acquisition Integration Co-Evolving Key Processes   *source: Burgelman & McKinney (2005).*

Company' managers must check if what they did in the first process is still valid or it is changed. They should always consider the feedback as opportunity to adapt the strategy set, rethink it, and eventually reformulate it with their original goals and the new one. It is necessary to promptly adjust the initial premises in reaction to shifting marketplace conditions and important consumer reactions to the new corporate strategy. Top management and assigned personnel are primarily in charge of

strategic integration; they are constantly monitoring the quickly changing competitive landscape, define the winning factors and elements and conduct the multi-year strategic initiatives, which will enable to achieve the goals set for the long term. This requires selecting senior-level executives who possess exceptional abilities to persuade their organizations to pursue strategic initiatives when confronted with unpredictability and ambiguity.

1.3 Organizational culture

In the first paragraph, it was highlighted the importance in an organization to set a structure that perfectly fits the company's strategy and business and allows it to be competitive in the market, but also efficient and internally ordered. It is essential for the company that the organizational structure must adhere to the strategy for company to perform better, so that it can acquire and sustain a competitive advantage. When managers design a company's organization there are three key elements to be considered and leveraged to gain an advantage: structure, control, and culture, which are used to give direction and coordination to their employees about their role within the company, what tasks to perform and motivating them.

Implementation frequently necessitates organizational changes since it translates strategy into activities, the design chosen needs to be adaptable enough to consider both the developed plan and potential future development and expansion, for a strategy to be implemented successfully. The failure to effectively implement a strategy can also result in the change of the CEO or the managers. It is therefore critical to realize why and when it is necessary to execute a change to the organizational structure, especially when a company is successful and growing in both size and complexity. But in practice, a company's strategy usually follows its organizational structure (Hall, 1980). This inversion suggests that certain managers only consider tactics that maintain current structures; they dislike altering its current status quo. Successful companies frequently sow the seeds of future failure by tailoring their organizational structure to current circumstances. When stresses and shifts from the inside or outside occur, that closely connected system created between the structure and the strategy with success may collapse.

Successful companies typically follow this pattern: they start by having a great level of proficiency and by being aligned with the existing environment; the company gets great results by determining success and uses structures, procedures, and frameworks for handling and accommodating the increasing size and complexity as a result of the success; after a period it results in company's inertia that tends to highlight difficulties and ignore challenges, caused by changes in the external and internal environment, such as the accelerated growth, changes in business model, entry into new markets and mergers and acquisitions (Rothaermel, 2021). Often, in the managers there's absence of

a deliberate strategic choice to transform the company's four phases into a virtual circle where the company effectively reboots and reinvents itself. In sectors where change occurs quickly, and disruptions are possible, structural restructuring may be particularly necessary to meet future needs but is far more difficult for business executives than creating and managing inside existing structures. To properly implement the developed strategy, the company requires a flexible and adaptable structure to prevent inertia and potential organizational failure, by preserving a virtual loop of reorganization. A real-world example is Google, Alphabet has made a drastic change to its structure from a simpler functional to a more complex multi-divisional one to respond to and lead future radical innovation.

The analysis of companies with a sustained superior financial performance suggests that there is a relationship with their organizational culture (Barney, 1986) [10]. They are characterized by a high level of innovation and flexibility supported by a strong set of core managerial values that define strategies, objectives, and behaviours (how they treat employees, customers, suppliers, and others), that linked with management control, lead to success. The firm's culture can be a source of sustained competitive advantage, and thus, by implication, a source of sustained superior financial performance (Barney, 1986). Culture is a key element of an organization, even if informal, intangible, and implicit, sometimes difficult to observe compared to the structure, everyone within it participates in cultural dynamics. "The *organizational culture* is a set of key values, assumptions, understandings, and norms that is shared by employees. These underlying values and norms may pertain to ethical behaviour, commitment to employees, efficiency, or customer service, and they provide the glue to hold organization members together. An organization's culture is unwritten. But it can be observed in its stories, slogans, ceremonies, dress, and office layout." (Daft, 2017, p.22).

The values provide the goals that every member of the company should aim to accomplish. A company's core values are a collection of tenets that serve as a roadmap for staff members as they work to achieve the organization's goals and objectives. Norms specify acceptable behaviours and actions for workers in their regular interactions and tasks.

Culture is all those values and norms that each member of an organization adopts collectively (Chatman & Cha, 2003). Culture is hidden and implicit and it might be difficult for those who share a culture to identify their own; outsiders are frequently the most perceptive cultural observers of how it works internally and what are its outcomes, since they are not aware of cultural assumptions.

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[10] In the 80's J.B. Barney and other scholars focused on the superior and sustained financial performance of companies such as IBM, HP, P&G, and McDonald's by linking them to the managerial values and beliefs embodied in the organizational culture of these companies.

People's behavior and self-perception are influenced by their culture, those who are impacted by culture tend to feel that their beliefs and behaviors are legitimate, even when it might be challenging for them to comprehend the reasons for their actions or why other options could be more suitable given their implicit foundations. Among the various functions of the role it plays, there is that of giving an identity, group effort, stability in the social structure of the firm, and means of meaning attribution. A company's exceptional performance is attributed in part to successful cultures, whereas corporate failures are attributed to poor cultures. While poor cultures can result in unexpected, immoral, and occasionally even unlawful consequences, good cultures enable the seamless implementation of strategy. A strategic leader must understand the culture of their firm and set it up in the right way, they may build a successful culture that can serve as the cornerstone for competitive advantage by establishing the proper values and guidelines; executives must not only establish and enhance corporate cultures, but also embody them in their daily actions and provide an example for others to follow. Strong cultures are developed when the standards have been absorbed and the company's basic principles are broadly embraced by the workforce. Google's co-founders[11] in 1998 selected some strong core values as the foundation of the company's culture: ten principles that in some ways also reflected the personality of the two people. The decisions that were then made at work were always based in the consideration and respect of these principles, demonstrating great belonging and belief in them. At the same time, it remains a challenge for the company and its executives to maintain a balance between its core values, and business opportunities, which at times might go against your own values.

Cultures exercise two essential functions within organizations: internal integration and external adaptation. With *internal integration,* employees seek to understand how they can work together effectively through the development of a collectivistic culture. This culture has the role of guiding all the relationships between colleagues that occur daily, what behaviors are appropriate and what are not acceptable, how internal communication occurs, and the assignment of roles and powers. Identifica quali sono le attività che il sistema deve compiere per essere creato e mantenuto. *External adaptation* describes how the organization approaches and relates to external parties and how it pursues its goals. This direction that culture can give can be leveraged by the company to support the entire organization when responding to challenges coming from outside such as customers or competition. It contributes to the anxiety that is created in cases of uncertainty or situations in which individuals are subjected to high pressures. Culture therefore appears as a filter and a solution to maintain stability within the organization.

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[11] Larry Page and Sergey Brin wrote early in the company's life "10 Things We Know To be True," Google. https://about.google/intl/en_us/philosophy/.

Organizational culture is the set of common, implicit, and presumptive beliefs and ideas that regulate and define an organization's perception, assessment, and response to its external environment.

To identify and interpret a culture, it is possible to start by observing those elements that define it and that are observable. *Artifacts* are a medium through which corporate culture is manifested. The way a physical area is organized and designed, symbols used, terminology and tales recounted, events that are celebrated and emphasized, and the way these celebrations are conducted, are all examples of artifacts and of elements that enable corporate culture to be conveyed (Johnson, 1992).

The *symbols* include words, expressions, gestures, images, and objects that have a specific meaning that can only be understood by people who speak the same language or jargon. Dress, styles, flags, a specific object, and status symbols also fall under this category.

The *heroes* are people with traits and qualities that are highly valued and have significance in a culture, whether they are real or imagined, living or dead, who function as role models for the behaviour that employees should to work in the company.

The *rituals* and ceremonies are group actions that, while technically unnecessary to achieve goals, are recognized as socially vital inside a culture; an example are the social and religious rites, as well as methods of greeting and showing respect for others. They are used to symbolize major events or activities, significant to the company.

Values can be identified as broad preferences, for a strong emotional attachment to one set of circumstances and conditions of events over another, that let one group stand apart from other present. Values are preferences for things like the desire of equality over freedom or freedom over equality. Values can be considered as the most significant but least noticeable factor in the organizational culture. Culture becomes increasingly visible as we are introduced to all the others like norms and artifacts. Being aware of corporate culture and the processes involved in its creation, upkeep, and modification can make you a more capable strategic leader.

Other elements present are *stories* and organizational *myths*, these are tales based on significant facts or moments that happened, or fictitious and invented, related to the company that circulate and are reenacted with some frequency to bring out the empathic involvement present, especially for newcomers, to give them more information and make them feel at home. They serve to keep alive the values, mostly past ones, of the firm, to give emotional value to employees and provide an identity and pride for the company one works for by making it common knowledge for all those involved.

1.3.1 Levels of organizational culture

Culture in an organization has been the subject of study by many scholars, who has contributed most theoretically and to give great relevance to this corporate dimension is Edgar Schein. According to

Schein, culture is "the coherent set of fundamental assumptions that a given group has invented, discovered, or developed in learning to deal with its problems of external adaptation and internal integration, and which have worked well enough to be considered valid, and therefore such that they can be taught to new members as the correct way to perceive, think, and feel in relation to those problems." (Schein, 2004)

Through the study of culture, it is possible to understand what the company's strategy is and the behaviours that occur within it. Therefore, one may contend that cultural variables influence not just individual and group beliefs and behaviours but also the vision and objective of an organization, allowing for understanding and development over the course of the company. Since the company culture is made up of several elements that are usually disregarded while the notion is being examined, it ends up being an intricate concept. Schein divided culture into three levels (*Fig.1.5*), with the higher one representing those easily observed, and the lower ones the more hidden ones, all of which are necessary to analyse to get a better view of what it is and how it operates:

Levels of Culture

Artifacts	Visible organizational structures and processes (hard to decipher)
Espoused Values	Strategies, goals, philosophies (espoused justifications)
Basic underlying assumptions	Unconscious, taken-for-granted beliefs, perceptions, thoughts, and feelings (ultimate source of values and action)
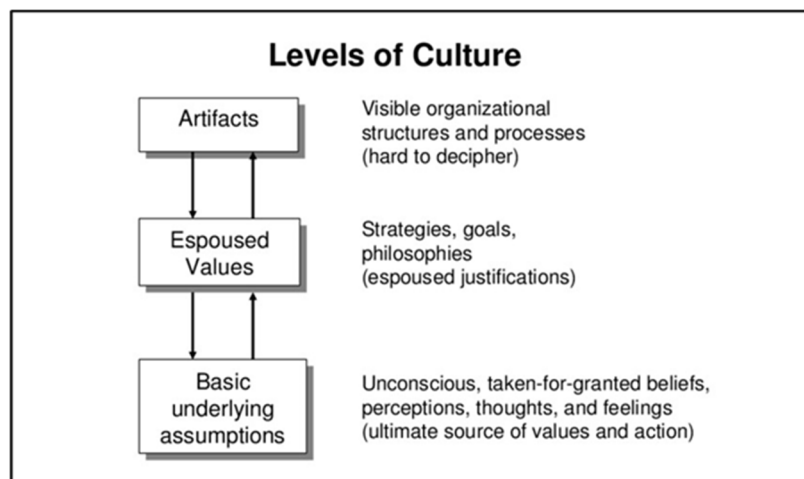
Fig.1.5 - Levels-of-Culture-from- Schein   *source: Schein, 2004, realized by Author.*

Artifacts: represent those elements of the organization, also related to structure and processes, which are mostly visible, or measurable, when one has a first approach with the company or by the outsiders. These can be the art, the technology used, the behaviour patterns related to how one dresses, the spoken or written language, the attitude of employees, the social area in which one works. Artifacts, despite being easy to identify, are not well deciphered and it remains complicated to understand and interpret what there is and happens underneath them, remaining only with a subjective opinion. It is necessary to go deeper.

Espoused Values: found under the artifacts, are those messages (prompts) that allow us to understand what values characterize the members of the organization, but especially the leader of the company, what his goals are, his perception of how things should be, his philosophy and ethics. These elements

eventually accumulate (unite) everyone within the company and identify what strategy is being leveraged. Ideals and values have relevance as they are the tools that allow for the integration of the individuals present to take place and be consolidated, by creating a relationship of trust and solidarity with the internal and external environment. These set of values are the one that defined the structure present. These may occasionally conflict with the artifacts. Other examples are transparency, justice, professionalism, confidence, punctuality, and honesty.

Underlying Assumption: found in the furthest reaches of organizational culture, these are those values, unconscious beliefs, that employees absorb over time making them their own, to the extent that they are then taken for granted and that people hold to be true. In fact, when a certain type of behaviour, action or solution is adopted repeatedly it becomes the basic model to be referred to automatically for subsequent times and it becomes almost inconceivable to act in different ways. Basic assumptions have been present within the organization for a long time and have helped with an impact to generate the scheme above them, inserted by the founder of the company to transmit them to the rest of the personnel, so that they understand what values are necessary to follow for success. These unconscious beliefs, thoughts or feelings are neither written nor spoken, will be difficult to be identified initially.

How culture works in an organization and how it is positioned within it is represented by the *Cultural Iceberg Model.* Considering an iceberg as an organization, the shape of it consists of two parts, a first one that is easily visible and observable, and a second part is under the water and is hidden and covered beneath the surface (*Fig. 1.6*). Through this distinction, it is possible to understand which aspects receive greater consideration and which are hidden inside an organization and its culture.
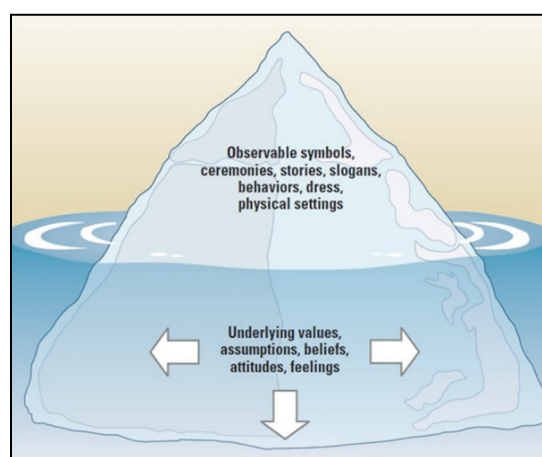

Fig.1.6 - Levels of Corporate Culture   *Source: Daft, R.L. (2017). p.372*

The visible part includes all the observable symbols, the words and activities that are apparent to the casual observer, especially the behavior at work, because culture tends to affect the way people

behave: this area represent the wat the employee interact and live with each other at work. This part includes the physical context, ceremonies, clothing, stories and slogans.

On the invisible part, under the surface, organizational cores and core values are present: these are sets of values, norms and beliefs that cannot be easily identified. The invisible part of the iceberg infects the observable part over time, and these unseen factors are drivers in the organization. The iceberg theory is an effective way to understand the deep and therefore not always obvious dynamics that occur in a company. As the theory suggests in the non-visible part many of those influences on organizational culture take place, the visible part on the contrary presents all those elements that for employees can be easily identified and communicated.

According to Edward T. Hall, who created this model in the 1976, the engaging in cultural activities with others is the best way to understand their internal cultures, when one first enters an unfamiliar culture are seen only the most obvious behaviours. In a company typically 90% of culture and its components remains hidden below the water and only 10% is clear and visible. People take ideas or form opinions about a different cultural community without fully understanding the underlying or internal culture that supports the observable one, over time the underlying values, principles, and thinking processes will become evident and it will be possible to develop a deeper understanding of all the cultural differences present and the competence needed. This model shows that one should not evaluate a company and its organization only by what is initially observed when analysing it, as many aspects end up being ignored.

1.3.2 Types and dimensions of culture

A balance that managers aspire is the one in which organizational strategy, environment, and organizational culture are in close relationship with each other, as this can lead to improved business performance (Chatman & Cha, 2003). There are several dimensions within which a corporate culture can be assessed; using the degree of flexibility or stability that the environment needs, and the strategic focus depending on whether it is internal or external, allow us to assess four different types of cultural types, each following a combination of strategy. They do offer frameworks that the top managers of the organization may use.

The *Clan Culture* is present in an organization with a highly flexible external environment and rapid change, the strategic focus is internal and aims for full involvement and participation of all its staff through teamwork; it is important for the organization to take care and make sure of whatever they need, managers place great emphasis on the care and well-being of workers. Friendliness and consideration are two elements that are well seen in employee interactions.

The *Adhocracy Culture* presents the same flexible environment as the clan culture, but its strategic focus is on the external; it is also called entrepreneurial culture since the purpose is to meet demands from outside, such as from one's customers, through greater internal responsiveness and flexibility. The signals that come from the outside are interpreted by employees who not only react to them, but also participate in them by innovating through their own creativity, taking risks, which is well seen and appreciated in this type of management.

The *Hierarchy Culture* has an internal focus, but the environment in which it is embedded is highly stable. The organization in which it is present is efficient and well-integrated, with a more methodical approach in business; elements such as heroes, symbols, and ceremonies are used to establish the values of tradition and cooperation among employees. There are many policies and practices to follow and adhere to (like a rigid structure or a dress code) during one's activities, with greater internal control and order. This culture does not match well with the need of modern managers who need more flexibility and additional relationships with the environment surrounding the company.

In the *Market Culture* the organization engages with the external environment but is not subject to rapid change. The performance and goal orientation present defines the vision of this type of culture, which places greater emphasis on achieving goals, growth, market share, and profit. Employees' activities can be measured to assess performance, and managers have importance in influencing their behaviour. A high level of competitiveness and assertiveness is present.

An organization's culture is created through situations and characteristics prior to its full definition; its form shapes as time goes by and as its size grows, as activities are conducted, and as new added values are obtained by individuals and by the personnel who are hired. Initially, it is the characteristics of the industry and the economic environment in which the company is present that define it through the values chosen by the founder, the national culture to which it belongs, and the vision and behaviour of the executives and top management who control it. There is a phenomenon called *founder imprinting* (Nelson, 2003) that is the process by which the organizational culture, which is defined or shaped by the founder of a company, can remain fixed and stable, enduring for years and decades even after its departure. This is due in part because the complete vision that the founder had for the firm was realized by fusing culture, strategy, and structure together in the organization.

The culture that the founders originally established is strengthened by their sincere desire to hire, train, and advance workers who share and embrace to the same ideals. More people who share these values, and align to those considered core, are drawn to that organization as a result[12]. The corporate

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[12]B. Schneider said that an organization is defined by its members' aggregate traits and the organizations naturally evolve into being defined by the individuals that comprise them because of the attraction-selection-attrition (ASA) cycle, a process that allows the organizational culture to be maintained. (1) People are drawn to groups whose members share

culture of the company gets stronger and more recognizable as employee standards and values grow more similar (Schneider, 1995). The groupthink, a circumstance in which ideas gather around a leader without others critically analysing and challenging that authority's opinions and suppositions, can be a gravely detrimental side-effect. Groups that are cohesive and lack for diversity are more prone to groupthink, which can result in poor decision-making that might have devastating effects.

The culture accompanies the company in achieving its goals and is placed among employees in the internal dynamics and processes, conforming to them and to the primary needs of the group, therefore, there are more linear cultures and others with a complex structure.

In the linear culture the business is the main priority with a focus on improving the experience and the outcomes. The agreements and deals made are based on a precise and enforceable contract with the process of negotiating as effective as feasible. This approach is typical of European countries, such as those in Scandinavia or Germany, and North America.

In a complex structure first, there needs to be some degree of social trust created. A general trust serves as the foundation for an agreement and a deal, the negotiations move slowly and are formal and ritualistic. Personal ties and goodwill are prized here. We find this structure in companies of Asian origin, such as Japan, Korea, and China.

Another distinction that can be made is between an *individualistic* and a *collectivistic* culture. The first one presents an ego culture in which more value is placed on the individual's freedom and choice, and on personal initiatives. The second gives more importance to the achievement of shared objectives instead of the individual ones with an us culture; in fact, personal aspirations and goals here do not take a precedence over those of the social group.

Organizational culture can be categorized by looking at what the focus of the company is and what kind of structure is adopted in management. If a company has a primarily internal focus and the structure is aimed at maintaining direct control the emphasis will be primarily on internal processes aimed at maintaining balance and stability. Following this direction, it can lead to better communication between the different divisions through information management. If the structure is flexible more attention will be given to human relations and to enhancing one's own staff, through training courses, for a higher level of unity and morale at work. When the target of the organization aims at an achievement of results in the external environment and maintain control, the emphasis will be on reaching rational goals, by planning and selecting the feasible one, giving as primary values

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their interests, personality, and values; (2) organizations are more inclined to choose candidates with expertise, knowledge, and skills that match those of their current members; and (3) over time, people who don't fit in are more likely to leave. Over time, employees in an organization are likely to share more personal traits with one another, which will cause organizational culture to consolidate.

productivity, profit, and efficiency. With a focus on external environment and a structure that aims to be flexible more emphasis will be placed on open systems: the growth of the company assumes a key role in the organization and its culture, an achievable goal, if one has readiness to respond to present needs and demands of the market and predict future ones by anticipating competitors. The acquisition of external resources results as a clear tool to facilitate the realization of goals.

Culture can have several levels, in addition to that conveyed by the leadership that expresses the central and core values of the company, shared by most of its members, it is possible to identify subset of individuals with partly different and unique values and ideas, sometimes in conflict with the predominant one.

A *dominant culture* that is widely embraced and adhered to by most of the employees, it reflects the fundamental principles that the majority of the organization's members adopt; this creates an organization's unique trait. Organizations may, however, have a few subcultures in addition to this main one, some of which may even conflict with one another (Sackmann, 1992). *Subcultures* represent recurring issues, circumstances, or experiences that an organization encounters, it shares the fundamental principles of the dominant culture together with additional values specific to their own divisions, regions, nations (Daft, 2017). Subcultures can be useful for the managers to broaden their vision and make the workplace as inclusive, respectable, and open to all as possible. In addition to the subculture there's also the *counterculture*, which ideals and values are in contrast with those of the dominant culture, and the *co-cultures* that represents groups of people who, because of their sexual orientation, racial or ethnic origin, gender, religion, social class, or generation, live within a dominant culture but are clearly distinct from it.

When members of an organization realize and agree on the relevance of the values and ideals present in the organizational culture, one would get the *cultural cohesion*, where the culture present is strong and solid; if this cohesion is lacking, the culture will be weak (*ibid.*). Culture is considered strong when values and norms are well observable and clear to staff, everyone is aware of how the company works and what are the roles. Differentiation among individuals is low and this is also reflected in the culture, deviations from the prevailing norm are not well seen, while great resistance to change is present. Elements such as symbols, ceremonies, and slogans are present and exploited in the culture to express and support values to align staff with them and the company's strategy. A strong culture can convey a specific behaviour pattern that enables individuals and the company to face challenges from outside, as well as from within. Accompanying a strong culture may be subcultures, the manifestation of common goals, thinkers, problems, or experiences that are shared by different employees of an organization, or even by an entire division or organizational group, which adopts its own distinctive culture in certain characteristics. They always present the values of the dominant

culture, but also some additional ones belonging to and imported by some of the members. The differences between the various subcultures, in the absence of a strong dominant culture, may result in conflicts between different organizational areas.

In an environment where the organization is subjected to constant challenges and threats from outside, such as competitors and the marketplace, learning and innovation are the answers a company is able to provide thanks to the presence of culture, which if it is strong stimulates employees to be responsive, by motivating them to pursue goals, shared by all, for performance improvement, shaping and influencing them to align actions with those of the company's strategy. Company leaders are responsible for defining a culture that is constructive and contributes to the achievement of excellent performance, because of the link that is present between the two (Chatman & Cha, 2003).

Kotter and Heskett, for example, show how companies that focus on their cultural values, exploiting them in employee activities, are the ones that come to achieve better performance. They emphasize the importance on the part of leaders to take advantage of a *constructive culture*, with which they can achieve their goals and improve their performance. With a constructive one, managers always hold stakeholders in high regard, and give importance to their employees and to the individuals both through observable behaviours and values, which remain hidden and, if necessary or required, can guide, and lead the company through changes and risks. If a culture is strong but does not encourage constructiveness, it can damage the organization. In this case, there are managers espousing primarily a bureaucratic culture, isolating themselves, not going out on a limb, and not embracing change and stimulus from the outside by not taking advantage of it; this approach can harm the organization if its consolidation does not allow it to adapt, remaining tied to factors and values that are now past or destructive, tied to an approach that had previously led to success and not necessarily applicable to new contexts. The company's reputation can be undermined when managers put the focus only on themselves and not on the whole group, displaying a disrespectful attitude that is inconsistent with the ethics and the respect of individuals.

Culture plays the role of formation and collective programming of the mind, which can spread to every unit and team by guiding and instructing, as said Geert Hofstede it is the "software of the mind" collective and the element that "many members of a group have in common and by which they distinguish themselves from other groups." International management and cross-cultural psychology are dominated by Hofstede dimensional conception of culture[13], his motto was "think locally, act globally." Organizational culture is strongly influenced by the national culture, in which the

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[13] Geert Hofstede introduced a model on national cultural differences based on research conducted for over 40 years in 70 countries, in the 70s working on these issues with the multinational IBM he developed four dimensions of social culture, in the 80s with Michael Bond he developed the fifth dimension, the Confucian Dynamism, in 2010 he added a sixth dimension Indulgence vs Restraint.

organization is established, that consists of the dominant values present in a nation and its society. National culture, according to Hofstede, can be identified by examining five factors that help us comprehend how culture affects organizations; understanding organizational and country cultures is essential to developing international business and managing multinational corporations, it illustrates how a society's culture affects its members' values and how these are connected to behaviours. Hofstede (1970) e Bond (1988) identify five factors of a company's cultural dimension:

- *Power distance*: tells us how much of an imbalance of power is typical in the context of social institutions and structures such as in the workplace, organizations, family, and the government. The dichotomy of distance vs closeness indicates how much individuals value and reject hierarchies and the power of a few over many people. It is the degree to which members of a society believe there is a disparate distribution of power, or an allocation of power where authority exists solely at higher levels of an organization or government.

- *Uncertainty avoidance:* we can understand from this factor how much do people like organized environments over unorganized ones. It is the extent to which people rely on social conventions, customs, and bureaucratic procedures to minimize future unpredictability. The distinction between these two reveals how much individuals need to operate in highly controlled and predictable contexts (avoidance) and how much they can improvise and adapt to unforeseen events (acceptance). If the level of uncertainty results low for the organization there will be fewer pay disparities, less centralization with a flatter organization that allows to be more flexible with few formal regulations and rituals to follow but higher variability, because of the low activity structuring and risk orientation. In this case the value given to office and manual labour is equal. If there's uncertainty that cannot be avoided, the organization will have a structure much more hierarchical with a high rate of centralization, multiple formal guidelines, and rituals to adhere to and elevated activity structuring; the organization will be less risk-oriented but more standardization-oriented. In these situations, and environments, *white collar* workers are valued more highly than *blue collar*[14] employees. One of the main factors influencing market exchanges between businesses is uncertainty, which is also a major factor in company choices, particularly those involving international commerce.

- *Individualism-collectivism:* it measures how strong bonds people form with their social groups and tend to show their pride, devotion, and unity to others. If the results are a low level of individualism, it means that the company acts as a family, protecting the rights of its workers, and by using managerial techniques that emphasize group engagement, duty, and loyalty. If the degree

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[14] Blue-collar jobs are typically manual labor paid an hourly wage, while white-collar jobs are office or administrative jobs paid a fixed monthly salary.

is high the workers will be keener to protect their own interests. The organization will appear as more impersonal with management strategies to support personal initiative. This dichotomy shows the degree to which people recognize themselves more as independent individuals or as members of closely connected groups (collectivism).

- *Masculinity-Femininity:* how much do people base their actions on qualities that are more associated with women traits, like solidarity, personal relationships and connections, assistance, and a good quality of life, or with those for men, such as success, confidence, authority, and achievement. In women's cultures greater importance is given to the quality of human relationships inside the organization, there is minimal application of gender-specific roles within the organization, the company does not interfere in individual's personal affairs, and people's understanding and guidance skills are recognized (many women in positions of qualification). In contexts with high masculinity there is a robust usage of gender-specific roles, to further its own interests the organization may meddle in the private affairs of the employees, The primary and central interest of life becomes the work, status, and personal success, the rivalry and aggression will be present and rewarded (few women in positions of authority).

- *Long or short-term orientation:* a long-term or short-term focus suggests how much do people are oriented in the future and the degree to which a culture encourages future-focused actions like investing money, making plans, and postponing personal or group satisfaction, from a forward-looking perspective, and how much do they remain rooted in the past and present, honouring customs and the social duties that go along with them, characterized by a mentality that encourages people to take advantage of opportunities as they arise. These values are typical of Confucianism and China, which has a high LTO.

There is a sixth dimension *indulgence vs. restraint*, this contrast raises the question of whether within the company it is possible to have fun or whether the work needs absolute seriousness and composure.

The GLOBE[15] cultural dimensions gave his own vision of how the culture of a company should be set up for its proper functioning and leverage its relevance to achieve a better working environment and consequently greater efficiency and achievement of goals (Ollier-Malaterre, and Foucreault, 2018). According to Globe, within the company's organizational chart, the distance from power and those in charge should not be abysmal but a distribution of power should take place, so that decisions are also made downstream reducing bureaucracy and time, by making the company more flexible.

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[15] GLOBE (Global Leadership and Organizational Behavior Effectiveness) is a research team has worked for 20 years on a project with more than 200 academics from 62 nations to investigate the connections between organizational practices, leadership, and society culture in the 90s, how much the cultures of the nations have changed, what are the main social forces behind the shift in culture. GLOBE Project. https:// globeproject.com/.

The focus should be future-oriented, by delaying immediate gratification, eliminating present uncertainty by depending on company's rules and guidance, while honouring and rewarding the excellence for the results obtained. Internally, use must be made of group and social collectivism to instil in its staff a sense of pride, of belonging inside the company and its family, and promote loyalty among people, to incentivize and encourage them to be more courteous, loyal, and generous.

An essential component of company culture is the *communication*. In a company, the organization's culture presents a significant impact on both internal and external communication as it permeates all facets of company dynamics and shapes how individuals relate to one another. The accomplishment of organizational objectives and the development of a harmonious and effective work atmosphere are supported by the connection between culture and communication.

Interactions and communication are two actions that take place inside the framework of the organization, these have a noticeable impact on how interpersonal relationships are shaped, protocols for communication or rules of engagement are defined, and issues are addressed. Clear and unrestricted communication is facilitated by an open and transparent business culture. In fact, it is recommendable, but more importantly beneficial, to share information, since it helps everyone comprehend the company's objectives and plans, and then follow them in unison. A culture of healthy, positive, open and effective communication creates opportunities for a constructive exchange of ideas, proposals, and feedback between staff members and managers. Cultivating positive working relationships and reducing negativity and disputes are appreciated by all. On the other side a more restricted culture inside the company may encourage more hierarchical and restricted communication in between the internal positions. Most part of people lives is spent at work, so it is essential to create a workplace that encourages cooperation, teamwork, and bonding between employees. One approach to do this is leveraging technologies and channels that enable to connect across teams, departments, and eliminate friction. A strong feeling of community is organically created in the workplace when employees are allowed to communicate and form meaningful connections. Managers and the leadership must learn to actively listen, communicate effectively, provide, and accept ideas, opportunities, and concerns. A key component of job satisfaction is confidence in upper management, which may be developed via regular, transparent communication. Companies should provide internal resources and opportunities for employees to grow; for workers to contribute to a positive workplace culture, they must be at their best physically and psychologically. To obtain it firms must collect feedback from the personnel and monitor advancements: By promoting a dialogue company's culture will be stronger.

It is important to consider in an organization how time is perceived by its human resources and what proxemics is. *Proxemics* is the discipline that studies what relationships are created between

individuals and the space around them. It allows us to understand what spatial behaviour is, which refers to the reactions and actions that people have in relation to the space around them, and approach disorder, which explain the feeling of discomfort that some people present by being too close to others. In a company with a complex culture there is a limited space, with the areas confining, and a close physical contact; in one with a linear structure the perception of space will be the opposite. Time in an organization can be perceived by workers in two ways: monochronic and polychronic (Hall, 1984). *Monochronic time* is the method of operating based on the idea that time is limited and scarce, segmented precisely and controlled or dictated by schedules. Polychronic time, on the other hand, is the ability on the part of people to multitask due to the flexible and multidimensional nature of time.

Culture is a vehicle that is also leveraged within an organization to foster socialization between the employees (Schein, 1990). *Socialization* can be defined as the mechanism or process through which the members of an organization are influenced e pushed to align with its culture. Through the process of socialization, which involves immersing oneself in a company's daily activities and internalizing its values and standards, employees gain knowledge about the culture of that firm (Chao et al, 1994). Inside an organization there is a progressive level of socialization that occur during a person's life with the firm and his coworkers: starting with a national culture, one goes through a professional culture, to the culture of the organization. Since cultural dimensions focus on cross-culturally shared interaction and communication practices, they may be helpful in the interpretation of corporate interpersonal relationships (Zhu et al., 2005).

1.4 The challenges of cultural integration.

Taking up the cultural iceberg model, it is possible to get a representation of what happens when two icebergs, companies, approach each other through an M&A transaction. As the model suggests, it is possible to observe what happens above the water level, in this case the collision between the surfaces of the two icebergs that can be identified as what we can expect from the transaction between these two: the formulation of the strategy and objectives represented and carried out by top management, whose task is to identify the reasons and possibilities that can make the M&A transaction between the two companies profitable, and try to convince stakeholders of the potential. Below there are the organizational cores with strategy implementation; by applying the strategy formulated by top management, the company makes it concrete and real, ready to drive the competitive strategy not only in the short term but also in the long term. When these two icebergs come into contact, with an M&A transaction, the strategic objectives are the ones that are observable and visible to all, while the

collision that takes place below the sea level, between the cultures, values, and identities of the two companies, may remain hidden.

If these two corporations are also large in size it means that both of them have a strong and affirmed internal culture and a complex structure, there will be less flexibility on the part of both of them, they will go through slow change; and if the environment in which they are present is highly dynamic with continuous changes it will be more difficult for top management to adapt M&A to the contingencies. The cultural iceberg model is a simple demonstration of how this side of the companies in integrative processes (collisions) are often underestimated. Culture turns out to be a relevant factor and cause in the failure of an M&A deal; with a different culture there will be for example different leadership style, norms, work approaches, beliefs, and values and without a thorough integration procedure it will only lead to confusion, instability, unsatisfaction and discontent.

There are several processes that must be conducted to make an M&A a success, some occurring in the period prior to the date the deal signature, others relating to its signing day. It is essential that during these processes there is always continuous monitoring of what is being done so that there is a fit between the short-term performances, current and ongoing, and the new strategies that have already been thought of and formulated for the new entity that will be created. We can identify two main reasons that can explain a failure.

The first is an organizational reason, that people may not be accepting that there are changes in which they are included and to which they will have to be subjected. This is even more complicated in large companies where the internal culture present depends not only on the size but also on its history. Companies that are older are those with a much stronger and more pronounced level of culture, since realizing and overhauling the culture of an organization takes a long time before it is solid. In contrast, younger companies are the ones that are more flexible in this respect as they have a culture that is not yet well established.

The second is related to a purely strategic reason: it takes time to develop a strategy, and changes may occur in the world and in the market environment, with new products, new competitors, and a more aggressive market than before.

Because of these complications one must do the best to integrate a company; creating a new entity that goes in the same direction becomes of paramount importance for the success of the operation. Culture plays a significant role here as never before, and if you do not have a solid culture, it will be possible to achieve short-term goals but extremely complicated to achieve long-term ones.

The blending of two or more cultures is one of the most evident factors driving cultural change. However, the question of cultural compatibility is sometimes overlooked until after a merger or acquisition has been completed. This can result in cultural "indigestion" (Schein, 1990) and the

ultimate loss of companies that are unable to integrate culturally. Organizations must either provide training and integration programs to aid in the integrating process or engage in more premerger assessment to ascertain cultural compatibility to prevent such issues. These discussions must consider the deeper layers of cultural beliefs, to prevent companies from agreeing only on artifacts and values while continuing to not consider or disagree on the underlying assumptions.

1.4.1 Typologies of cultural integration

As affirmed by Haspeslagh & Jemison (1991) various kinds of acquisition necessitate various integration strategies, which may be summed up as a variety of optimal forms or plans of process components. Their research produced a popular model (*Fig. 1.7*) based on the correlation between integration, justified by acquisition needs, and autonomy, to preserve the value and reasons of acquisition; the managers must be able to graduate these components, their action can result in four different approaches preservation, symbiosis, holding and absorption, to which correspond as many ways of intervening in the culture separation, integration, deculturation and assimilation.

	LOW	HIGH
HIGH	Preservation (Separation)	Symbiotic (Integration)
LOW	Holding (Deculturation)	Absorption (Assimilation)

Need for Organizational Autonomy (y-axis) / Need for Strategic Interdependence (x-axis)
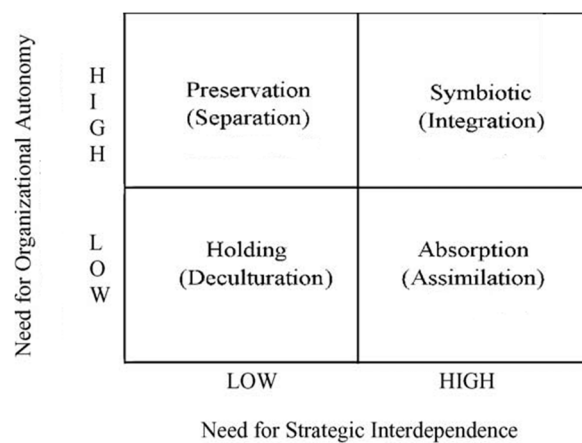
Fig. 1.7 - Types of acquisition integration approaches   *Haspeslagh & Jemison 1991, p.145, realized by Author.*

Based on Haspeslagh and Jamison's, Marks and Mirvis (2001) go through five main approaches that companies use to integrate their operations after making an M&A. These authors define and explain the organizational traits required to effectively manage five key integration techniques, basing their classification scheme on the degree of post-combination change in both the acquiring and the acquired business, respectively, so looks at how much the acquiring and acquired firms have changed. We can recognize different type of cultural integration; these can be represented on a graph, with the x-axis showing the degree of change from a low to high level for the acquiring firm, and the y-axis showing the same level but for the acquired company:

- *Preservation* is the process of cultural integration considered as the easiest to accomplish and to manage among the present possibilities. As the word suggests it requires only a few changes on the part of both companies with the acquiring firm deciding to keep the culture present from before in the acquired one: this will then have greater autonomy (stand-alone) and independence with management remaining at a distance without much intervention, to protect and make the most of the advanced qualities present within. The degree of change will thus be low for both companies.

- *Integration* by reverse merger as mentioned earlier is an exceptional case in which it is the acquired company that ends up ruling the two. The degree of change then is high only for the acquiring one that assimilates the culture of the company with which it merges by adopting its norms, practices, and values.

- *Absorption* is the easiest option with a short timeline, along with preservation, to integrate the acquired company with fundamental changes to conform to the acquirer, and that its preferences and decisions will be followed. The acquiring company will also have to undergo minor internal changes to be ready to accommodate the new structure in the best possible way and avoid future integration problems.

- *Transformation* is certainly the most difficult and drastic type of integration of those listed. It requires a high degree of change to occur in both companies engaged in the deal with both organizations in need of finding new ways to function. Completely different values and a culture from the previous one are developed, and a transition to strategic control and authority takes place.

- *Best of Both* is the method that transforms both companies in a complementary way with not fundamental but substantial and significant changes to achieve true cultural integration. At the basis of this relationship between the two companies is a lively collaboration and the transfer of capabilities.

Based on the type of merger transaction that is completed, there will be a different difficulty in implementation, and level of relatedness; a horizontal type of merger, that takes place between companies related to each other, will present an interaction resulting in conflicts and incompatibility in some management or organizational aspects, with possible employee quits and downsizing. In a conglomerate merger internal change will be minimal because of its unrelatedness.

1.4.2 Results of culture integration

Following an M&A process it is possible observe how a substantial change occurs in the structures and culture of the companies involved, different and sometimes conflicting businesses, ways of working, and thoughts are going to merge. There are two types of scenarios that can occur: a negative one that leads to cultural clash and a positive one that results in the social merger phenomenon.

There is a *cultural clash,* a conflict between distinct cultures, when:

- the people do not well receive the recently combined company. They become disengaged, lose their loyalty, and develop mistrust and anxiety about the future because of leaders failing to provide them with accurate information about the goal and strategy of the agreement.

- individuals do not comprehend one another; they are unable to establish a rapport with new coworkers and are unaware of the cultural characteristics of the merging organizations. They do not cooperate, or even work against one another. There are systems and business practices that differentiate employees from one another: this will additionally encourage internal competition and conflict between "*Us vs Them.*"

- there may be distractions and deviation from the main tasks and roadmap. In fact, if a poorly designed integration between companies has been conducted, too much time and care will be required for the proper completion of the procedure; this will affect productivity with a consequent reduction in sales and clientele for the business.

- as an extreme consequence you have the departure of your employees from the company: this happens because they may have become frustrated and discontented with the difficulties and hold-ups in the integration process, or because they no longer feel like they belong and fit in the company anymore.

If the integration of the two companies is successful with positive results at the organizational level, with respect for the cultures of the companies involved, it means that that the companies have obtained a *social merger*. The employees of the two distinct past organizations are loyal to the recently combined company, they feel at home, respected and secure in the new workplace, they have a strong sense of inclusion and shared identity, and are focused entirely on their jobs and each other. The interpersonal relationships that occur in the new organization among the personnel are positive and beneficial. They engage in conversation with their new coworkers, sharing their background and methods of operation to help each other, working together to support the company and its future, acting in unison as if they are all on the same side, exchange knowledge, ideals and best practices, respond to inquiries and request from the others, and know when they need to modify their procedures in order to better assist their clients. There is permanence in the organization of personnel present before the M&A transaction: they feel valued and respected now and have an interest in investing their work in the new organization they are creating. As a result, is created a *psychological synergy* between the two companies and their employees.

There are two types of effects that can occur within an organization and affect the personnel of one or even both companies: *identity ambiguity* and the syndrome called *"Them/Us."*

Identity ambiguity, the various perceptions, and interpretations of an organization's identity, may arise from losing sight of the core values and distinguishing traits of an organization when two previously independent businesses are to be combined into one. The four sources of ambiguity that arise during acquisitions are the environmental, structural, cultural, and positional. Two companies might hold varying opinions about what are the key components and distinctive elements that set their own company apart; their members may have a picture of the other company that is different from the self-concept that the "other companies" have. The employees are highly driven to act, protecting their identities and improving the perception of their organization. This leads to a sense of confusion among employees, with difficulty in comprehending who "they" are as members of the new organization and how they should behave, negatively affects motivation, commitment, and productivity.

At the corporate and employee levels, the operations of M&A at the end of the deal frequently result in having winners and losers with one culture overthrowing another. There is an internal conflict on who should have or maintain the power, with a consequent disparity in personnel, and one employee could outperform another in the position. Following the acquisition, the staff members from both companies usually begin to doubt about their own workplace and take a "them and us" position, which eventually devolves into a "winners vs. losers" mindset, the "*Them/Us' (*our group/the other's group) *syndrome.*" To prevent acquired workers from feeling subordinate and overwhelmed, the acquiring company should allow the presence of a respectful environment which could and will assist people to better comprehend one another's points of view and ensure a more seamless integration. However, individuals may have different reactions to being acquired, while the majority may resent the acquisition, some individuals may welcome it, because they are more in time with the culture of the acquiring firm. While acquisitions can unify a workforce against a common enemy, they can also destroy unity as individuals fight to protect and improve their own positions. A divided organizational environment may result from this division, with new groups emerging and the established organizations not working together, an intensification of internal conflicts, and the hinder effective communication. It is critical to increase employee diversity at all organizational levels to create an inclusive work environment on all fronts.

The intense and intimate experience that employees have when they are in a culturally unfamiliar environment is known as "*cultural shock*", is a "personal disorientation", a sentiment and perception that comes when are introduced and adjusted to a new culture. The challenges of the employees adapting give rise to cultural shock which makes it difficult to discern what is and is not acceptable in the new organization and is a phase that takes time to get used to. Cultural Shock occurs following the completion of the M&A deal, in which an employee goes from a moment of euphoria and interest

in the new changes, to one of disorientation with a drastic decline in the level of satisfaction and happiness. Then, with a series of adjustments, necessary, and experimentation we can later arrive at an equilibrium stage where there has been a mastery of the integration with an adaptation. Change is inevitable and expected as individuals develop and learn from the experience of the change event; the management of important human variables can help workers transition to new levels of engagement and productivity more rapidly, by reducing the depth and length of alienation. The proximity of activities and business between distinct organizations give rise to cultural shocks that can manifest with the presence of conflicts and disagreements within the structure of the organizations and its functions systems, disputes about the management approach and direction, and with arguments and controversies regarding the leadership and top managements use of power and authority.

The organizational, financial, legal, and technical elements of an M&A operation receive greater attention than the social and human components present and operating within the companies; commitment and attention are not enough to support and assist' well the human resources present and uniting them with positive results in the three distinct phases of the operation, before, during, and after the merger. Cultural integration receives a superficial recognition with insufficient funding and interest, employee's communication and interaction regarding the merger and the culture that comes with it is limited to the need to learn it and nothing more. In the due diligence leadership often fails to recognize what are the possible culture risks that may occur, because there is a disagreement among the leaders about the ideal culture that they should strive for to achieve cultural alignment.

If the organizational cultures of the two organizations involved in acquisitions are usually compatible; it does not imply that the cultures are completely identical to each other, but it indicates that there are not any conflicts between them on some crucial aspects like corporate governance and managerial approach.

The reason why the merger of two organizations is problematic for its employees is because of what is known as "*familiarity blindness*" or "cultural trance," which is the tendency of each group to see the world and its environment through their own biased cultural filters to which they are familiar, and because of this it is difficult for members of one culture to recognize other cultures (cultural blindness). These sorts of sensations and events are genuinely perceived by the employees at both organizations, with choices, and scenarios from two distinct points of view influenced by their own cultures and previous experiences. The human element in any M&A is mostly dependent on mutual respect, recognizing how things are considered in the other culture, and at the same time being disposed to consider other viewpoints. What should not be lacking in these contexts is *cultural humility* is an awareness that one is understanding of others' culture is incomplete; beyond simply

acknowledging or paying attention to our differences, one is asked to take responsibility for how one relates to others. The right behaviors that should be followed in these contexts are to be focused on others and the whole group to which one belongs, after M&A, instead of only on oneself, showing consideration and respect for others without overdoing superiority, and providing interesting theories and ideas to share with others and work on, instead of making judgments and going straight to the conclusions. When interacting with someone from a different culture, one should be informed of their language, the space to use, your own culture, and how to adapt it to fit that of another individual's culture. To work with cultural integration, a person must possess cultural intelligence, the capability to perform effectively in contexts with a variety of cultural backgrounds, and the ability to detect and adjust to cultural differences. Language, spatial, intrapersonal, and interpersonal intelligence are some of the areas.

A key component and tool for successful cultural integration is *communication*. In addition to demonstrating leadership alignment and cohesion, and supporting the vision for the change, it plays a crucial role in involving the many stakeholders of the companies to hear their opinions on what changes to consider and what are the best directions to take. Cross-cultural communication studies the ways in which individuals from various cultural backgrounds attempt to communicate across cultural boundaries, within and amongst themselves. Its goals are to foster cultural synergies among individuals from diverse cultures, to prevent misunderstandings that may arise, and to boost efficiency and productivity. At every level of the cultural integration processes, the change in communication is essential for the creation, management, and dissemination of messages inside and outside the company: an effective communication regarding a M&A is essential from the moment it is announced, long before rumours about the possibility of a deal start to circulate and become unmanageable. This is especially true when it comes to the cultural, social, operational, and financial aspects of the deal. In most cases the first communication workers hear will have the biggest impact on the way they see things. Workers must be informed on changes in both the overall scenario and the daily operations and tasks they will have to work on, including what is changing inside the organization, and why, when, and what will happen to the company and them after the integration has happened. As a result, the objective of an M&A communication strategy is to respond to the three most crucial concerns that the employees of the acquiring and acquired companies will have in a clear, understandable, and reliable manner, that is, what are the reasons for the changes, what will happen to my job position, and how will the process work. Every acquisition or merger revolves around people, which means an organization's capacity to foresee, comprehend, and respond to the unique worries and questions of its workforce will decide whether the deal succeeds or fails. The fundamental concepts that the company must accomplish to show the willingness to arrive at a change

with an emphasis on people starts by establishing early communication that throughout the change are kept constant and regular in the organization so that the company is ascertains that there is support and sustain for a continuous dialogue with staff members that encourages trust and keep in touch before to, throughout, and following the organizational change. At all times they need to provide staff with all the information they need to know while maintaining an open lines of contact with external stakeholders in charge of their involvement. In fact, remaining silent usually generates nervousness and gives rumors too much room to proliferate. It is possible for the communicators to take part in the cultural shift; however, this is only possible if communicators comprehend the elements of the change process that needs to be done and align their actions and thoughts with it.

Poor planning or wrong intentions are not typically the only reasons why acquisitions fail, it is usually also due to the actions of their leaders and management, the decisions they make, the ways they oversee issues, the ways they collaborate, or do not cooperate at all. Essentially because of the culture: The *role of leadership* is in these moments a key element as cultures emerges when someone in authority forces his or her own beliefs and ideals upon a community. Employees could turn into leaders during moments of turmoil and change to obtain the right direction on appropriate responses and behaviors, as well as for inspiration and concentration. This is because employees can be considered as more receptive to change and keen to make the required adjustments when they believe their leaders really care about them. During merger and acquisition activity, leaders establish their top priorities, generate positive business growth, and maintain order. With the integration processes of the acquired company, there are several challenges facing the leaders of the firms involved. Leaders will need to address cultural challenges to avoid the advent of the shocks analysed above, and maintain a good level of patience, sometimes a trait underrated by most leaders that can be lacking for how long it takes to transform an organization's culture. They begin the process with structural reorganization to signal their intentions, but when resistance from the culture appears, they become discouraged and eventually give up before the shift has had a chance to take hold on its own. The result of disputes among top leadership personnel can cause a variety of perplexed and unhelpful emotions and actions in subordinates (a phenomenon known as "organizational schizophrenia") and it is therefore critical that they maintain the leadership role in this transition. An acquisition may intensify already-existing internal conflicts between divisions or units with the rise of eventual rivalries, competition, territories, and barriers. In addition, there is organizational disappointment among the staff; with the acquisition and changes it had begun with the increasing of hope and positive feelings, but when that optimism is not realized, it leads to disappointment since the expectations and goals it set are not met. Alteration of plans made to address current demands would

be too rigid and static and not flexible enough to adapt rapidly and adequately to the shifting of political and strategic environment.

Managers often confuse value capture with value creation, they believe the key to success lies in winning the 'right' deal; they forget that the value which they capture is only notional and can easily be destroyed through clumsy post-acquisition management. The primary purpose should be to create value by enhancing the strategic capabilities of the target and/or the acquiring firm. This can be achieved only after the deal is concluded and may take many years of careful nurturing. However, most acquiring firms have only a rudimentary understanding of how to manage the company. They define two broad acquisition objectives: to achieve specific strategic goals, and to transfer capabilities. acquisition managers choose to focus on quantifiable financial issues and ignore the 'messy' human dimension. As a result, managers often oversimplify key issues and fail to develop creative solutions. Haspeslagh and Jemison (1994) recognize that integration is an evolutionary process of adaptation rather than a completely predictable activity.

The key time when many of these issues that have been mentioned can be analysed and prevented is the due diligence: the assessment of an M&A's cultural compatibility is known as *Cultural Due Diligence*. An acquirer may be able to ascertain if and how a blend of many cultures in the stages happening post-acquisition has a high possibility of succeeding through pre-acquisition cultural investigation. It is advised that before making a purchasing decision, an acquirer should examine the company's national and organizational cultures already set and established to determine the cultural elements that are essential for a successful integration of the various cultures and observe the existence of cultural compatibility, the ability of two cultures to blend. Due diligence will not be able to assist the company in identifying the crucial problems that might prevent talks and mergers until following that research. The due diligence that is done on culture differs from that focused on Human Resources, which concentrates on other areas, including predicted and previous number of employees, staff turnover trends, senior leadership resumes, and remuneration packages to address disparities in pay between the two firms as well as other related concerns, the Cultural Due Diligence instead focuses on evaluating the acquired company organization's principles, visions, missions, and ideals as well as its management and leadership configurations, views of the company, management, and methods of operation, and how well they align with the acquiring organization. This can be used as a diagnostic tool of cultural sensitivity inside an organization, for example to selects potential organizations during the M&A strategy development process by considering cultural fit as a relevant criterion; the acquiring company eliminates organizations that are culturally distinct from the list of possible candidates by using "cultural fit" as a criterion for choosing the desired firm. From this accurate selection new kinds of strategic M&As are feasible by evaluating the many levels of cultural

"fit", like the national, sector, organizational, and employees, while also considering a variety of reactions. The degree of cultural compatibility between the companies involved in the deal is assessed by going to see what their vision are, mission, values, principles of the organization, the business objectives, policies, customs, and processes inside the organization. Presences of stresses and worries are identified, especially of the target organization's top talents and staff and they try to prevent the combined company from having to deal with the them vs. us dispute, by getting the leaders ready for M&A results and a combined company in the future. They must determine the probability of a conflict between the perspectives of two firms today or on their joint future, in the upper management and within the divisions and functions present, also between companies and their clients, the people who invest in them, the sector they operate in and their vendors. The cultural evaluation of the companies should include an understanding of the national and organizational cultures present inside and how these, to develop a strategy for the areas where there are differences and provide an in-depth risk evaluation that highlights any possible conflicts between organizations and people to then spot the connections and synergies that instead indicate and will lead to a successful integration. In the M&A context, organizations companies typically use the clean teams as a tool for comprehensive due diligence and for the integration planning of the companies involved; with these teams they will be able to obtain additional information on how the differences between the firms and their cultures will affect integration and their plans. The business plans the company wants to pursue must be supported by the culture.

The culture of an organization may be both its greatest strength as well as its weakness. If a company relies too much on its culture, it may transform it from a core competency into rigid one, when it depends too much on it without evolving, updating, and improving it, like the company and its surroundings do (Herold & Fedor, 2008). With time, it could become less suitable and transform from strength into a fragility, a culture must adapt at this point to not turn into an obstacle, needs to be adjusted during these crisis periods to remedy an instability in the culture-environment fit and prevent such issues in future occasions. A company's board of directors, the highest point of the organizational level, is primarily responsible for implementing shifts in strategy and structure when it appoints new leadership, and in determining the corporate culture with executive decisions on how to set up the organization and its operations, distribute its resources, and create its prize system. It is not a quick procedure; culture will have to be formed over time; it is not an input but a result (output). In an M&A operation, culture integration is about aligning the right behaviors with the desired results of the companies involved.

CHAPTER 2 - Video Game Industry and Two Leading Players: Activision Blizzard King and Microsoft.

2.1 Tech and gaming industry

Within our global economy, the IT industry is among the most significant and dynamic sector; technological companies must be able to grow in step with other firms in the market, and change course even quicker, in an environment where innovation is equally an opportunity and a risk (Bain, 2023). Technology is the engine that powers and drives many other sector such as the media and entertainment one, the transformation of its landscape is quite normal at present, customers have acquired increasing decision-making power and demand greater customization, choice and interaction with the products and services that are offered, companies are increasingly faced with a customer base with more needs to satisfy and difficult to please with a standardized product not original, or not in line with the possibilities that new technologies are capable of delivering; at the same time, there are multiple methods of contacting your audience, but it's never been harder to engage them. Digital technologies are the driving force behind this, continuously reinventing the production, distribution, consumption, and monetization of entertainment and media items.

From the early prototypes in the 50s and 60s, to the increasingly sophisticated new technologies, video games have grown to become both a multibillion-dollar business and a relevant part of popular culture. Even though the first reaction is always directed towards adolescents and kids, gaming has a far broader audience and overall cultural impact. Games are a phenomenon, an integral part of the daily lives of hundreds of millions of people, and much more than just an act of fun and entertainment. It is now seen as a social construct that profoundly affects how individuals view their surroundings; video games are currently having a significant influence on many sides of our lives, like learning and education, socializing, and new forms of communication. A full view of what the video game itself can represent is given by Phil Spencer, CEO of Microsoft Gaming, "for many people around the world, gaming is the first entry point into technology, most gamers today are adults, half are women. When people call video games a waste a time, I point them to the well-documented health and social benefits of gaming. This widespread embrace of gaming and its global communities have turned video games into the world's leading cultural industry, bigger than movies or music" (Xbox, 2019).

A video game is any interactive digital entertainment that can "play" on a device, a phone, a computer, or a game console; actually, the term includes an incredibly wide range of content, there are many types of video games, and each one serves as a different kind entertainment media. The fact that video

games are easily accessible to all players and offer a vast array of possibilities is one of its main features.

The *gaming industry* contains different market segments, the hardware production regarding the devices on which the game is played (console, pc, or mobile) and gaming peripherals (headsets, controllers, mice, and keyboards), the software market involved in game development and publishing, with its physical or digital sales[16], subscription services, VR systems for *Virtual Reality*, and cloud gaming (Newzoo, 2023). It's a market with the highest change and growth rates, new technologies have enabled advances in the production of new video game experiences and the possibility to play on new devices such as mobile platforms, tablets, and smartphones; the opportunity to access through countless channels has permitted a cross growth interesting different genres and age groups.

During the period of Covid-19 pandemic, while many companies were struggling due to financial and economic crisis problems with a halt in their growth, the video game industry was among the most resilient ones especially in terms of growth and increase in customer base (market grew by 26% in the 3 years 2019-2021); with more time in their homes and more free time available, people were increasingly approaching this entertainment reality to find a pastime and by gaming to connect with others, while practicing social distancing (*ibid.*). The main driver of growth for the gaming industry is technological advancement, with a significant improvement in the gaming experiences that video game companies produce and offer, with innovative solutions on the gameplay side, the technical side, art direction, level design, new genres never seen before, or the one reimagined, and innovation has made available increasingly high-performance platforms and devices. Companies like Nvidia or AMD with their graphics cards have pushed videogame production to new horizons, moreover the increasing power of these devices from both PCs and consoles takes the graphics and quality of games to a new level; new 4k resolution standards accompanied by increasingly new realistic graphics engines intensify the gamer's experience and immersion.

The existence of new connection methods, such as high bandwidth network connectivity, 5G, and the increasing use of the Internet, have helped to boost the demand for products and games capable of connecting more people around the world, the introduction of *Cloud gaming* services that through the use of highly sophisticated cloud capabilities on a large scale represent the future access to gaming in the next generations of platforms and social entertainment through online engagement anywhere, anytime, and from any device without the need to own a gaming hardware or the local installation of games: a game changer. New tools are being used to play games for VR, such as headsets with which

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[16] The second much higher nowadays with the advent of recent technologies and the increase in the use of digital, for some publishers such as Take-Two which even exceeds 95% (Statista, 2023)

they are trying to blur the distance between real life and video gaming, an enormous potential for the future and not just for this industry.

All these factors have had a positive impact in the industry, bringing more people to become interested and enthusiastic, as well as investors. In the last three years, there has been a half a billion more participants in the gaming sector, and in 2023 the number of players worldwide is expected to reach 3.38 billion, while the gaming market to produce $184.0 billion in revenues (Newzoo, 2023); in 2023 the industry, especially in the beginning, suffered post-pandemic slowdowns with delays in the production and publication of games, and in hardware supply. It is set to maintain this growth in the years to come, surpassing any other form of entertainment, by 2026, the video game business may grow to be worth $ 205,7 billion in revenues (*ibid.*). There is segmentation in the industry by type of platform that is used and for which video games are released, console, PC, and mobile. The main hardware makers who dominate the *console gaming* market are Nintendo, Sony, and Microsoft, the most well-known gaming companies by the global audience, respectively with their latest console releases, Nintendo Switch, PlayStation 5 and Xbox Series X. The console games market share is 29%, higher than the PC market share of 21%; Sony leads the global industry with PlayStation's system hardware, services and games with a 45% market share, Nintendo second with 27,7% and Microsoft third with 27,3%. The success of the gaming industry is not only limited to platform owners, as the bigger portion of the revenues belong to the mobile market, 49% with $90,4 billion, with Chinese digital giant Tencent leading the world's companies by gaming revenue, and more than 1.75 billion registered users by 2022 (*ibid.*).

Analyzing the industry geographically the Pacific Asia is the biggest games region both in numbers of user (1,789 million) and revenues (46%) with the United States (27%) and the European market (18%) following. On the Asian continent, the practice most used for video gaming is via smartphones, in fact mobile devices represent the platform with the largest segment in the industry driven by the strong presence in that region, an area with a strong profitability desired by the many companies to invest. In China alone there are 660 million mobile gamers with an estimated revenue in 2023 of 356 billion yuan ($50 billion) (Statista, 2023). In countries like South Korea and Japan, the culture that exists for video games plays a key role; there is also a strong presence and growing popularity in the regional market of eSports, large tournaments based on well-known competitive multiplayer games. Mobile titles primarily follow the "*freemium*" business model, *free-to-play* (F2P), with no initial cost, unlike most games released on consoles or PCs, but they have been the promoters of the innovation in the monetization of games with microtransactions[17]. The *live-service-games* model, or *Games as*

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[17] Microtransactions are a business model, optional purchases that can be made by who owns the game, not always necessary, but sometimes considered predatory and strategically selected to allow for easier progress in the game and

a Service (GaaS) instead, are products that are supported consistently throughout their life cycle with new features and updates, a game that changes over time; GaaS, are currently dominating the top 10 most-played games on PC and consoles, built around constant engagement and game subscription service, with the game Fortnite first on the list (Newzoo, 2023). For young people between the ages of 13 and 17, video games have become the primary source of pleasure, spending more time playing video games than on social media, TV, or any other form of entertainment, in addition, it is the area where they spend the most money. The average income per user has increased due to the global domination of free-to-play games, and the emergence of new payment structures like monthly subscriptions services to game libraries, this trend is going to pick up speed.

More fundamental changes for what and the way people will consume videogames is on the horizon, with the additional excitement around generative AI and its capacity to create content, along with the interest that has been generated for the *Metaverse* throughout the past year; based on historical evidence, significant disruptions typically result from a confluence of three variables: shifting consumer demands, technological advancements, and market dynamics. It is predicted that AI in the video game business will handle more than 50% of game production in the next five to ten years (Bain, 2023); it's use could save expenses and speed up game production and increase its quality, playing a bigger part in pre-production, creation of stories, characters, and non-player characters (NPCs), language, locations, and in-game assets. The biggest menace and controversy are that this technology may replace the creativity contributed by humans but will surely save engineers from tedious labor and skills problem.

Other new trends that have influenced this industry are live game streaming, a phenomenon increased during the pandemic with gamers playing live games and have reached an audience of over 1 billion (Newzoo, 2022), and increased capitalization on important *Intellectual Property* (IP) by the media industry extending it beyond just gaming like with investment on movies and series (Mario Bros Movie, The Last of Us series).

2.1.1 *Acquisitions in the gaming industry*

Gaming companies and their developers confront both great opportunity and fierce rivalry as technology develops, and consumers' preferences and expectations change quickly. Although the macroeconomic uncertainty has limited mergers and acquisitions (Bain, 2023), IT firms are continuing to finalize transactions to survive the adverse conditions better than their competitors.

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give an advantage over other players, thus keeping part of the product behind additional payments. They represent one of the most controversial elements of this industry, not appreciated by many gamers, but guaranteeing for companies to achieve even higher profitability than with full-price games at $70.

History indicates that uncertainty, rather than recessions, slows down the M&A in tech market; once uncertainty decreases, activity and valuations will rise again. To effectively capitalize on this prospect, companies must act quickly, take initiative, intensify their due diligence, and concentrate on increasing synergies. The complexity and scope of media and entertainment will only increase as technology develops, the strategic acquisitions, partnerships, and internal innovation are the main tools that allows to develop next generation mega platforms and to extend and strengthen their capabilities for a more interactive and engaging future to reach their target audience. In recent years there was a strong trend of turning to M&A to acquire new technologies, IPs, or talent and grow into size trying to get a competitive advantage, with the goal of serving as a complete solution for all customers' entertainment needs. Operations that enable firms to go farther in interaction will see the most interesting development in these years, especially if they bet on the video game sector; media and entertainment corporations are acquiring businesses that enable them to expand beyond their foundations to gain interaction and keep costumers (Deloitte, 2022). The greatest media firms that attract and profit from consumer involvement are those who have a worldwide network for content production and consumption that spans all consumer sectors. Two main approaches are emerging from corporate gaming investments that will help them develop future skills in an increasingly interactive world (Bain, 2023): purchase to increase your gaming capacity, and purchase to construct the mega platform of the future.

Between 2019 and 2022, the gaming sector recorded more than $200 billion invested in M&A deal value; in the first half of 2022, around 650 gaming-related M&A or investment agreements were either announced or completed (BCG, 2023), and in the near-term further M&As are expected to purchase studios and other gaming related properties. There is already a high level of concentration in the segment with over 70% of the market currently controlled by the top ten firms; Tencent, Sony, and Microsoft make up the top three players with around 40% of the market.

On January 18, 2022, Microsoft announced the plans to acquire Activision Blizzard for $68,7 billion, the largest M&A deal of the year and the biggest ever realized in this industry. It shows a clear intention to gain control of the market through the broad reach of Activision's direct-to-consumer games. Microsoft had previously made other acquisitions of relevance in the sector such as Mojang[18] in 2014 for $2.5 billion and ZeniMax Media Inc. in March 2021 for $8.1 billion.

In 2022 the second biggest deal in the sector was the acquisition of the mobile-focused company Zynga, by Take-Two, for $12,7 billion[19]. On January 31, 2022, Sony Interactive Entertainment

[18] Mojang is the studio that created Minecraft, the game that was able to reach 300 million copies sold in December 2023, making it the second best-selling game of all time behind Tetris.
[19] Take Two with Zynga has the ability and resources to be present in the rapid and evolving mobile market and to expand its audience for more consumer interactions.

acquired for \$3.6B Bungie[20], as a response to that of Microsoft. In the past, other acquisitions have been that of King.com by Activision Blizzard for \$5.9B in November 2015, or that of Supercell made by Tencent for \$8.6B in 2016; both acquired companies are leaders in the development of mobile games, respectively Candy Crush or Clash Royale. Fig. 2.1 illustrates the main acquisitions by value in the video industry.
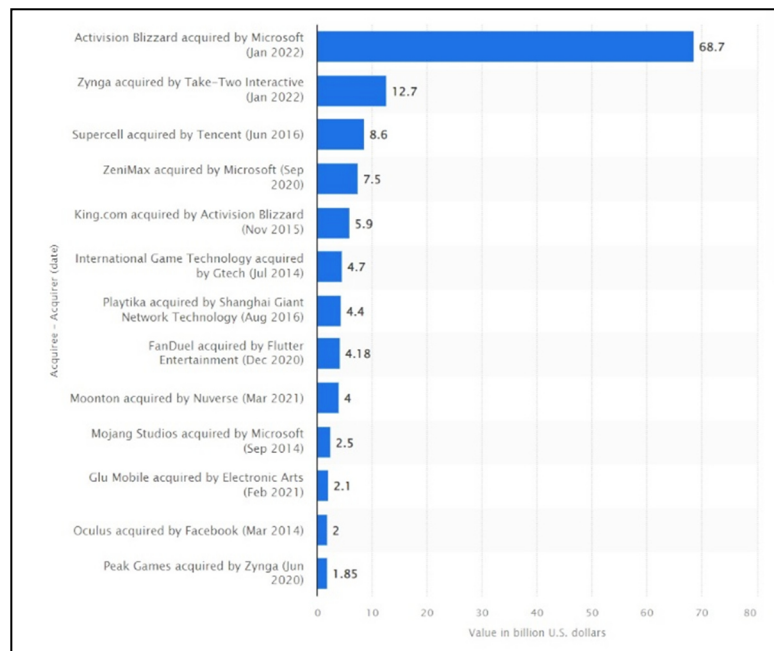

Fig. 2.2: Largest video game industry acquisitions worldwide by deal value in \$ billions
Source: Crunchbase, analysis Statista 2023

To contend with bigger companies, those in the gaming industry may consider consolidating their strengths and capabilities. This is especially true when combining advanced technology with high-quality IP creation skills to create new possibilities for customer engagement. They must decide if partnerships or M&A are the best options for expanding their platform's scale; if an acquisition does not align with company skills or budget, collaborations and licensing may be a better option. Regarding alternative distribution platforms, considering what the new technologies may help and allow a company to develop into a more interactive environment could make a judgement about where partnerships or acquisitions would be more advantageous.

Even if interaction is growing, making games has become in the last years more complicated, in social media, modern games, or future metaverses, companies must evaluate the best approach that strengthens their core, give careful thought to, such as a particular kind of content or a collaboration in line with their brand that makes use of necessary technological resources; businesses must exercise strategic judgment when deciding who partners to work, taking into account risk/reward balance.

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[20] Microsoft owned Bungie long ago, bought in 2000, created the first Halo titles, Xbox flagship franchise.

Some companies see gaming as the gateway to the larger entertainment industry and, hence, the basis for their mega platforms; this trend derives from the awareness that users are becoming more experienced at multitasking between media platforms, and so they prefer seamless, integrated experiences. Meta, Facebook, is the example of a company that in the last years made significant investments[21] in both its goal of controlling the metaverse and obtaining gaming targets that operate in the virtual reality area, it's a company that has generated the greatest attention over expanding its operations into new interactive spaces, in line with its own business. With investment, the VR business and purposes related to gaming will evolve to include social networks and other media industries, for the many activities that involves interaction at a distance, primarily work, which with the pandemic has been introduced to the practice of remote working. The nature of cross-sector expansion varies depending on the regional market. China's WeChat combines social media, gaming, and shopping into a single platform (Bain, 2022), mega platform concept originally appeared in Asia. Over the last years, large-scale transactions to facilitate the transformation to direct-to-consumer and streaming have dominated the media M&A landscape, to keep the client that use the services and strengthening relationships with them by pushing the content offered beyond the present one, including area of entertainment like video games. Several of the biggest streaming platforms have already started to move, for example Netflix is just getting started with its entry into the video game industry with some of the acquisitions made to add new elements to its service; Amazon, Alphabet, and Apple offer gaming services, but none of them have acquired any noteworthy gaming companies yet, instead, they have all increased their investment to enter the gaming industry more. Companies should first ask themselves whether they are considerable as a reputable vendor of the new service from the perspective of customer loyalty and brand; they must deeply comprehend the possible acquisition targets along with the extensive consumer client base, recognize the prerequisites for the cross-sector service and the integration that will provide a smooth experience for customers, be ready to modify their operational model with the goal to facilitate the necessary deeper integration and product interchange, and evaluate their own capabilities and potential to realistically achieve technological expansion. Understanding when not to make purchases is an effective strategy. Gaming executives understand that constant innovation and diversified products are critical to their success in the face of sharply growing client expectations, in this regard, according to 83% of these, there is ongoing pressure on the gaming industry to innovate and produce new experiences for players (EY, 2022).

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[21] Meta in 2014 acquired for 2 billion Oculus.

2.2 Organization, production, and management inside a gaming company

An optimal and clear organizational design in the video game industry is essential to optimize corporate structure, to maximize efficiency and creativity, and to the longevity and the success of the companies. Many companies in this industry have in common an organizational structure that is flexible, aimed at integrating diverse types of functions to develop, distribute, and support their products.

Video game companies or studios are composed of various teams with specific responsibilities; the key departments relevant to the creation of the final product are the game development, marketing, operations and customer support. The development team is the core of the video game business, consisting of programmers, artists, and game designers, these professionals work together in unison to create engaging and creative gaming experiences. At the top, the studio head oversees the entire stud, and the producer is responsible for ensuring schedules for deadlines and product release, he must have a broad understanding of all the activities conducted in production from multiple teams. In the roles of manager and director there are the art and creative director, the technical director, and the design director; to these refer artists, programmers, and designers, with their various roles and tasks such as 2D-3D animators, concept artists, game designers, and level editors. In parallel, there are the support teams for development, including people working in the audio team for music and sound effects, technology or quality assurance, and the managers in HR, Finance & Legal, Marketing and Recruitment. In the game development game designers are the ones who contribute to design the game concept and documents, missions, game's goals, mechanics of gameplay, etc. with which the artists collaborate to create the visual components; programmers are the ones who acquire everything developed by audio team, designer, and artist, together to create the game, by coding the logic and behavior of it.

In general, there are four processes for developing a videogame. The *conception phase* is the beginning of the project with the artists and designers creating the drafts and prototypes, the conceptual design and proposals, and the visual elements of the game, chosen together with broad decisions on the world design, the story elements and the genre. These choices are brought to life in the *Pre-production*, technical foundations, and later in the *Production* with many roles such as 3D artists and animators, lighting artists, texture artists, gameplay designers, game environments, music and sound effects. The whole game is built on the game engine[22], the framework that holds the game

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[22] A game engine is a framework for software development, also known as "game architecture," that has settings and configurations that make it easier and more efficient to create video games in a selection of different programming languages. Implementers of game engines can save a lot of time and money by using the same engine to create a variety of games or convert it to other platforms.

together, which can be in-house, or a service acquired from third parties. The marketing department works to position the product in the market, promoting it to create an awareness of the product, define communication and strategies, and manage the product's presence on social media, using events to present it or show it through advertising and sponsoring. *QA department* also plays a crucial role before and after the release, to test the game and ensure its quality, and if necessary, improve it. The last phase is *Operation*, to provide support in the months to follow the release, by adding patches to correct errors, supporting gamers, or adding additional content post-launch, in the long term if it is a GaaS (Massive, 2020). To get the product to the consumer, business operations deal and manage the supply chain and the approval process for all the steps it goes through. This can be done either by producing physical copies of the products, or by distributing it digitally through online stores owned or by third parties (which in recent years accounts for a significant portion of the purchase method), alone or using an external publisher with agreements. A vital component in ensuring that the product reaches customers effectively is *logistics*. Supporting customers and building a gaming-based community play a crucial role in maintaining user satisfaction and attention, addressing the various technical issues that arise when using the product, which occur frequently especially in the initial stages when it is released, and providing answers to questions and fixing issues, with patches and updates. To ensure coordination and collaboration between hundreds of people the studios use layers of middle management such as Project Coordinators, or Associate Producers, to drive development; the Directors have a main area of creative responsibility.

Video game firms need to collect and store a lot of data since it helps them better understand player behavior on many devices. These influence and give direction to strategic investments and content plans, but also the ability to adapt quickly to player input, to produce publicity for the game, and to reshape and customize products to make them more engaging. To effectively release a game, its creation today requires a wide range of multidisciplinary skills, vision, collaboration and interactions between many stakeholders, including developers, publishers, distributors, retailers, hardware manufacturers and other market players.[23]

The videogames over time have become more complicated products to develop, with the technologies that have to be adopted, the many devices that have to be supported, the many features that are

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[23] With the pandemic, the video game industry suffered a heavy blockage in the production of new titles; the schedules made for games release were not adhered due to the impossibility of working in presence; smart working is only partly possible, creates complications in the communication between the different functions and in building strong relationships, which is necessary for the success of a project. Because of this many games have been postponed or delayed to complete development, many have been released in an incomplete state, with problems or without fulfilling the premise announced to the public. One example was Cyberpunk 2077, a CD Project Red, a highly anticipated game in development for 8 years by over 500 people with a budget of $436 million, released after 3 postponements and with such mediocre performance that it earned a class action lawsuit.

required and deemed necessary; there has been a great growth in the budget needed for all the steps before and after the release of the product, with more time and resources invested to create an AAA game, i.e. a high budget game, with a high number of people involved and by a large company, costing hundreds of millions of dollars, and an ever longer support after the release. For those reasons there is a shift towards a business model that includes few games but with a longer life cycle. Achieving an efficient company organization in the video game industry therefore requires close synergistic collaboration among creative, operational, and support departments, all fueled by a clear strategic vision of the product that one wants to realize and for what kind of customer base, which adapts quickly to the changes. An important and essential element would be the presence of a strong culture, not only to stimulate creativity, but to ensure that there is always harmony and unity for greater collaboration between the different areas, for example the development teams with departments like marketing and community management and interaction with other studios, which are different from each other but with the need to act synergistically for better product quality.

In large companies, perhaps with multiple branches, that work on many projects at the same time, they tend to have an organizational design that presents a division by project; teams are dedicated to specific projects, guaranteeing specialization and focus on titles, greater concentration on key objectives and less dispersion, favoring innovation and creativity. In this case we find positions such as the project manager leading the team for the creation of the video game, that co-ordinates all activities, plans development, meetings and deadlines. It is important for companies to diversify the games in development to adapt to current market trends and respond to market demands. In multi-studio companies such as Activision Blizzard, Ubisoft, Xbox Game Studio and Electronic Arts, it is common practice for there to be communication between the different departments with exchange of ideas, but also of people, know-how and resources, for example on the engine to be used, or for mechanics already executed by others that can be reused to save time.

Studios operate in three ways: as first-party, second-party or third-party.

First-party developers are those studios that work exclusively for a particular game/console company that has control over them. Often referred to more simply as in-house teams because they develop internally within the environment of the publisher, who as publisher finances their activities, can give them specific directives, generally holds all rights to the IPs, and takes care of marketing and distribution. Second party teams are not owned by a company in the console market, but develop video games exclusively for its platforms, the company figures as a publisher and therefore finances the development of the title, manages its communication, but does not own the rights to the IP. Third-party teams are the external studios that develop and publish their own titles without the direct participation of a console company for which they are intended, and therefore what concerns the

marketing and promotion strategies of the product also remains the prerogative of the external publisher. Manufacturing companies may enter into special exclusivity agreements.

2.2.1 Agile organizational models

In the current dynamic environment of the gaming market, many companies decide to adopt *Agile organizational models*. The presence of strong creative leadership and adaptability play a key role, which are essential to survive and not fall behind the competition amidst technological evolutions and shifting consumer preferences and expectations, which increase over the years. The *Agile team* structure encourages direct communication by the team members, accelerating the development and the resolution of tasks. The ability to redefine roles and duties in a company is essential to remain competitive, companies are using business agility to increase their competitiveness. Agile approaches help a business to achieve "higher team productivity and morale, faster time to market, better quality, and lower risk" (Rigby, 2021) by increasing degrees of autonomy, cohesion and coordination within the firm.

Companies belonging to this industry are often examined to analyze their unique way of working internally in video game production. A case study that is essential to mention in this sector, is *Valve Software Corporation* (Daft, 2017). Valve is a U.S. company among the leaders in the video game industry in both development, publishment and, especially, digital distribution with its service and storefront Steam. Headed by Gabe Newell, it is a company that differs from others in that internally it is "devoid of bosses since 1996" and of the classic rigid hierarchy; Valve is what is defined in organization design theory as a non-hierarchical, agile company in which there is no structure and bosses to report to. This allows employees to be as flexible as possible in their work and work-life balance, giving room for their creativity and intuition, even in making important decisions. It is a company that can be classified as minor for its size compared to other giants in the market. Its level of centralization and formalization is extremely low, while its level of specialization is on the average. People are regarded as among the most important resources by Valve; it is important for horizontal collaboration to take place among the different parties, an exchange of ideas in which everyone must share their feelings and emotions in the group, and their work ideas, fostering autonomy and innovation (Puranam & Hakonsson, 2015).

Teams through informal meetings make decisions together to determine the projects and jobs to work on, and what needs to be improved and what is not good, with this system Valve creates internally and offers consumers products that come across as innovative. Valve takes a more distinct approach to product design than the other companies in the market, which can be seen in the products that it

produces, which have always been industry milestones or created new standards. Instead of having to worry about an executive's vision or shareholders' expectations, they have structured the business such that they can only concentrate on the needs of their clients.

At Valve, design leadership is exemplified by the direct, highly decentralized collaboration of a multidisciplinary team committed to the client experience. Because it helps them grow more skilled at servicing consumers, they encourage a direct relationship between staff and customers rather than creating conflict through management. Since there is no top-down communication, this usually occurs through conversations amongst team members on a project; employees are free to work on projects that pique their interest, but they must accept responsibility for their work and any errors they may have made. The absence of organizational structure resulted, however, in the lack of clear direction and the cancellation of numerous projects, and insufficient information sharing might result in duplicated efforts due to a lack of overall coordination. The company has dealt with having too many new innovative concepts and insufficient centralized management to assist them select and effectively use limited resources. Valve admitted that this had hindered its productivity, employees recognized that Valve needed focusing on a collective project rather than a personal one, this change in strategy allowed in 2020 their last successful game, Half Life Alyx (Keighley, 2020).

There are other companies that approach a particular organizational model. *Ubisoft*[24] company with more than twenty thousand employees and 50 studios in 31 countries; it uses a studio-based approach organizing them so that each one is responsible for a specific game or franchise or projects or studios (Ubisoft, 2023).

Riot Games[25], company that is part of the Tencent Holdings Group, uses for its games mainly the GaaS formula and is therefore focused on supporting existing games with updates and contents by paying attention to players feedback and interactions, instead of creating new ones. Riot, to satisfy the 180 million monthly players it can consistently attract, adopts a structure called Agile Team Leadership Model, as a way of fostering a constant focus on the client; their core mission is "to put the player at the center of everything we do" (Riot Games, 2024). The team can freely question all decisions and focus on what they believe to be most essential, without anyone telling them what to do. This independence is essential to an agile culture that produces results, and provide teams more flexibility (Riot Games, 2017).

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[24] Ubisoft Entertainment SA is a French media group founded in 1985 by Guillemot family, since '90s it involved into the development and publishing of world-famous video games such as Rayman, Tom Clancy's, Prince of Persia, Assassin's Creed, Far Cry, Just Dance, and Watch Dogs. It has grown and has nearly 20,000 employees and 46 studios.

[25] Riot Games is an American video gaming company founded in 2006 in Los Angeles, is primarily known for developing League of Legends (2009) for year is only game. In 2015 Chinese company Tencent acquired Riot Game. The company operates 12 international League of Legends esports leagues.

The leading mobile game company *Supercell*[26], with just around 500 employees, organizes its structure into small and independent game development teams of 20 people, called "cells", for rapid decisions, creative control and attention to details, minimizing hierarchy and bureaucracy, with leadership not coming from the top but from the cell (Supercell, 2023). These are all companies that eventually still need very solid infrastructure to meet the demand and needs of hundreds of millions of users.

Finally, there are the small "independent" studios, which focus on producing titles, "indie games," with much smaller budgets than AAA, developed by small teams or even individually, rarely with the support of a publisher. Although these games tend to be smaller in scale, size and length, they are seen as more accessible to the wider audience and supported, not only because of the typical lower cost, but also as they prioritize creative freedom, artistic expression, niche genre and risk-taking, with fewer restrictions, cause of lower expectations, and from not depending on superiors and sales goals to be achieved, than a large company with greater resources, established franchises that tend to dwell on an already proven formula to attract to a broader audience. These studios have a development model mainly agile with more freedom on the workstation, working closely with a less pressing hierarchy to be respected and a more democratic environment.

2.3 Analysis of Microsoft and Activision: history, business, and organization

2.3.1 Microsoft

Microsoft Corporation is one of the largest companies in the world, leader in the technology sector, it is an American multinational that is present in various services related to the tech area, in particular the production and sale of software, hardware for personal computers, cloud services and systems, and other goods; is a competitor in many different areas with goods targeted at both Business to Consumers (B2C) and Business to Business (B2B). Founded on April 4, 1975, by Paul Allen and Bill Gates, it began the revolution of the personal computer market in the mid-1980s by introducing MS-DOS, the most popular computer operating system until 1995, which was followed in 1985 by Microsoft Windows, the current operating system with the "windows" interface. In 1986 the company's IPO took place, and from the 1990s it began to implement a strategy aimed at diversification; the decision to define a strategy that focuses primarily on "devices and services" was made in 2000 by the CEO Steve Ballmer, who replaced the company's historic founder Bill Gates. He is credited for having overseen the introduction of the first Xbox, and entry into the gaming

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[26] Supercell is a Finnish e-gaming company started in 2010, has developed only five game titles, the most famous Clash of Clans (2011); but than 100 million people play Supercell games every day and it posted profits of $1 billion on sales of $2 billion in 2016. In that year Tencent acquired a majority stake (84.3%) with an $8.6 billion investment.

industry, expanded Microsoft's enterprise strategy, increased the company's profitability over time, and made investments in cloud computing. In 2008 Microsoft entered the cloud computing space with Windows Azure, an online Windows version hosted in the business's data centers. Azure was first created to help developers launch apps on the cloud. Over time, it developed into a vital Microsoft service with hundreds of apps integrated. In 2012 they launch their first flagship line of first-party PC', the surface hybrid tablet.

In 2014, the position of CEO was assumed by Satya Nadella, the current head of the company; his business choice was to expand and focus more on the cloud computing business[27] instead of hardware, a department that until then had not yielded the desired results in the market despite the investments made. Microsoft was the first company to provide a single, comprehensive, and complete experience for everything essential to a person's life, accessible via a single cloud and on all platforms. The projects will focus on "high-value activities", centered on areas going from decision-making to social interaction, to interactive entertainment and gaming. In addition to the expanding cloud business, encouraging cross-platform cooperation, and managing the release of innovative products, Nadella, renowned for his empathic management approach, led the corporation in a cultural shift of enormous size, into a new age of openness and creativity, improved Microsoft's financial performance.

Since 2015 Microsoft has become the leader of compatible operating systems together with IBM PCs, and in the office software market, in the year Windows 10 was released, the new launcher now running on more than 700 million devices. In 2016, the large Microsoft research AI division was established to increase artificial intelligence initiatives, and integrate it into agents, applications, services, and infrastructures, while addressing ethical concerns; the strategic move proved to be successful and in line with the modern ambitions and challenges of new technologies. In 2018 Microsoft announced the expansion of the Azure service with the new capabilities added and future plans, becoming a global leader in cloud computing. The first 5 years under Nadella's leadership have been an important period of growth, innovation, and transition for the company, which reaches a new dimension making it a major provider of cloud-computing services and embraced open-source development, also thanks to the acquisitions made and subscription services. From 2020 begins a close collaboration with OpenAI, with the construction of a supercomputer hosted in Azure to train AI models; this multi-year and billion-dollar partnership was extended in January 2023 to invest on Chat-GPT, to enhance AI advancements and assist both companies in bringing cutting-edge solutions to market (Microsoft, 2024).

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[27] The technology that allows people to take advantage via a remote server of software and hardware resources, the use of which is offered as a service from a provider, without the need to download a specific application to their devices. (Microsoft, 2024)

Microsoft is one of the Big Five tech companies, along with Google, Amazon, Meta and Apple. The IT industry includes companies that produce software, hardware, or semiconductor equipment, and companies that provide internet and related services; the industry is dynamic and highly competitive, with frequent changes in both technologies and business models. Some of Microsoft's competitors are Apple, Google, SAP SE, IBM, Amazon, Oracle, and Sony. This highly innovative environment has pushed Microsoft to expand its reach into broad areas of the tech industry. Much of Microsoft's expansion, its achievements and size were also possible through a series of small and large acquisitions (*Fig. 2.2*), over 250 firms, have enabled it to acquire resources and capabilities needed to broaden the company's horizons and offer its clients an ever-increasing range of services; this resulted in a digital conglomerate with a diverse set of businesses that are linked together in a unique ecosystem.
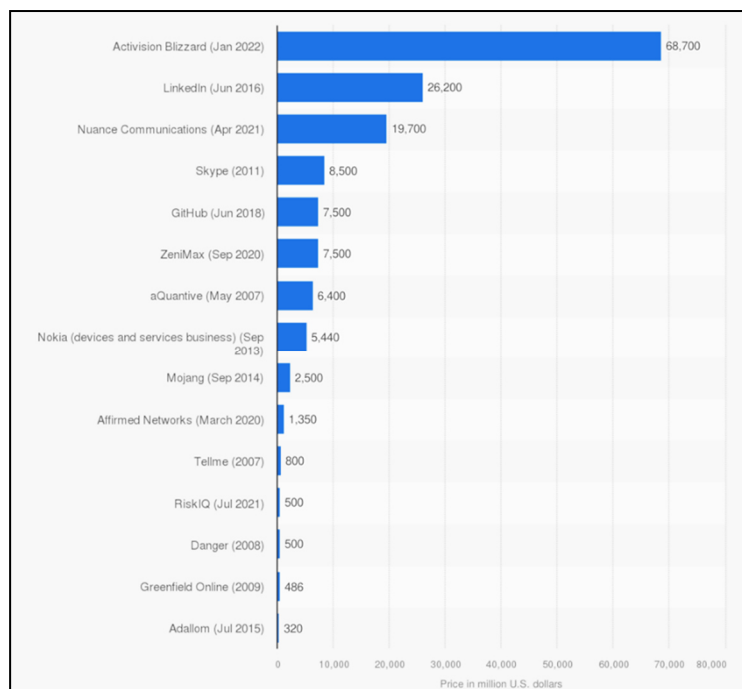

Fig.3.2 – Largest acquisitions by Microsoft as 2022   *Source: Crunchbase, analysis Statista 2023*

One of the first major billion-dollar acquisitions was aQuantive in 2007 for $6.3 billion digital advertising agency which did not yield as hoped; in October 2011 Microsoft purchased Skype for $8,5 billion strengthening the business's long-standing on audio and video interactions in real-time. In 2014 was acquired Nokia's Devices and Services Unit for $7.2 billion with the intention to enter in the mobile device (smartphone) market; this acquisition turned out to be one of the company's biggest failures, despite the enormous potential that was possible to create from the merger of both companies. In 2016 there was the acquisition of LinkedIn for $26.2 billion with the goal of integrating professional networking site with Microsoft's business tools, such as Office 365, With this deal,

Microsoft was able to leverage its sales and distribution power to support the most valued and largest professional network globally; LinkedIn expanded and strengthened its business. On June 2018 Microsoft paid $7.5 billion to purchase GitHub, a popular code-repository service utilized by several developers and major corporations, the agreement focused Microsoft on open-source development. In March 2022, Microsoft completed the acquisition of Nuance Communications for $16 billion, it will provide organizations in all sectors the ability to meet their goals more quickly with their cloud-based, security-centered AI solutions. On October 13, 2023, Microsoft acquired 100% of ABK's equity for a total value of $68.7 billion,

Microsoft is currently the most valuable company in the world, head-to-head with Apple, with market capitalization of $3 trillion (Forbes, 2024), has more than 221,000 employees worldwide, 120.000 in the U.S. The Microsoft's mission is to "enables digital transformation for the era of an intelligent cloud and an intelligent edge … empower every person and every organization on the planet to achieve more … realize their full potential by creating technology that transforms the way people work, play, and communicate" (Microsoft, 2013). Microsoft also places a strong focus on inclusivity, global influence, and the potential for both individual and corporate success.

The company operates in three segments: *Productivity and Business Processes* which includes products and services present across a range of devices and platforms regarding productivity, information and communication, such as LinkedIn, Skype, Office Consumer, Dynamics Business Solution and Office Commercial; *Intelligent Cloud* to support developers and modern businesses through cloud services and server products, such as Azure, Windows Server, Nuance, or partnerships with companies; *More Personal Computing* which place users at the center of the experience with their technology, which includes Windows operating system with all its services, the many Microsoft's devices, search and news advertising, and gaming (Microsoft, 2023). The company relies on three main operations centers with the task of supporting some of the functions present in its regions Licensing, Manufacturing, Logistics and Operations, one in Ireland, one in Singapore and the one present in Nevada, USA, to them report the 122 countries where the company is based.

Microsoft is an enormous company, with a leadership and an organizational structure extremely centralized. Microsoft's Board consists of CEO Satya Nadella and eleven members. Its organizational structure, based on three core engineering groups product development and nine functional business units, is divisional and product-oriented, each division is centered on specific goods and services, with dedicated research and development, sales, and customer support staff. Its Engineering Teams are Cloud and AI Group, Experiences and Devices, AI, and Research. The nine Business Functions are: Business Development Group, Corporate, External, and Legal Affairs, Corporate Strategy and Planning, Finance Group, Global Sales, Marketing and Operations, HR Group, LinkedIn, Marketing

Group, Worldwide Commercial Business. Microsoft has also two geographic divisions: United States and International for the rest of world (Microsoft, 2023).

Despite growing increasingly hierarchical, Microsoft has been able to preserve its mix of technical units, functional business groups, and top management. The company's organizational structure places each board executive in charge of a functional area and allows CEO Satya Nadella direct dealings with the heads of technical groups, creating a clear chain of command; as a result, new goods and services can reach the market more quickly, fostering of innovation and focusing on new product development. The sharp separation between engineering (exploration or creation) and business units (exploitation or implementation) increases Microsoft's emphasis on engineering teams, charged with developing the company's core products and services (Miron-Spektor et al., 2007). Microsoft's organizational structure results more centralized than other comparable software firms, organization decision-making is conducted by top management (FourWeekMBA, 2023). Centralized decision-making adjusts every area of the organization with the board's strategy, standardizes work output and removes the potential for personal biases; this establishes a single organization with common performance and advancement criteria. More centralization permits the uniformity of action taken with the co-coordination of activities in all their divisions and businesses in which it operates, will be more facilitated to integration, avoid work duplication, be more rapid on the decision making and handle emergencies. In the IT sector in particular the centralization forces will direct the company to the standardization of software, since it is the same across countries, and economies of scale that arises from the efficient use of equal software on different products. The type of strategy that Microsoft follows is the global strategy to emphasize efficiency.

Microsoft is the third largest software company, with many subsidiaries, and has grown and secured its reputation through the control of other major companies, it has acquired an average of six companies per year since the initial one in 1987. Today it has 91 subsidiaries of which 73% related to the software area and 12% in the videogames area (Microsoft, 2023). Even though Microsoft buys a lot of businesses, it still permits them to function as separate subsidiaries, if it is beneficial to both parties and increases revenue for the company and gives them space to expand within their respective industries.

A key role in Microsoft's strategy is played by the corporate culture, founded on the mindset of individual and corporate growth[28] and cultural renewal at Microsoft, the lifelong learning is a priority

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[28] The Microsoft cultural renewal is oriented by American psychologist Carol Dweck's research on growth mindset, as a particular way to face adverse events and look at the challenges of the life. The growth mindset can drive a work team or company to innovation, creativity, and the courage to take risks, and a leadership to encourage workers' abilities and to be a safe guide through difficulties.

directly inspired by the CEO Satya Nadella[29]. Microsoft had a historical reputation for intense internal competition among its various operating groups, and for attitude and the confidence of "know it all", Nadella has given a more open culture and an outsider perspective, driven by the willingness to "learn it all" and operate in a very collaborative way. The corporate values, in alignment with its mission, define how inside the company people treat each other, and also their customers and partners: respect, by which employees recognize that the thoughts, feelings and backgrounds of the others are as important as their own, integrity through honesty, ethics and trustworthiness, and accountability, with the full responsibility for the decisions they make, actions they take and the results they achieve (Microsoft, 2023).

2.3.2 Microsoft Gaming

Microsoft Gaming division is part of the More Personal Computing segment, includes its studios operating on the various products, Xbox hardware with its content and services (Xbox Game Pass and other type of subscriptions), Xbox Cloud Gaming, advertising, first and third-party material and titles (such as games and in-game content), all included in the gaming experience. Microsoft Gaming was created in 2022, when announced the willing of acquire Activision Blizzard, to bring together all gaming businesses into a single division. It consists of three major subsidiaries, Xbox Game Studios, ZeniMax Media and Activision Blizzard, with studios spread out throughout the globe; the games that they develop will be then published under their labels of affiliation.

Microsoft's gaming industry has experienced impressive growth since 2016; in that year there were only five first-party studios under its ownership (The Coalition, Mojang, Rare, 343 Industries and Rare) and the future of its console was at great risk[30]. Currently, the Microsoft gaming division possesses around fifty subsidiaries, including publishers, support teams, and game production studios (Gameinformer, 2023). Its revenues grew steadily (*Fig. 2.3*) to a high of $16.230 billion in 2022, declining to $15.466 billion in 2023, it accounts for 7% of total Microsoft revenues, of $211 billion, as well as 28% of its More Personal Computing segment, which recorded revenues of $54.734 billion, (Statista, 2023). Gaming is Microsoft's sole consumer-focused company, whose profits are generated by customers (B2C) rather than by businesses (B2B).

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[29]Nadella effectively described his personal growth and ideas for a new corporate culture in the essay Hit *Refresh*, published in 2017. His philosophy and empathy come also from his personal life, has a special needs son that inspired accessibility as priority on workplace and in Microsoft products.

[30] In the challenge with Sony's PlayStation, Microsoft's Xbox fell behind in sales and never recovered. This has put the future of the game industry at Microsoft at risk for many years, until Nadella and Spencer decided to relaunch it with a new strategy and a robust acquisition policy (Gamespot, 2019).
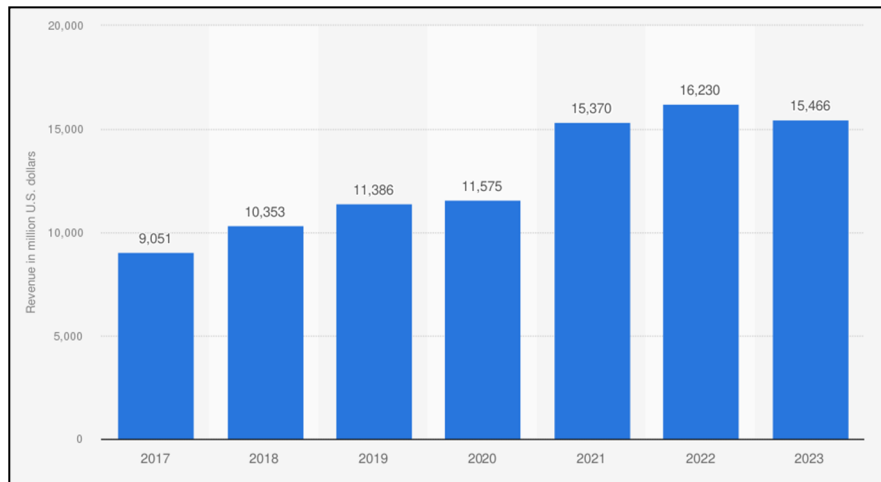
Fig. 2.3 - Microsoft annual gaming revenue from 2017 to 2023 in millions $ *Source: Microsoft, analysis Statista 2023*

The financial results for the second quarter of fiscal 2024, released by Microsoft in late January 2024, the first time with additional revenues from the ABK acquisition, indicate that Xbox content and services revenue increased 61%, the Gaming division revenues increased by 49% and contributed for $7.11 billion in the quarter, mainly thanks to Activision Blizzard's revenue. Gaming is now the third largest business at Microsoft, behind Office and Cloud services, above Windows. Microsoft expects for Q3 overall gaming revenue to grow by 40%, with 45 points due to Activision Blizzard, while the rest of Microsoft's gaming revenue, Xbox content and services, could be down next quarter (Microsoft, 2024).

Most Microsoft's gaming activities are based in the United States, but the company has strategically expanded its reach internationally. This global approach allows Microsoft to collaborate with different talents and develop a wide range of experiences for a global audience. Microsoft entered in the video game industry (in the past there were already Sega, Nintendo, Sony) with its brand Xbox in 2001 with the first generation of console and a game development division, Microsoft Game Studios (MGS), in 2013 Xbox One allows to integrate all-in-one entertainment system, with the introduction of the cloud system. On November 2017, the "next gen" Xbox One S and X consoles were released, "the world's most powerful console" designed to deliver a more realistic and immersive video game experience, faster and more powerful; was the most successful launch in company history (Microsoft, 2020).

Microsoft reinvented the way that games are seen, played, and distributed, with the *Xbox Game Pass* subscription service, launched in 2017, allowing to play great games anytime, anywhere, and anything they want. The strategy centered on a service-based business model aimed at providing a broader value offer, rather than one focusing primarily on exclusive content, as competitors do. The strategy centered on a service-based business model aimed at providing a broader value offer, rather than one

focusing primarily on exclusive content, as competitors do. Xbox Game Pass is Microsoft's in-house service that allows its users to access hundreds of games across multiple platforms, including through the cloud gaming service; this is the Division's main strategy right now, which will drive its future growth in line with the rapid changes occurring in the industry, with the next wave of social entertainment platforms using streaming media services, worldwide content distribution networks, and Microsoft's hyper-scale cloud capabilities. More game developers are looking to Xbox now to expand their games and reach a wider audience thanks in part to the capacity of the cloud, and more gamers see the benefit of a larger ecosystem. In January 2022, Xbox announced that there were more than 25 million Game Pass subscribers and an estimated 120 million active users on the Microsoft Xbox Network each month. Microsoft gaming is investing heavily on the expansion of its library, an ever-evolving product, with more than a billion a year for the third-party games, the strategy is distinguished by its dedication to accessibility and inclusion, enabling play on a wide range of platforms, attracting wider audiences, and catering to diverse preferences[31].

An important role in this evolution, contributing to results and innovation, was played by Phil Spencer, who has been present in the games division since 2014 and became its CEO in 2022; Spencer is considered an industry legend, a person respected by all, and players seem to perceive him as one of their own rather than as part of a corporate business plan. Since 2014 Microsoft started its strong acquisition strategy with Mojang and several others high profile studios like Obsidian Entertainment, Ninja Theory, or Playground Games, in 2019 MGS was renamed to Xbox Game Studios (XGS). In September 2020 they announced the plans to acquire ZeniMax Media Inc. for $7,5 billion, to make the Game Pass service more attractive with releases on the platform. The effort by Microsoft to acquire Activision Blizzard was a clear indication of the company's intention that it takes gaming seriously; Activision Blizzard will quickly increase Microsoft's gaming business by around 50%, pushing its yearly sales above $20 billion.

2.3.2 Activision Blizzard King

In the video game industry, certain companies stand out for their relevance, history, franchises, and large size; among them Activision Blizzard King Inc (ABK) is one of the world's largest video game developers and producers, an American holding company headquartered in Santa Monica, California, with more than 13,000 employees (Statista, 2023).

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[31] According to Phil Spencer, his ambition for Xbox has always been to move the brand away from being console-centric and toward becoming a content-first platform where user interaction is valued more highly than console sales alone. He said that the business's true measure is not how many consoles are sold, but rather how many people are actively playing and enjoying the games they purchase, as well as how they choose to interact with (TheVerge, 2019).

Activision Inc., founded in Founded in 1979 as developer for Atari Video Computer System, it was the first independent third-party console game developer. In 1991 Activision, on the brink of bankruptcy, was acquired and restructured by Robert Kotick with a group of investors. Under Kotick's leadership, Activision expanded through several acquisitions and published its first successful titles. In 2003 Activision published Call of Duty, a first-person shooter set in World War II, destined to become one of the longest-running and most successful video game franchises in history with more than 425 million lifetime unit sales (Statista, 2023). In 2008, Activision merged with the games division of French media group Vivendi, which included Blizzard, leader in massively multiplayer online (MMO) games.

Blizzard Entertainment, founded in 1991 under the name Silicon & Synapse, in 1994 launched its first major game "Warcraft: Orcs & Humans", a real time strategy (RTS) game, one of the company's most successful franchises. In 1998 followed Diablo, an action role-playing video game, and it began the development of Battle Net, the first free online gaming service connected to the titles that people play; while in 1998 it was the turn of the game StarCraft, a real-time sci-fi strategy game that allowed through multiplayer to compete online. In 2004 released the title World of Warcraft, a massive multiplayer online game with 134 million subscribers.

From the merger of Activision and Vivendi Game came the newco *Activision Blizzard Inc.,* with Vivendi as majority shareholder and Kotick as CEO. In 2010 Activision Blizzard was the world's biggest publisher of video games, achieving increasing success especially with releases of titles belonging to the Call of Duty franchise, which became among the biggest entertainment launches of all time. In 2013 Activision Blizzard assumes its independence from Vivendi by announcing the acquisition of majority ownership for $5.83 billion.

With the aim of expanding its market presence, in 2016 Activision Blizzard acquired *King Digital Entertainment* for $5.9 billion, a mobile game developer of the puzzle game series "Candy Crush" one of the most popular, downloaded and successful mobile products ever, with a global user base of more than five hundred million people. The acquisition of King turned out to be very profitable, bringing luster to Activision Blizzard's mobile division, where it introduced titles based on its own IPs (Call of Duty Mobile, Hearthstone). They have also invested in eSports projects[32] centered on a few of its titles, especially Call of Duty and Overwatch. *ABK* has always maintained financial strength thanks to excellent annual profits that have always grown over the past decade, producing new titles and successful IPs such as the shooter Overwatch, or releasing titles from other development studios,

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[32] Electronic sports, or eSports, are competitions involved in playing video games, by professional players, either alone or in teams. A phenomenon that is successful in the industry, and very well followed, with tournaments and sponsors.

as Bungie's successful Destiny. ABK has recorded excellent sales in recent years (*Fig. 2.4*), 2021 was the record year for revenue, with $8,8 billion, in 2022 were $7,53 billion, while 2023 was a golden year, with higher Q1 and Q2, thanks to great releases and announcements like the new Call of Duty title and Diablo 4. It was included within "Fortune 500", the only one in the gaming industry, and S&P 500. In 2023, before being acquired Activision Blizzard was the video game company with the highest market capitalization in the world, at $67 billion (Statista, 2023).
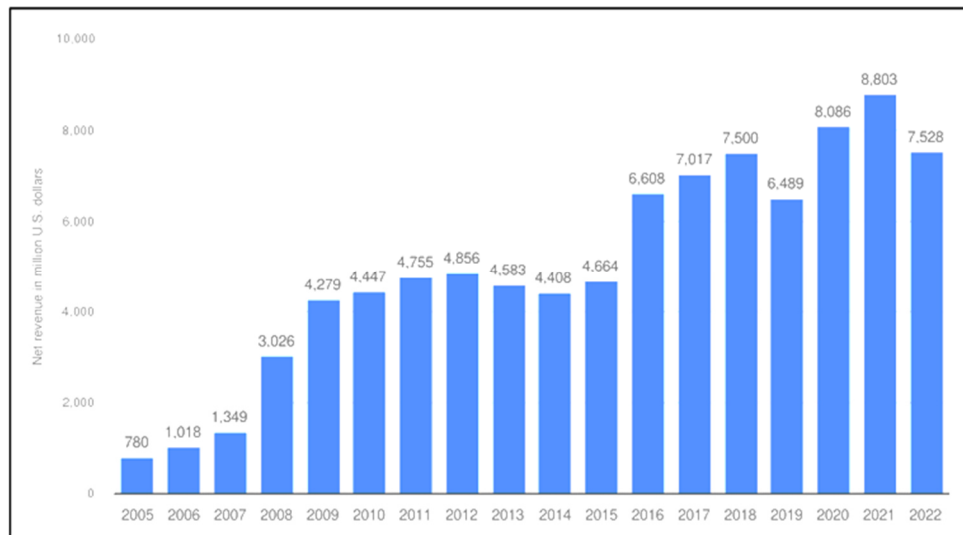

Fig. 4.4 – ABK net revenue 2005-2022   *source: Activision Blizzard, analysis Statista, 2023*

However, there are many controversies that have plagued this company over the years, not only over business decisions and directions for its videogames, but over management and internal organization issues related to an unstable and toxic environment, which had also an impact in the production and quality of products with inappropriate in-game content.

Beginning on July, 2021 ABK has been hit with a long series of charges, when it was subjected to a lawsuit by the Labor regulators in California, about working conditions inside the company and in its studios revealing the presence of a "frat boy" culture in the workplace against the female employees, that led multiple women to quit and may have contributed to one worker's suicide (Washington Post, 2021). The investigations, which began in 2018, revealed gender-based discriminations, inequality and sexual harassments, a frequent and common occurrence at Activision Blizzard; the treatment inflicted on female workers included retaliation, denial of promotions and lower salaries than their male colleagues. On workplace conditions were filed suit against them also from the Equal Employment Opportunity Commission (EEOC) (WSJ, 2021)[33]. The list of government agencies that started an investigation on Activision Blizard included the Securities and Exchange Commission,

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[33] The EEOC's lawsuit, based on a three-year investigation, ended in a settlement; Activision Blizzard will create an $18 million fund to compensate employees seeking damages.

SEC, for failing to maintain adequate disclosure controls and violating an SEC rule on whistleblower protection (*ibid.*), and the Communications Workers of America, CWA, a media labor union (*ibid.*).

In response the company initially said the lawsuit contained "distorted, and in many cases false, descriptions of Blizzard's past." Three thousand of Activision Blizzard employees signed a petition decrying this company's response, and many employees walked out in person at the Blizzard campus in Irvine, California, to call for better working conditions and demanding action on numerous fronts. Company' CEO, Bobby Kotick in an open letter, condemned the company's "tone deaf" response to the lawsuit and promised "to promote a respectful and inclusive workplace, … continue to investigate each claim and will not hesitate to take decisive action," fire responsible managers, remove inappropriate contents from the games. (TheVerge, 2023)

A shareholder-led lawsuit was done as well for the lack of communication about these issues and for the two-year investigations. (Bloomberg Law, 2022); Blizzard Entertainment President J. Allen Brack, accused of concealing internal complaints, stepped down from his position. Meanwhile, this story had become a case in the press, media, and game community.

In November 2021, the Wall Street Journal released a report highlighting how the CEO Kotick knew all along about the abuse and harassment that had been occurring, and the hostile climate present in the workplaces for years, and did little to address them, obscuring the details from shareholders. The public and some employees called for the CEO's resignation as he was accused of not having enough transparency in the internal dynamics, in the management of the company, and not having done enough in the past to remediate the toxic culture present[34].

The case had a huge negative impact in the company, from an economic and financial point of view, with shares of the company's stock plummeting from a price of $91 per share on the day of the news to $57 on December 3 with a loss of almost $8 billion in market value in the first week alone, and the loss of partnerships and sponsors. From the point of view of management and organization, the atmosphere internally was full of uncertainty and confusion because of the need for a revitalization and rearrangement of leadership and internal dynamics. But above all the company suffered a great collapse in reputation, and a loss of gamers' trust in it.

In the confusion and disequilibrium that affected ABK, Microsoft, its longtime partner, reached out to CEO Kotick and the board of directors to discuss and evaluate the possibility of acquiring them; the tender offer was made public on January 18, 2022 (Microsoft, 2022) announcing to the industry

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[34] The DFEH and Activision Blizzard lawsuit ended in December 2023 with a $54 million settlement to cover discriminations in salaries and promotions in the company. (New York Times, 2023)

the intention to acquire Activision Blizzard King for a sum of $68.7 billion, the largest M&A deal in game industry, and one of the largest ever in the tech and media and entertainment business.

Activision Blizzard Inc. has the ownership of development, publishing, and distribution operations; thus, the company is vertically integrated. In the organizational structure to the CEO reports the CFO and CTO, and the areas of Administration, Creative, Legal, HR, Information Security, Governance & Secretary, Communications, Mobile Commerce, and the Presidents of the three big companies Activision, Blizzard Entertainment, and King. After Bobby Kotick announced his resignation at the end of the year 2023, in the ABK chain of command missing CEO, Microsoft must identify the new leadership for the future of the company and the proper integration of the coming years. For the moment Activision Blizzard studios are under the Xbox Studios president, like as Bethesda and ZeniMax studios.

The three companies represent the key operating units, in addition, there are other three divisions, Activision Blizzard eSports, Activision Blizzard Consumer Products, and Activision Blizzard Media. ABK includes several subsidiaries studios participating in the production, such as Treyarch, Infinity Ward and High Moon Studios, known for working on the Call of Duty franchise. It has both domestic corporate offices in United Stated related to publishing and studios, and international offices with publishing, studios, manufacturing, and distribution (25 publishing, 30 studios) (Activision Blizzard, 2023)

2.4 Microsoft - Activision Blizzard deal

On January 18, 2022, Microsoft announced plans to acquire 100% Activision Blizzard Inc., will acquire Activision Blizzard for $95.00 per share, in an all-cash transaction valued at $68.7 billion, inclusive of Activision Blizzard's net cash. The boards of directors of both Microsoft and Activision Blizzard approved the transaction, which was subject to customary closing conditions and completion of regulatory review and Activision Blizzard's shareholder approval (Microsoft, 2022).

The price was 45% higher than the company's share price at the time of the announcement. ABK's shares, which had fallen during 2021 due to the company's instability and internal scandal situations, rose after the announcement that it ended its run with a price per share of $94.42.

The price of $95 per share represented a good offer for Activision-Blizzard shareholders who in fact decided to accept on 28/04/2022 the adoption of the merger agreement. In addition, the Activision-Blizzard's choice to accept the Microsoft offer took place in a different context from the one in which the offer was made, because from January 2022 the markets had been characterized by a strong negative trend.

The deal stipulated is expected to close in fiscal year 2023, if it did not close by July 18, 2023, Microsoft would owe Activision Blizzard $3 billion, if the deal expired, the parties could agree to an extension of the mutually agreed date or renegotiate the terms. The deal was finalized in fiscal year 2023, on October 13, 2023, under the conditions provided (*ibid.*).

The agreement stipulated that Bobby Kotick will continue to serve as CEO of Activision Blizzard, and he and his team will maintain their focus on driving efforts to further strengthen the company's culture and accelerate business growth. Once the deal closes, the Activision Blizzard business will report to Phil Spencer, CEO, Microsoft Gaming (*ibid.*).

In the report on its financial results for the second quarter of fiscal 2024, released by Microsoft in late January 2024, the first after the finalization of the ABK acquisition, Microsoft said that the acquisition of Activision Blizzard impacted just over $2 billion.

2.4.1 Microsoft reasons for the acquisition

"For the millions of fans who love Activision, Blizzard, and King games, we want you to know that today is a good day to play ... when everyone plays, we all win" (Microsoft, 2023). The choice to believe in the future of the gaming industry and invest boldly in it comes at the best possible time; in fact, following the pandemic Microsoft has made record profits and is going through a very favorable moment driven by the great changes that are taking place in the tech industry, evidenced by the large investments made by the company on artificial intelligence, particularly on OpenAI. There is a great intention on Microsoft's part to take its gaming division and its Xbox brand to the next level and invest, at a time when consoles are going through the next generation and recent technologies like the cloud allow for more opportunities and accessibility. Microsoft sees the strength in gaming, as Nadella said "Gaming is the most dynamic and exciting category in entertainment across all platforms. We are investing deeply in world-class content, community, and the cloud to usher in a new era of gaming that puts players and creators first" (Microsoft, 2023). The acquisition of ABK is the biggest M&A transaction ever conducted in this sector and one of the largest in media and entertainment[35], and stands as a demonstration of the current relevance of interactive contents, and how the world of video games will play a role of relevance in the long-term strategies of Microsoft, and beyond, in building future projects and new frontiers, such as the Metaverse. Even if metaverse is still largely conceptual, Microsoft holds a leadership position in this area due to its strength on core topics such as artificial intelligence, augmented reality, virtual reality, and cloud computing;

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[35] Other are Disney acquires 21 Century Fox in 2019 for 71.3 billion in 2019, or T&T Inc. acquires Time Warner Inc. $101 billion 2016

Activision will allow Microsoft to create metaverse game experiences and test and deploy them on a broad gaming community (Gamesindustry, 2022). Gaming has become a very essential component in Microsoft's balance sheet, with revenues increasing, derived from the sale of its Xbox console hardware, Game Pass, and games including those it produces; precisely its Game Pass cloud service, unique in the console market becomes in the company's future the service on which to make greater efforts to increase its exposure, thanks to the inclusion of Activision Blizzard's games, and take it to the next level.

The main reason for this acquisition by Microsoft is to make its Xbox gaming division more competitive, in a market where currently the other two big companies offering gaming consoles, Sony with its PlayStation and Nintendo with the Nintendo Switch, seem to prevail. Microsoft will gain greater diversification of its game portfolio with the ability to secure services to a far wider audience, and access other markets. With the new cohort if the revenues of both companies are added together, in the video game market, Microsoft would become the second-largest video game firm by revenue if Activision Blizzard's earnings are combined with its, overtaking Sony which drops to third place, and remaining only behind the Chinese giant Tencent. Compared to these two companies, Microsoft has less presence in the Southeast Asian market, the fastest-growing region in terms of the number of gamers, and it is its intentions to consider and accommodate the tastes and local responsiveness of gamers present there, for a substantial impact in its business, through a focus on the mobile ecosystem (thanks to the new presence of King Digital Entertainment among its studios, the largest mobile game developers and publishers) and on cloud gaming.

The union with ABK brings with it the addition of all 19 of Activision Blizzard's studios and King's 11 mobile game development studios as well making them first-party Xbox; the total number exceeds fifty, with many new staff to manage and integrate with the rest of the studios already in place, and productions already underway on other fronts. The addition of ABK represents an easy and quick shortcut to increase their own content, make it exclusive to their Xbox ecosystem, to drive a large mass of users to use their platform and hold famous IPs and franchises to then license to other gaming hardware manufacturers, who have no intention of depriving themselves of them. "They will advance our goal of bringing great games to players everywhere and on any device. With Activision Blizzard King, we will now add significant depth to our content portfolio, billion dollars franchises. We are rapidly innovating to expand our opportunity across our consumer and commercial businesses as we help our customers thrive in this new era" (Microsoft, 2023) said Satya Nadella. Revenues from the gaming division, in relation to the rest of the entire company's areas of expertise, are estimated to increase from less than 10% of total revenues to 15% soon. If Microsoft were to decide to restrict the

sales of Activision content on rival consoles like Sony, it might potentially harm sales. Additionally, the acquisition would take care of Microsoft's budgetary concerns, the software giant's record revenues during the pandemic had widened its liquid availability, having the third-highest cash box rise among all S&P 500 societies (IBD, 2023). In 2024 and beyond, the combined power of Activision Blizzard and Microsoft will undoubtedly change the world market, two trends to keep an eye on are industry consolidation and the rise of large M&A agreements.

The announcement of the acquisition had a huge media impact within the gaming, media and entertainment, and tech sector, even the market reacted with interest marking a 36% increase in Activision-Blizzard's stock the day after the announcement; Microsoft's stock on the contrary fell a few percentage points (2.4%), going on to recover later. The reason why the news did not excite investors is related to the possible problems that follow an M&A transaction of this kind between two giants of this size, leaders in their respective sectors, whose merger implies consequences in the dynamics and competition of the existing companies because of the resources they have at their disposal (CNBC, 2022). A second reason is related to the internal problems that have involved Activision Blizzard and compromised the company's own stock, and how these could spill over into Microsoft, which has the challenging task of integrating it and remedying them. Also, it is possible that the games business may distract Microsoft from its core competence, and its future projects, as related to software and AI.

Activision's reasons for accepting a peaceful takeover by the IT giant were evident in the current reality and context of the game industry.

As CEO R. Kotick recalled in his resignation speech, Microsoft's proposal to acquire the company and combine the two businesses was the only way it would continue to be a leader in an environment where the list of capable and well-resourced competitors was growing. Above all, it was crucial for ABK, which had a critical loss of credibility and trust in the market and with the public after the sad internal events.

Activision, Blizzard, and King were really three unique companies, and the speculation was that they could be split up. For the shareholders, this represents the best-case scenario as the valuation is solid. Microsoft was one of the few companies willing to swallow the whole pill.

And it should not be overlooked that despite the large gaming profits, which are higher than the rest of the companies in the market, there has been a slight but steady decline in some of its franchise and live-service titles in recent years, a sign of market fatigue and some contingent factors, such as the exit from the pandemic period and publication delays.

2.4.2 Critical issues for the gaming industry and its competition.

Despite the great excitement over the announcement of the deal, the potential acquisition of Activision Blizzard King has raised legitimate concerns, as a vertical acquisition, within the gaming market and community because of the possible negative impacts on competition to other companies in the industry. After the transaction was approved by the shareholders, the merger was examined by several national antitrust agencies, with the European Commission among others granting early clearances.

Formal complaints to the trade were issued by the Federal Trade Commission (FTC)[36] of the United States, and the Competition and Markets Authority (CMA) of the United Kingdom reviewed the deal. The federal agency's position, with Khan at the top, is known for its toughness on big companies in antitrust matters, especially tech. The FTC received concerns from a group of U.S. senators, including Bernie Sanders, stating that both firms have "failed to protect the rights and dignity of their workers" and that the consolidation should be rejected if "the transaction is likely to enhance monopoly power and worsen the negotiating position between workers and the parties" (U.S. Senate, 2022).

FTC blocked the deal on December 8, 2022, raising concerns that "would enable Microsoft to suppress competitors to its Xbox gaming consoles and its rapidly growing subscription content and cloud-gaming business" (FCT, 2023), and that Activision Blizzard's games customers would suffer, as was the case with titles from the previously acquired company ZeniMax Media, for abuse of dominant position within the video game industry by accusing for forcing consumers to move to Xbox and Microsoft's Game Pass service to the disadvantage of those of its competitors. Microsoft challenged the constitutionality of the FTC and stated that that it intends to continue to provide content for all devices, and that Sony is instead one of the largest platforms, that it has exclusive games legally prohibited for Xbox.

On June 12, 2023, the FTC filed a request for a preliminary injunction[37] and temporary restraining order to prevent the merger. On July 11, 2023, Federal Judge denied a permanent injunction, stated that considering the agreements undertaken by Microsoft with competitors on February "the FTC has not demonstrated that this vertical merger in this particular industry would significantly lessen competition."[38] The FTC renewed its action against the merger on September 27, 2023, but failed.

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[36] The FTC is the agency in charge of antitrust and competition enforcement on U.S. ground, one of the most powerful and economically relevant. Heading the FTC is Lina Khan, 34, the flag-bearer intellectual and associate professor in competition law at Columbia Law School, nominated by President Biden for countering the Silicon Valley giants.

[37] A preliminary injunction, when granted, pause a company's plans or actions. These injunctions are requested when an immediate threat or harm is in prospect.

[38] Federal Judge Corley downplayed the big accusations made by Khan and asked the FTC's lawyers: "All of this is for a shooter video game? For this one game?" referring to the Call of Duty franchise (TheVerge, 2024).

The European Commission, in its initial assessment, asked the industry companies about the possible effects of the acquisition on their business and whether Microsoft might decide to prevent competitors from buying Activision's titles in the future. As Microsoft would have been incentivized to deny access, the EC filed a formal protest the acquisition, citing the potential "reduction of competition in markets that would lead to higher prices, lower quality, and less innovation for console game distributors" (CMA, 2023). On 21 February 2023, Microsoft stated that it had reached a ten-year agreement with Nintendo to bring Call of Duty to that console and with Nvidia for the GeForce Now streaming service to help grow the cloud gaming segment. On 15 May 2023, the EC approved the purchase.

The CMA rejected the merger and took time to complete a Phase I investigation; In August 2022, CMA declared its intention to conduct a more thorough review of the transaction: Phase 1 concluded that there could be a significant reduction in competition, while Phase 2 suggested that there could be less innovation, higher costs and fewer options, as well as less rivalry in the console and cloud games markets. Despite Microsoft's on February openness to secure products on other consoles, on 26 April 2023, the CMA officially declared its opposition to the merger, stating that Microsoft already held a dominant position in the cloud gaming market and that the merger would merely solidify it, and that the contracts reached were not sufficient. Microsoft appealed this CMA's decision.

After the ruling, Activision Blizzard, Microsoft, and the CMA agreed to end their legal dispute and to start negotiations. In August 2023, Microsoft announced that it would sell Activision Blizzard's game streaming rights to Ubisoft through its cloud service, Ubisoft+, for the next 15 years (GOV.UK, 2023). On 22 September 2023, the CMA stated that the amended transaction was temporarily authorized, and on 13 October 2023, accepted the updated acquisition terms (*ibid.*).

To solve these concerns the two companies agreed to postpone the closing date of the acquisition to 18 October 2023.

The closure by the CMA and FTC generated many contrasts and suspicions as the deal had already been approved by antitrust authorities in all countries of the globe, even by the strict EU commission. Microsoft itself met the US authority's demands to make the deal as productive as possible for the rest of the industry. Microsoft's potential digital monopoly of cloud gaming can be hindered by preventing vertical integration or limiting its power, but it would mean depriving them of the possibility to use its services and exclusives. The solution is to add a so-called "common carrier" clause, to guarantee the rest of the players in the industry open and fair access to their services and products, and the "essential facilities" clause, subjecting the group to share its resources by making it open to all and not discriminatorily denying the possibility of playing a title or accessing the cloud

service to others while avoiding abuse of dominant power in the sector but at the same time maintaining benefits of scale (Repubblica, 2022). All these observations are important to consider regarding the full accessibility of a video game company's title to all consoles and platforms available to consumers. Exclusivity of a video game for only one console, thus depriving the rest of gamers, is an issue that has been present since the first console generations, and a tool used by console companies to exclude gamers and hinder commercial union. It was bizarre how the FTC and the CMA have not accepted Microsoft's openness in pursuing the acquisition, and how it did not support a company that is not currently in a dominant position in that sector, thus favoring Japanese company Sony Interactive Entertainment LLC, one of the only companies opposing to the deal with depositions and documents. PlayStation as the direct competitor suffered a major blow when the deal was made public, with a massive loss of 12.8% of its stock ($20 billion); Sony expects that Microsoft will abide by contractual agreements and continue to ensure Activision games are multiplatform (WSJ, 2022). Jim Ryan PlayStation chief believes that Xbox Game Pass is value destructive, and Microsoft intends to use Call of Duty to disadvantage PlayStation in terms of the availability or the way the game is made available on PlayStation consoles (The Verge, 2023). The decision to give more attention, time and closure to this acquisition was not taken well by the consumers, the gamers, who see the deal as an excellent opportunity a more complete and diversified service and has left many internal questions within the agency, while as a threat to the rest of players on other consoles; there has been an escalation of the "console war[39]". In this regard during the hearing, Microsoft to defend itself from the accusation of being the first power in the market, revealed with inside information to be in the third place; consistently outsold by competition Xbox has lost the console wars and its rivals are positioned to continue to dominate with Sony leading the market worldwide for over two decades and five generations of consoles. The worst-case scenario that can come true in the industry is that Microsoft over the years becomes much more aggressive limiting power and competition and making things difficult in the mid to long run for others, even for large publishers or developers such as Electronic Arts or Ubisoft, that doesn't have the same relevance and size of Activision, if a limitation of its own ecosystem were to happen. Microsoft gains a new dimension and has access to all the tools, resources, technologies, talent, and study needed to put the fight to the top back on the line, opening a new ambitious chapter in the gaming industry.

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[39] The console war is the existing competition between console manufacturers regarding who has the highest sales number, the best technology or exclusive games, which is carried on with debate among its fans and users with comparison and with denigration of competition.

CHAPTER 3 - A post-merger integration model for Microsoft-ABK acquisition

3.1 Theoretical framework

In this chapter will be presented a model to show what steps Microsoft and Activision Blizzard would have to go through to move forward with the integration process and its completion. This will be essential to talk each other the Organizational Design theory and the events of the analyzed acquisition and observe its evolution.

The Fit concept applies to mergers and acquisitions and decides a transaction is a clear strategic response to the business contingencies. It becomes fundamental for the buyer to enforce a proper integration strategy for the target, recalling how there is not one size that fits all solution, as each company has its own peculiarities, merits, critical issues, and corporate culture is one of the elements that that distinguishes one company from another. Therefore, the acquiring company will have to make a careful analysis, avoiding choices that may compromise the adaptability and success of the M&A deal overall. In the Microsoft - Activision Blizzard case study the integration takes place between two giants of the video game and IT industry with its own history, strategy, products, corporate culture, leadership, and organizational design, which will require a delicate approach to ensure maximum benefit and to derive as many synergies as possible. Microsoft will have to use the design that best fits ABK's issues and integration to avoid disorganization and poor performance, the success mostly depends on their ability to combine these elements, and provide a setting where contingencies are managed cooperatively.

The decision to undertake an M&A is closely linked to those contingencies surrounding an organization with external and internal variables and allow to see the feasibility of the deal and the growth opportunities. Activision Blizzard definitely presented a high level of *Uncertainty*; the video game industry is characterized by an environment where there is a high rate of innovation, of consumer demand for products that are increasingly complex to make or that have new features than in the past, thus requiring a faster response to demand and external threats. In this landscape, a long-standing franchise, despite its past or ongoing fame and success, risks receiving a production that does not meet what the new audience wants. Activision Blizzard has always been attached to franchises such as Call of Duty, Diablo, or World of Warcraft, and for several years now it has been unable to get out of its comfort zone that provides it with security and good numbers for the products it sells, but that does not give the company the opportunity to diversify or deploy its resources in other projects. It focuses in supporting its long-term GaaS games (Overwatch, COD Warzone, WoW), micro-transactions and further monetization models, and releasing games that in recent years has had

few exceptions from the known IPs. The question raised is how far this strategy can continue, and instead how under the management of Microsoft Gaming the company is finally able to be able to work on new projects. Regarding the *Competitive Strategy*, it should adopt a strategy that aims for greater differentiation, for the creation of new games that are unique and engaging for gamers. Microsoft can help strengthen this strategy through its presence in diverse industries, and the integration will improve the competitive position by enhancing the skills that distinguish both. Its large organization, with many employees and studios, can affect internal dynamics and development processes, as well as the management of resources and their distribution in various projects. Finally, *Task Uncertainty;* in the video game industry mainly comes from the rapid evolution of technologies and make compatible with their products and changing consumer preferences; adaptability and flexibility that Microsoft can sustain can be passed on to ABK to deal with the market uncertainties; in addition, ABK will have access to technologies and additional data for complete monitoring of market trends.

To represent the integration process of the Microsoft - Activision Blizzard King acquisition, a model was adopted based on that of Burgelman and McKinney (2005) for the Strategic Dynamics of Acquisition Integration (Fig. 3.1).
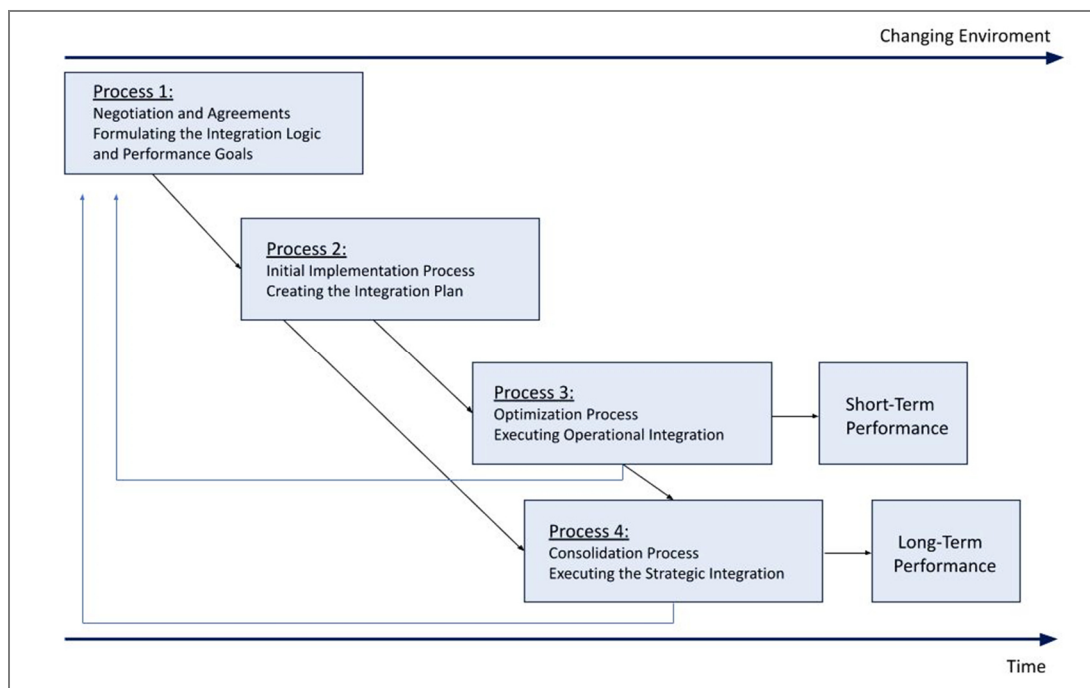
Fig. 3.1 - Strategic Dynamics of Acquisition Integration-Coevolving Key Process
source: Burgelman and McKinney (2005), realized by Author.

It allows to explore, through a timeline, the evolution over time of the dynamics between the two companies and the key processes that will shape the integration. To watch at the sequence of events allows to unravel the complexity that can result from an acquisition of this scale, and the critical

organizational dynamics in ABK's future and in Microsoft's long-term strategies for this area. Two years after the acquisition and a year after the closing of the transaction, the integration processes are already started. The model will create a dialogue between the theory and reality of the acquisition and allow for a broad view and analysis of how the proper alignment and relationship between the two companies will be deciding in the short, medium, and long term for the pursuit of Microsoft's gaming strategy (Fig.3.2).
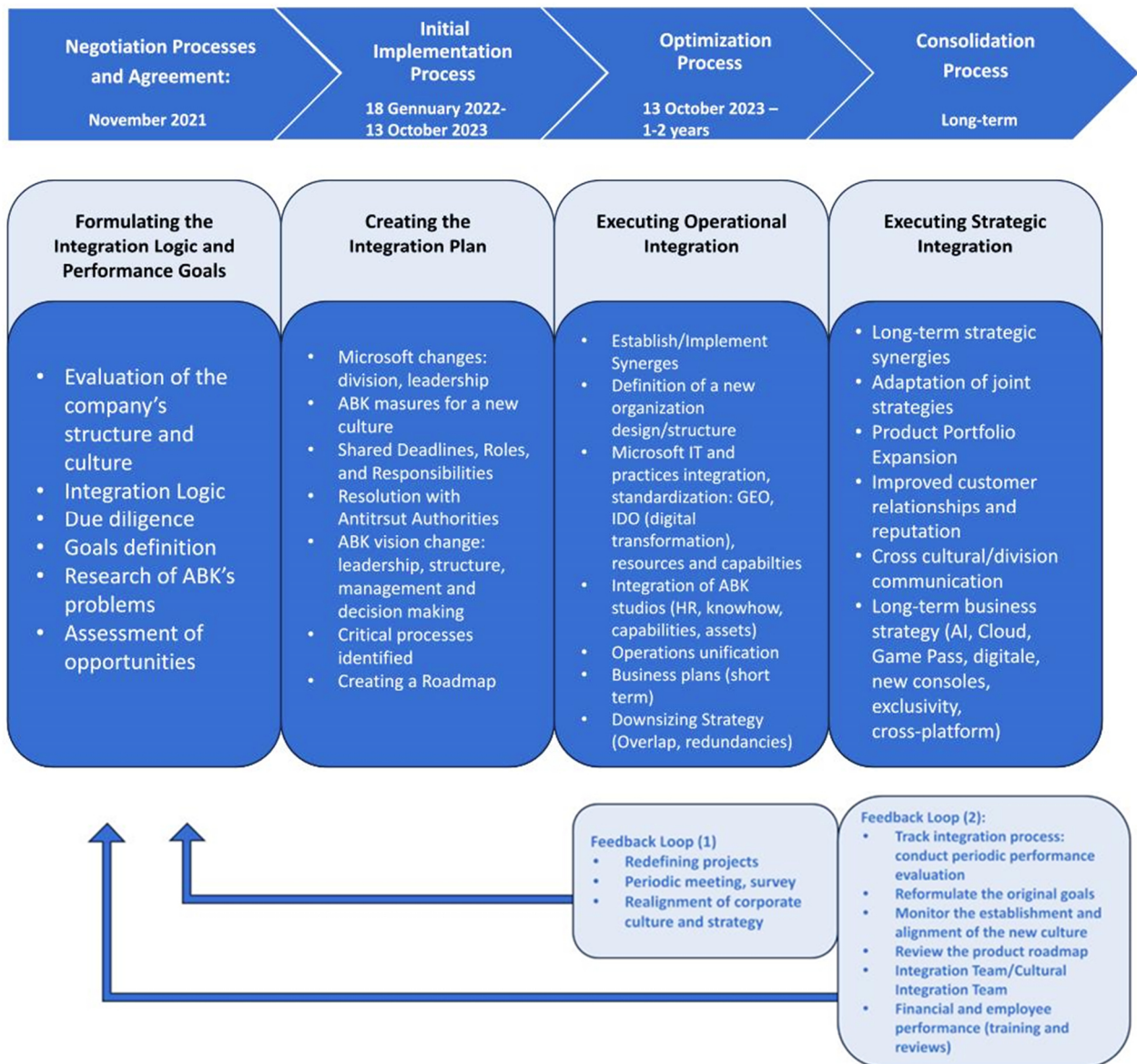
Fig. 3.2: Integration process of the Microsoft- Activision Blizzard King acquisition   *source: realized by Author.*

It will examine the convergences between the two organizational structures and the integration of leadership, corporate culture, technology leveraged by Microsoft, processes for producing new products and services or strengthening existing ones. In this acquisition will be also important to observe the efforts needed to repair past mistakes made by Activision Blizzard and its reputation,

manage the challenges, and capitalize any opportunities that arise during the integration. This solid analytical framework should help deepen this deal with the hope of contributing in part to a theoretical and practical foundation in the corporate strategy and organizational design. There are many operational and strategic challenges that occur from integrating two large technology companies with their own established cultures[40].

As stated above, different types of acquisitions require different integrative strategies; to identify the most appropriate one for the Microsoft-ABK case. it is useful to recall and verify the five main approaches proposed by Marks and Mirvis (2001).

Integration through Transformation can be ruled out, which implies a high level of change in both companies, a drastic approach for both with a new structure, culture, and values, as well as the *Integration* option, where it would have to be Microsoft to assimilate the culture and practices of Activision Blizzard with its takeover.

Preservation is excluded because it would require few changes for both companies, when instead there is a need to fix some aspects, not only related to achieving an internal improvement at Activision Blizzard, but also because it is a huge acquisition that will change many of the internal dynamics of Microsoft and its gaming division.

The two most plausible options would remain Absorption and Best of Both. Considering the situation of the two companies and the key factors in the corporate culture of both firms, with ABK having faced scandals and cultural issues in the past that require targeted action, and Microsoft a company with a culture that has always been focused on achieving innovation and inclusiveness, that might be most suitable is the *Best-of-Both* approach, which would allow for the creation of a new strengthened and enriched culture that features the distinctive strengths and positive, essential, and unique elements of both organizations. The goal is to provide Activision Blizzard with a positive cultural renewal that addresses and impacts the current culture and the problems they have had in the past, both internally and externally, while also capitalizing on the cultural strengths that distinguish Microsoft. When addressing cultural issues Best-of-Both, compared to Absorption, allows for the application of synergies, which will also need to take place for processes and organizational design, with employee involvement and support, and the full cooperation of both companies to listen to each other openly, and create a company in which employees feel involved, motivated, and comfortable, so that the changes are positives and are embraced and shared by both organizations.

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[40] The work conducted by Burgelman was based on the case study on the integration of Compaq into HP following the merger in May 2002: initially the organizational integration was considered a success, but two years later in 2004 HP was missing the long-term revenue and profit goals there were set, affected by the long timing of the organizational and cultural integration, and by the wrong strategic assumptions made on the competition.

Regarding to the type of organizational culture, it is possible to identify Microsoft as a company that presents the framework of an adhocracy culture, being in a flexible environment with a strategic focus on the outside, encourage to communication and teamwork, push its employees to innovate thanks to their own creativity, to identify and solve the problems sometimes by taking risks; it is typical to many others tech companies, present in an ever-changing industry, with an organization that aims to achieve steady growth by diversifying, to be agile and responsive to market demands, to propose something that hasn't been done before. Activision Blizzard King has a culture of adhocracy type, but also clan and market type, being highly flexible but also with some level of control. It has a market culture because is externally focused and has a result-oriented policy, many of the projects it works on depend on the results and performance that the company has achieved and on the feedback that comes from the outside, with the presence of a leader who is willing to take drastic decisions if the organization is in difficulty. It present also a Clan culture because it reflects the characteristics of an organization that aims to build strong relationships based on trust between the teams within it, who must work in sync in the creation of video games, with full involvement and participation, with communication that plays a key role for the success of the project, with the customers and the community, the players, who give feedbacks and suggestions for actions to be taken and improved. For Microsoft, and for large companies in general, it is more difficult to maintain a clan culture because it is too large an organization. The functioning of the organizational culture is important for the effectiveness of their business, and Microsoft has the task to shift ABK's.into a winning one, a culture that accurately reflect their values, and align to their mission: the effort and investment they will put in it will surely pay off in the long run.

Going back to the cultural dimensions proposed by Hofstede and Bond (1988), ABK in Microsoft integration processes could go on to optimize some of these dimensions to set up its culture in a way that could function properly, to leverage its relevance and obtain a better working environment and a greater efficiency to achieve their goals: first of all they could cut the distances from those in charge and who's in power in order to better distribute the power downstream and make the studios more flexible; change the focus of the studio to future-oriented reducing the uncertainty and take advantages of new opportunities under Microsoft, with less uncertainty there will be less disparities and centralization, and more variability, like in the title that ABK will propose to the public; create an internal environment in which the employees act as a team emphasizing social collectivism to instill to its members a sense of belonging, of pride and loyalty, with the company protecting the rights of its workers and caring more about their conditions, creating a strong bond with them, instead of having individualism with everyone protecting their personal interest; create an environment that is more inclusive, where the application of gender-specific roles in the organization is minimal, where

everyone qualities and abilities are well considered and the value of social recognition is high, with also women in positions of authority.

In gaming industry many problems are related to the development of a video game and the culture that is adopted; not only Activision Blizzard, Rockstar Games studio, owned by Take-Two, and Ubisoft are other major companies in the industry that since 2020 have been involved in several controversies related to internal corporate culture and inappropriate behaviour at work, with investigations leading to the resignation of several executives, and the commitment of the company and the CEO to improve the work environment. These internal conflicts are also reflected in game development, in changes, delays, and technical issues when they were released. Development problems result from several interrelated causes: the presence of weak or controversial leadership that makes poor decisions and lacks a clear vision of what strategies and goals should be pursued and is unable to provide effective guidance; inadequate management to coordinate teams, plan operations, and manage resources; a corporate culture incapable of fostering open communication, accountability, and greater focus on the work done and the quality of the product. The combination of all these factors brings eventual difficulties to a company and to the video game industry in general.

3.2 Initial phase, negotiation process and agreement: formulating the integration logic and performance goals

The initial phase of the adopted model starts identifying what were Microsoft's strategic motives in the acquisition of Activision Blizzard[41] and those that led Activision Blizzard to be acquired, looking at the strengths and challenges of both organizations. This is followed by an analysis of the contractual agreements between the two companies and the initial integrations established, concluding with an assessment of the immediate initial expectations from the deal and the synergies. I conduct a prior assessment of the corporate culture of both companies, listing the events that affected Activision Blizzard's, then following with the processes and organizational structures of both. As it was mentioned in the first chapter there are two aspects to consider regarding the management of the acquiring company, Microsoft, the first is that they will be in charge of formulating what corporate strategy will be followed once the two companies are combined and how it will be leveraged to strengthen their competencies and improve their market position, and second, to make analysis and assumptions of how the market in which they are present will evolve and formulate strategic and financial goals to pursue for the short and long term. At this early stage, Microsoft should clearly

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[41] See above 2.4.1 Microsoft reasons for the acquisition p.

define the integration rationale to incorporate Activision Blizzard into its organization and business ecosystem.

Microsoft is a company that throughout its history as we have seen has completed several acquisitions aimed at improving and expanding the different business areas in which it is present by broadening the possibilities in the services it distributes to customers; few of these acquisitions did not bring the desired results, above all the acquisition of Nokia, different from previous ones in that through aimed at creating a new division and business. GitHub and LinkedIn acquisitions in 2016 show what Microsoft's approach is when it integrates a new company, even great for value and size, into one of its businesses, is to make it its own subsidiaries, ensuring that it preserves their independence, acting as a separate business unit to continue to grow and develop with autonomy. Microsoft is integrating the acquired companies in a phased manner to best learn their internal dynamics and culture, avoiding conflict, and retaining the elements in their history that have contributed to their success. Both companies emphasized the importance of preserving after the completion of the transaction the values, identity, agility, and culture of LinkedIn, which had brought it success until then. Microsoft worked to integrate LinkedIn's capabilities within its products and services to create a broader ecosystem for full synergistic collaboration across platforms. LinkedIn has benefited from its new size and independence through a large increase in revenues and number of users, solving growth problems it faced on its own in 2015.

In the video game market Microsoft has made many M&A deals to expand its gaming division, Xbox Games Studio, strengthening its position as a publisher for the development of first-party titles, intended for its consoles as exclusive titles, subscription services, and other devices and platforms. In the case of both Mojang AB and Zenimax Media there were fears of radical changes in the formula of their games and platform management, instead Microsoft mainly brought in studio concentration, planning and development resources, more powerful development tools to spend on gaming, and more opportunities to connect with communities to meet their demands, assured that employees would remain.

Microsoft is able to manage many different companies and assets as a portfolio in a better and more efficient way than how individual firms are able to manage themselves; it is a company that presents an high diversification, with divisions separated from each other by product and industry of reference, despite its large size, demonstrates a close relationship in the exploitation and assembly of many capabilities and resources of a business, on a par with a smaller company. Microsoft is considered a "mountain climber" company (Bain, 2023)[42], able to make successful acquisitions, that has clarity

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[42] Bain &Co calls "mountain climbers" those companies that engage in repeated and significant M&A, regardless of the economic cycle and earn a better shareholder return.

about what strategy is going to pursue and what goals wants to achieve with the addition of the new company, with an awareness of the internal capabilities that are present and how best to employ them. It knows what skills are needed for integration and good due diligence. what specific assets can fit its strategy and is committed to integrating them into its organization to achieve it and be able to grow. It is a company that knows where not to integrate and where to do so to enable the companies to work together without sacrificing resources, talents, and culture of those being acquired, or without stepping in to make drastic changes. Satya Nadella managed over the past ten years to complete many acquisitions, strategic alliances, and partnership, encouraging collaboration between divisions, and creating a positive company culture that is about collaboration.

Activision Blizzard King itself is the result of more than two decades of Bobby Kotick's operation, who since taking over the company in 1991 has acquired many development studios, including successful ones securing several popular gaming franchises, and allowing them to work independently to foster the development of great games and IPs. There have been few instances where one of the studios or division has prevailed over the others, Activision and Blizzard have mostly operated as two separated entities, each with their own franchises to work on; however, Activision was exerting more control on Blizzard operations, with criticism for the money spent on the project and for the less new game released.

When Activision Blizzard has found itself at the centre of media attention because of scandals related to the company's toxic corporate culture affecting some of the highest positions, including that of CEO Bobby Kotick, the company has come under the spotlight with many of the industry's companies condemning its actions and misconduct, with losses in partnering and collaborative projects, criticism that has also come from Microsoft. On the day the acquisition was announced, Kotick said that he would continue to be in chief of ABK, available if needed, until the transaction is completed.

The acquisition also ran the risk of obstruction and blockage by national antitrust regulatory bodies, FTC, CMA and UE, due to market distortion and disruption if the transaction was completed.

Companies structure Microsoft's diversification is reflected in its product-type divisional organizational structure based on several divisions with functional business and engineering groups, each with a specific focus and its own research and development, marketing, sales, and customer supports. All the divisions are led by executive vice presidents who report to the primary figure, CEO Satya Nadella. Activision Blizzard is a company whose business has always been uniquely focused on media-entertainment industry, gaming primarily; the company will therefore join the More Personal Computing segment, in the Gaming Division, headed by Phil Spencer.

Companies culture Microsoft's mission "to empower every person and every organization on the planet to achieve more" (Microsoft, 2023) allows a glimpse of how the culture inside Microsoft's organization plays a central role, leveraging its core values and principles to guide the behaviour and decision-making of its employees. Microsoft culture has evolved throughout its history, under the present leadership the organisation's culture has become a priority, it is described with the principles of accountability, innovation and quality, customer responsiveness, growth mindset, diversity, and inclusion, each of these descriptions has significance in the dynamics of the company and its evolution. A culture of accountability means that employees take responsibility of their actions and achievements and strive to deliver value for consumers and stakeholders. Employees at Microsoft are committed to quality and innovation, which means they strive for excellence in their goods and services and are always looking for opportunities to improve. They are responsive to their clients, pay attention to their requirements and feedback and work to go beyond the expectations, they have a growth mindset, consider learning and development as an ongoing process, and embrace change and challenges as opportunity. Employees promote diversity and inclusion recognizing and celebrating individual differences and work to promote a sense of cooperation and community (*ibid.*).

Microsoft's organizational design fosters its culture by making the following advantages possible: Streamlined innovation with distinct R&D departments for each of its product-based divisions, encouraging an innovative culture across every area; the divisions may concentrate on their core skills and use their expertise to develop new products and services that respond to the demands of customers, they can work together to exchange best practices and coordinate their activities. It Minimize Internal Conflicts and disputes over resources or priorities by clearly defining roles and responsibilities within each division, free to function independently without interfering with one another's operations. It improves Flexibility and Responsiveness with its divisional organization with a flat hierarchy, it can more effectively respond to shifting market conditions and react fast to feedback and needs from customers, modify their plans and methods of operation if needed without impairing the effectiveness of the other divisions. Microsoft's history, strategy and culture have contributed to shape its organisational structure that has changed over time to accommodate the shifting demands of its customers and the market.

Despite the advantages of Microsoft's significant diversification, there are several challenges for the organisational structure that need to be addressed to keep the company's synergies and strength intact. Microsoft may find difficult to coordinate and integrate its activities and operations throughout the company due to the multitude of divisions, each with its own functions and goals to achieve; it is possible that the divisions' divergent or even competing objectives and interests could prevent them from working together. Additionally, inconsistent standards and procedures that could potentially

lead to errors or inefficiencies may occur, potentially expanding into the rest of the business and company. Another challenge is the maintenance and alignment of culture across the company, Microsoft may encounter some difficulties in maintaining and harmonising its corporate culture due to its heterogeneous workforce with individuals of various backgrounds and perceptions, company's values and principles may be seen or perceived differently by the employees, and there's a chance that workers' commitment and engagement to the vision and mission of the organisation varies. Lastly, due to the high number of employees dispersed across several locations and time zones it may experience difficulties in communicating and efficiently exchanging information, the employees may be unaware of the information or have restricted access to resources located in other divisions or area; different communication habits or methods practised by the employees could cause miscommunications and delays. These are all challenges that are also present in companies such as Activision Blizzard, but on the one hand Microsoft can address and overcome these, while ABK has always had problems, as evidenced by internal scandals and issues in its management. There are strategies and practices that Microsoft uses to solve these, which will then be exploited in the context of Activision Blizzard once it is fully integrated and part of Xbox. The first is through the creation of a compelling vision and strategy, following what is stated in its mission statement Microsoft has a clear plan to become a productivity and platform provider for the world, thanks also to the tools of the cloud, starting with its many divisions to assist in the coordination of objectives and activities and establish a shared direction and purpose. The second is through the encouragement Microsoft proposes for staff members to interact and collaborate across the departments and regions on different projects by using the various platform and tools the company owns; by doing that it creates and foster a culture based on collaboration, feedback, and learning where employees are free to accept and offer essential and constructive feedback, mentoring, and coaching. Linked to these is the third strategy that Microsoft exploits, namely the opportunities it offers for training and development of its employees, a major investment the company makes by providing a range of programmes and resources, promotes the professional growth and mobility.

Current Market, Microsoft Gaming Business The consolidation process is one of the biggest threats in the gaming industry, as it is an enemy of diversity, it could have a negative impact on the creativity of a studio and could lose it due to changes within the company, due to a new direction and management that can affect those processes, criteria and approaches that were previously used to devise new ideas and products (Videogamechronical, 2023). Bringing a company into an even larger conglomerate, with more studios and more employees, often instead of enabling it a way to create its games, independent creativity slows down, it is absorbed to work in support of a larger game that is in production. The industry should focus more on new experiences for gamers and not on existing

franchises and genres, or new users won't be attracted; the budget for AAA game development has increased excessively in recent years and it has become difficult to compete, with many doomed to a production and release of sequels and reboots of popular games and genres, with small indie studios having fewer resources due to financial constraints and lack of capital, and counting on eventual absorption, like the one by Microsoft. The Business Model of many companies in this sector has also shifted due to the digital transformation that has taken place in many industries, with increasing interest in the subscription service panorama (as in the media-entertainment sector), favouring digital over physical versions. The traditional Business Model for Xbox and its competitors have always been the console model, sold with minimal profit margins at times even losing out, to create the platform for users to access games, from the sale of which the companies make their profits (Razor Blade Business Model), either of their own production or of third parties with whom they have strong negotiating positions for distribution and from which they receive royalties, both for physical and digital sales, the latter having changed the way products are distributed, sold and enjoyed, with an evolution also in genres (free-to-play, widely adopted). Subscription-based business model is considered the next frontier and access to gaming, on which Microsoft is investing thanks to its in-house technology to implement it via cloud (Azure Cloud), and with Activision Blizzard has the resources and possibilities to enrich it and make it a successful strategy in the long term. Customers instead of owning the product, have access to the service maintained and supported constantly by the company with new content on a regular basis to keep users monthly interested, motivated and willing to pay again. Through this service Xbox in the long-term would no longer have to sell its consoles to the public to use its service, as it will be possible to access it from any device. Many companies look at Game Pass as an opportunity to increase their visibility, especially indie companies, allowing players to discover their games by lowering their cost for doing that, and increasing the awareness of those games on the other platform in which it is present: this mechanism fosters the competitiveness of the sector and of the different players within it.

Problems ABK Lawsuit from the California's DFEH [43], filed on July 20, 2021, and closed paying $55 million, accused ABK of having and fostering a "frat boy workplace culture" where there was disparity in pay between male and female colleagues, with frequent and routinely harassment toward the female gender. It was a landmark case for the industry, and a great sign of accountability for all companies that have problems with work environments where minorities are on the margins or abused, or there is a company culture that does not work. SEC investigations, and allegations from the CWA union have been added. The company initially criticized the investigation and the

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[43] See above 2.3.2 Activision Blizzard King p.

allegations made, creating further discontent among employees who called out the company for not taking the reality of the internal dynamics seriously, downplaying the present problem and continuing to ignore the situation. CEO Bobby Kotick was demanded to resign from his role as not having informed board members of the critical situation in the company and the sexual-misconduct allegations and complaints, which he had known about for years, and intervened only occasionally. There has been criticism about how the company implemented a "stack-ranking policy" that would force managers to punitively rank the members of their teams (roughly 5%) by preventing to receive raises or promotions, an unjust rank to some employees just to meet a minimum developing-quota. This could encourage sabotage and competition among the employees and teams instead of collaboration, puts employees under pressure, eroding trust and destroying creativity. It was then explained how managers set goals with each employee and then measure performance relative to the goals to be achieved, in a fair, unbiased and flexible manner, and then make suggestions on how to improve.

3.2.1 Integration logic and due diligence

In the formulation of integration logic, Due Diligence plays an important role during the agreements between the two parties. Before moving on with the acquisition a company needs to ensure that the target presents or has constructed assessments for diversity, equity, and inclusion (DE&I), elements that in ESG are referred to as S, the social aspect. These are data and elements that in modern companies are as essential and required as financial data, companies need to attach importance to taking proactive measures to maintain an excellent workplace environment. and culture, with periodic assessments to ensure compliance and disclosure of internal information and issues. ABK should conduct risk assessments to verify that internal whistleblowers' reports and complaints are investigated adequately, and that disclosure controls take place (Arnold&Porter, 2023). Due Diligence therefore assumes a critical role in the analysis of a company and all those challenges it will face, which if not made public there is a need to identify before the transaction goes ahead, as was said in the first chapter, all those elements present under the tip of the iceberg: it could provide Microsoft a roadmap of what the integration of Activision Blizzard could look like, identifying the fundamental problems, supporting the value and intervening where necessary for steps. The CWA brought to the attention of the regulators, who will be analysing the issue of competitiveness, the importance of analysing what the impact of the M&A would be on consumers but especially on Activision Blizzard's employees, as in the future direction of the company, ABK's concerns and allegations must be addressed depending on whether the acquisition takes place or not. One of the key reasons Microsoft acquires ABK is also to acquire the talent within it, so it becomes crucial for

Microsoft to make decisions that do not drive these to leave the organisation, instead to stay for the future of it. Many of the measures that were taken by Activision Blizzard, as we will see later, were also taken considering the acquisition, prompted by Microsoft's possible concern about having to deal in the future with a company with serious culture and reputation problems, and with little attention to the social element of ESG, to which Microsoft attaches great importance. The company in fact released in March 2023 its first yearly update to shift its current DE&I framework to report with accurate data and information and maintain accountability of what is the company is doing to improve its culture and workplace. The improvement of ABK culture is a main priority for Microsoft as it knows of its significance as an element that can establish from the start the direction in which a company is, to accompany it toward new goals, and to establish itself among employees in the internal dynamics and processes that will later be configured with those of Microsoft. With the Cultural Due Diligence Microsoft was able to ascertain with investigations pre-acquisition what were the current and past situations of the organizational culture, determine what's the management and leadership configuration and what are the method used to operate: all these elements allowed Microsoft to learn about the instability present in ABK and to identify the measures needed for the integration, what are the cultural compatibilities, if there's a fit or the possibility to blend without incurring in cultural clash or shock, stresses and conflicts.

In November 2021, three months before the announcement of the acquisition Spencer expressed himself in a letter to his employees disturbed and concerned by the events that affected ABK, recalling the importance Xbox has for strong values and a culture that creates a welcoming and inclusive environment, and promising to evaluate aspects of the present relations with Activision Blizzard and take appropriate measures and precautions (Bloomberg, 2021); only after, Spencer called Kotick to discuss strategic opportunities and combination, and subsequently start with the negotiations. When Kotick heard Spencer's offer immediately realized how combining the businesses of both would allow ABK to continue to be an industry leader, and with Microsoft's resources to grow further. Microsoft Gaming's ambitions and projects, the excellent relationship between the two companies over the years, and the recognition of the same values, passion for the talent working at ABK and the games they create, for Kotick and the Board helped make the decision to enter negotiations. ABK at the time Microsoft made the proposal was intent on beginning a long range planning process that would require a lot of challenges, and talent, skills and resources that the company did not have, in a market that has never seen as much competition as it does right now, with large companies entering, hitting an inflation point that will benefit those who evolve to remain relevant and competitive. With Microsoft's resources ABK will be able to realize many of the projects and visions they created that it would not have been able to do on its own, due to limitations in manufacturing, supply chain, and

hardware. It was a transition that happened with the right buyer at the right time. One condition that was important in the negotiations with ABK was the assurance that future releases of its titles would be on many devices as possible. The speed with which the talks took place was also due to the interest by many other companies in acquiring ABK after the stock had collapsed, and it was Microsoft's desire to move expeditiously (SEC, 2022). In December 2021 Microsoft entered into a mutual non-disclosure agreement to access all the confidential information such as the long-range plans of ABK, to discuss about the long-term opportunities for their business, and the recent performances of 2021. Microsoft and ABK were expecting the transaction to complete in the fiscal year ending on June 30, 2023, to accelerate the integration and start immediately to collaborate without any limits its new projects, but as we saw in Chapter 2 it took longer because of the investigations that went on throughout 2023 by Antitrust agencies.

Several insights of how the integration logic was formed are provided by official Proxy Statement documents prepared by the Securities and Exchange Commission, of what the effects will be for employees, for the business of both companies, and for the culture. For the employees until the transaction is completed business and responsibilities will remain as usual, with both companies operating independently, after the closing the commitment is to empower the teams to do their best in an inclusive environment without a lot of changes in jobs, preserving and growing Activision Blizzard value and its teams with more opportunities and the access to additional world class developer talent for more collaboration (in response to the question of whether there would be layoffs as a result of the transaction) creative employees at ABK will be a driving force and will be recognized and valorised by Microsoft (SEC, 2022). On culture, Microsoft has an inclusive and diverse workplace culture that aims to foster innovation and creativity, they reviewed the commitment and policies that ABK did to create a great workplace and will support the work and goals ABK have done so far without interrupting them (also Microsoft has recently implemented policies and practices for more internal investigations and review to improve their culture and employee experiences). On changes in partnerships, platforms and pipeline, it is said that all the existing agreements will be honoured also after the closing with Microsoft not having the intention to remove content from platform where it already exists and continuing to support the communities on every platforms; the main focus will be on increasing the availability of ABK's contents across all platforms with more opportunities for future development and innovation, combining ABK IPs with Microsoft technology (SEC, 2022). The leadership of Activision Blizzard will continue to remain driving the change in the culture (at the time of the merger the officers of ABK will be the officers of the surviving corporations until any successors will be appointed) , that the company will be then housed within Microsoft's Gaming Division as wholly owned subsidiary of Microsoft, and it will report to its CEO Spencer,

both companies will continue to operate independently with Microsoft empowering developers and creators without compromising their creative vision like they did with Mojang and ZeniMax acquisitions. In accordance were considered all impacts on Activision Blizzard if the merger was not completed with reverse termination fees established for both companies.

3.3 Initial implementation process: creating the integration plan

The second step of the conceptual model concerns the initial implementation process, that is, what strategies will be followed and what changes implemented once the acquisition is completed, and during the process related to the acceptance of the M&A transaction, then with due measures taken for the inquiry conducted by the antitrust authorities. This process involves all the decisions made by the new executive team and leadership chosen, and the results in the organization of Microsoft and ABK. At this stage they need to plan initiatives that will be taken in the upcoming years, work on the project currently in development and focus on the creation of a new corporate culture for Activision Blizzard. It is important that the acquiring company, Microsoft, takes a leadership role, convincing all stakeholders involved, including the employees themselves, how this operation and integration will be good for everyone and for the growth of both companies. While this process is active, the companies start to plan also the other two processes for the short and long term. As has been explained before Microsoft has completed successful M&As in the past that can be emulated, the basic organizational structure of how ABK will be integrated and operate until the transaction is finalized and after in the short term was defined prior to the announcement. The two companies begin to create the integration planning process and define the future operational and strategic integration in advance, before the legal clearance of the operation.

Microsoft changes At this stage, alignments between the two organizational structures occurred, so were analysed what key processes and technologies were integrated, the changes and reorganizing that occurred in the leadership of Microsoft and Activision Blizzard, the development of organizational changes to make the two companies more efficient also in relation to future strategies, and what implementation has been put in place for cultural integration strategies, to improve cultural dynamics in ABK. Microsoft Gaming had to make changes in its organization and leadership to accommodate the new ABK division and the more than ten thousand employees. Phil Spencer will be Microsoft Gaming CEO, Sarah Bond, head of Xbox creator experience who played a pivotal role during the regulatory processes and hearings for the acquisition, was promoted to Xbox President with the new responsibilities of overseeing the work related to Xbox platform and hardware (TheVerge, 2023). She will be responsible for the future of Xbox both in software and hardware

fostering the collaboration between all the different teams, a great signal from Microsoft division of gaming after ABK acquisition for more women with leadership role in this industry. Microsoft also promoted Matt Booty to president of game content and studios con la supervisione di an expanded organization including Xbox game Studios and ZeniMax, with its studio Bethesda. Microsoft decided also to move the consumer sales organization, responsible for Microsoft's consumer retail work, directly inside the gaming division, demonstrating Microsoft's willingness to cross all consumer products, like Windows and Surface with gaming, to transform the gaming sales motions and demonstrating Microsoft's willingness to cross all consumer products.

While the leadership team present in Activision, Blizzard, and King has not been changed initially, a few organizational changes were adopted in the structure, of how studios and business units will run, in order that there is one executive in ABK that will report to one in Microsoft. The day-to-day work will not change and will remain the same, much of the change will start at the leadership level, with changes made to ensure achievement of goals and a welcoming culture. At the end of the year Bobby Kotick, after completing the acquisition deal, left the company after 32 years and his position as CEO; now Activision Blizzard's executives will report directly to Microsoft Gaming leads and will move the integration forward.

The role of the new leadership will be central for the execution of the operational integration in the short term, to give the right direction to the employees in moments of change and turmoil and maintain order during structural reorganization to achieve the short and long-term performances set. They will address the cultural challenges that ABK will face in the next years to prove how the company has evolved by adapting in Microsoft's organization. They will improve strategic capabilities, transfer those needed between studies, and establish initial communications with each other so that they become in the future constant and regular for development collaboration. They will have the task to inform the workers about their current position and task, introduce them to the changes made to the organisation and explain the reasons for these decisions, answer the worries and questions that are raised and try to reassure them about the future of the company and their positions.

Microsoft will come in to oversee projects in development at ABK, that will be labelled under Xbox publishing. In 2023 Xbox launched Redfall and Starfield, two games of its own lineup of exclusive titles, developed by ZeniMax Media, both received mixed reactions; these are titles that were in development prior to, during and following the acquisition of ZeniMax and thus underwent a change in management and oversight in the course of its work. The current strategy is preventing such scenarios from happening again, focusing on more effective collaboration and communication between teams and studios thanks to an expanded gaming content organization, and maintaining a

pace in development, to empower those studios and grow their portfolio. In November 2023 Tim Stuart, Xbox Chief financial officer, said that the speed with which Microsoft and ABK are integrating and working together in gaming strategy is impressive, thanks to the clear idea that Microsoft has on how to leverage what Activision is good at, the great assets and expertise that they own, using their DNA and know-how to accelerate Xbox IPs and address in a much faster way all those gamers that before the company wasn't able to reach, on consoles and PC, and on mobile mostly. Microsoft's mission remains to bring its first party experiences, its subscription services to every screen that can play a game. (Microsoft, 2023).

Important in the creation of the integration plan were the constant restructuring of the deal by Microsoft to appear as feasible and not anti-competitive for the regulatory bodies, and to ensure Microsoft will not be able to exclusively control all ABK games and its licensing terms. The FTC and CMA have raised suspicions and conducted investigations of how the acquisition may substantially lessen competition in the industry; Microsoft has been described as an already strong gaming ecosystem that with this game-changing merger and the access to ABK's catalogue of games could harm competition in the gaming consoles, the subscription services offer, the mobile market and on the cloud gaming services. The merger inquiries finally concluded that acquisition was not going to harm rival consoles as Microsoft's strategy, according to agreements signed with competitors, to keep Activision and Blizzard contents non-exclusive, it will push other companies to innovate, it will lead to higher quality of games in the future and will provide ABK a better guidance and leadership.

Measures taken by ABK for organizational culture Activision Blizzard following the lawsuits announced the departure of some executives, because they had failed to take "effective remedial measures" when the complaints were filed, and had tolerated the toxic culture for too long, including J. Allen Brack, the head at Blizzard Entertainment and Jesse Meschuk, the company's head of global human resources (Blizzard, 2021).

To replace them in leadership there were valuable additions and new positions to lead in diversity, equity and inclusion: a Culture leader who will assist in preserving the strongest aspects the current structure, while adapting and changing when needed to guarantee that everyone contributes with their best self; a Diversity, Equity, and Inclusion (DE&I) leader focused on the achievements of the company across multiple initiatives in this area, and a new organizational leader for Human Resources who will strengthen teams, build trust, and assist to preserve a safe, positive place to work for all. Jessica Martinez new vice-president for culture, former Disney veteran experienced having led the major acquisition 21st Century Fox, will ensure the values of the company will reflect in every

operation and in the whole organizational design, and to improve connections between Blizzard franchises (Blizzard, 2022). Pamela Burga as DE&I Officer, working will support inclusion, representation, and accessibility throughout the organization, with a reflection also on the products that the company delivers to make an impact inside and outside the organization, also for the player; to do so, it is necessary to create engagement and a network with the employees and the community (Blizzard, 2023).

This is leading to adjustments in many aspects, from the hiring processes to the approaches in the creation of game content, to give more inclusivity and representation in titles for the large audience. On of the first project was to review the mission, vision and principles on which Blizzard was founded upon and discuss how these principles are perceived and lived, and how the foundation can be rebuilt by updating and improving these with the contribution of all employees so that the outcomes would be visible to the staff and the gamers from upcoming years. Blizzard management and executive teams will be evaluated directly in relation to the development of the corporate culture; their performance and pay will be directly correlated with their ability to establish a secure, inclusive, and creative work environment. They are investing more money and full-time jobs into improving the culture. The compliance and investigative teams have been tripled in size to verify who is responsible for inappropriate activity, it will have access to representation data internally; goals to increase these indicators were set. To give employees confidence in evaluating management, they implemented an upward feedback system to measure professionalism and effectiveness of managers (*ibid.*).

In the press release to investors in October 2021 (Activision Blizzard, 2021) CEO R. Kotick committed to implementing five changes to make ABK a better workplace, through a dynamic process that requires gradual changes and an ongoing commitment to improvement:

– a new zero-tolerance harassment policy company-wide, implementing stricter guidelines and continuous supervision;

– increase the number of female and non-binary employees by 50% investing more than \$250 million over the next 10 years[44];

– –in light of employee feedback, the removal of the mandatory arbitration of sexual harassment and discrimination cases;

– keep increasing visibility of pay equity regardless of gender[45];

– give frequent updates on progresses.

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[44] At the time of the DFEH lawsuit female or non-binary employees was 23%, now the situation is being balanced with the new hires 30% identified as women, with the goal of making to more than one-third across the entire company in five years.

[45] According to files released by the SEC in Activision Blizzard "female employees on average earn about \$1.01 for every dollar earned by men doing comparable work."

In annual ESG report for 2022, ABK goals for 2023 were to launch yearly updates on their DE&I, expand their employees' education and knowledge on business practices with DE&I-focused training, account for promotion rates by gender and race in their next ESG reports, and implement performance check-ins for each quarter. At the end of 2023 Activision Blizzard shared some of the results such as increasing the number of women, and non-binary people, present within the company and in leadership roles in game developments, reaching 3,200 members of the global employee's network groups. In addition, the Performance Management process has been refined, now with four key components and a timeline to follow, starting with the employees setting the goals, with progress and performance check-ins, and their contribution during the year is evaluated to get an annual performance review (Blizzard, 2023). The Right Way2Play is the new Activision Blizzard Code of Conduct, every employee in the organization is required to follow it, to make it a priority, with every individual, at every level, and in every area of the company subject to the code. There are three main overarching values that they all adhere to: Acting with Integrity, Responsibility and Creativity. There is also the development of a speak-up culture to contribute to reporting any instances of retaliation or issues an employee witness or experience to the ASK List*.

The internal culture now it has become a priority in Activision Blizzard, it was created a culture team made up of representatives from a wide range of functions to improve the working practices, develop and maintain a culture to build the best environment, and committed in making culture and inclusivity a key element for each activity that is carried out. The real problem is related to a systematic issue, it takes time and a lot of people to work together in harmony to disrupt a sick and failing system; culture is not the work of only one individual or a team, it affects the whole company. When there are problems related to the culture of a company involved in an M&A transaction, the processes through which to bring a change depends on the size and the scope of the deal: in this case, for two big companies, publicly traded, the integration of new policies will require more time, the takeover will not lead immediate changes in the short term.

All the immediate measures taken by Activision and the full commitment to improve the company in the last months of 2021, and thereafter in 2022, were purely related to the imminent announcement of the acquisition in January 2022; Microsoft found a company very under stress and tried by scandals. The culture of Activision Blizzard at this point needed not only be adapted to the one present in Microsoft, but also adjusted during its period of crisis so that its instability was limited before meeting with Microsoft's and preventing further problems in future. The present leadership are the ones primarily responsible for how the measures will be implemented inside the organization. In November 2021 Spencer wrote to its employees at Xbox how he was "disturbed and deeply troubled by the horrific events and actions" (TheVerge, 2021); after the announcement of the acquisition, both

Spencer and Microsoft CEO Nadella talked about the support that will be given for the work that the teams are doing to revamp the company's culture, once the deal closes (LAT, 2022).

An aspect that makes this case and this acquisition unique is the nature and presence of a studio, considered as an entity inside a larger gaming corporations; these studios operate in a way that similar to a business unit of a typical organization, they are independent with their own manager, with the statements about the loss and profit they have accumulated, and each one develops its own games following its own distinct direction or a specific genre. At the same time, each firm develops a culture that will be different from the others; if inappropriate situations occur within one it can cause problems for the entire organization. Spencer in the official announcement of the acquisition on January 18, 2022, stated that the autonomy and individual culture involved in creative success of each studio and must be preserved and go hand in hand with respect for each person; Microsoft's culture of proactive inclusion will then be extended to Activision Blizzard's studios without altering these other two fundamental factors. Microsoft already took some measure by hiring an outside law firm to review the policies and culture present and the problems relative to discriminations and harassments that have affected Microsoft in previous years, as well as Activision Blizzard that hired a corporate defense law firm for additional investigations. Activision is surely going to be a marquee division in Microsoft but needs to be careful on the long run and during the integration to not double down "financially and strategically on a problematic division" (Microsoft, 2022).

Activision Blizzard vision change Activision Blizzard has always been synonymous of fine and groundbreaking games in their genre and one of the most fascinating companies in the video game business, but in the last period the situation of its development had become worse: many of the long-time staff have left the company and there have been numerous leadership changes, many of the titles have undergone long and turbulent development processes (latest Overwatch 2 and Diablo 4) with poor management and decision-making, many of the promises made to users have failed to be delivered, little attention has been paid to player feedback and requests. In November 2023, was held BlizzCon, the annual fan convention dedicated to Blizzard Entertainment, for the first time since the pandemic, the controversies of the workers conditions and Microsoft acquisition. Blizzard Entertainment president Mike Ybarra, spoke out about the enthusiasm present across the teams and the players back, and how the culture has changed for the better, acknowledging the past situations and giving the employees confidence that they are transitioning, and how everyone at Blizzard Entertainment loves the direction the company is going, investing in the culture, as an important part of their product; integrating 12,000 people into another company is not easy and is a challenge that will take time. Under Microsoft's leadership, Activision and Blizzard will have more autonomy on their day-to-day operations and more independence under Xbox, the ability to give the teams the

freedom and resources needed to create their visions for the current and future games, and there will be no need for one to control or supervise over the other. Activision has in fact been pushing for changes in Blizzard's culture in recent years, assuming increasing influence in its various areas and business decisions and interfering in some operations; rumours circulated prior to the acquisition announcement that Activision was intent on accelerating a possible takeover of Blizzard if the situation did not change, by melding some of the IPs into other studios. With the integration, Microsoft, with its shareholder culture different from Activision's, will invest more on Blizzard's growth rather than simply exploiting it for profit. Greater flexibility in development would not only allow it to revive smaller titles belonging to its catalog, but also not to rush the release of games if they are not ready and need additional development time. In the restructuring that took place in Microsoft gaming, most of the executives present at Activision Blizzard King will remain in place, the management structure will integrate with that of Xbox with the absence of a true CEO replacement, with Booty as a point of reference for presidents and CEO of Activision, Blizzard, King and ZeniMax and Bethesda. Each key position will interface with its counterpart in Microsoft Gaming. In February 2023 was made the mandate for a partial return of employees to the offices and the termination of hybrid work, to update their "future-of-work plans", and the only way to implement Activision Blizzard organizational and cultural change it is with everyone's presence.

Layoffs A phenomenon that has been affecting companies in the tech industry over the past year and in this sector in 2023 and again in early 2024 is that of layoffs; there is a possibility that it will affect Microsoft and ABK in the post-acquisition phase. In the reorganization of human resources, it was stated that there have been discussions with Xbox about the help it can provide in accelerating the studio's ambitions for projects in the works, and for the future that will need to keep all resources present and employed for a long time. The year 2023 was a good year for the industry, for its achievements and great quality titles on all platforms that were released, with great high but also tragic low, its business was impacted by layoffs for many developers and studio. The main cause of this is related to the large reinforcement of staff that was done there in the pandemic period, to meet a need for a larger workforce, which was depowered, and that disrupted the pace of development leading people to work remotely, but also because of the tremendous growth in those years that established a climate of confidence for companies to invest more resources in expanding the number of staff available; it was during this time that the industry's series of large acquisitions began, with companies driven by the sudden growth of the market, its revenues, and number of users. It was a level of growth that no other entertainment industry has matched, what is happening now is the market stabilizing. With the end of the lockdown and the shock that have occurred in the global economy since 2022, these large investments instantly have a dip that has led companies to take the right

measures again, cold calculus with decisions that however have not paid attention to human costs: many studios have suffered downsizing or even closures, with loss of talents and knowledges, many times workers are paying for the mismanagement of the leadership. In all of 2023, 10,500 layoffs in the industry were estimated, while in 2024 have been made nearly 6,000 layoffs by the end of January. In 2022 Xbox make cuts to its gaming divisions for 1000 employees, in January 2023 Microsoft layed off 10000 employees (5% of the workforce), and among these about 900 people in Bethesda game Studios and 343 Industries and in January 2024 Microsoft cuts off 1,900 employees at Activision Blizzard and Xbox, roughly 8% of the overall Microsoft Gaming division[46]. Activision Blizzard in 2019, following record profits, decided to conduct a mass layoff of 800 employees.

The closure of a gaming study is mostly related to the leadership leaving the company, or the team losing the passion to make games, while doubts and concerns remain about the strategies taken by Microsoft and the size the firm has reached, with the possibility that the winds will change in future years and a bloodbath in personnel will occur.

Unions And related to this phenomenon is the advent of unionization in this industry, the year 2023 marked new prospects for its employees with the formation of unions in many gaming companies, Microsoft (ZeniMax Workers United union), CD Project and Sega, to give additional leverage and better treatment to the industry's workforce at a time of great uncertainty. The phenomenon started in late 2021 following the Activision Blizzard events and allegations that drove this choice and need for many employees, a legal and democratic right. Microsoft announced to have reached a neutrality pact with the Communications Workers of America, CWA, to allow its personnel with no interference to decide if they want to form a union in their respect. The same happened for Activision Blizzard, in negotiation after the studio Raven Software, owned by Activision, voted to join a union setting up industry is first big union in U.S. to work positively with the management and shape the working conditions (Axios, 2022). The union path was also facilitated by Microsoft's desire to win public and regulatory favour for the acquisition. Its provisions were applied once the acquisition was closed; this agreement addressed the previous concerns raised by the CWA and was an important and supportive element in the approval of the acquisition, which was an opportunity to put its principles and rights for the labour organizations into practices and to improve ABK working conditions and policies. This was the first collective bargaining that Microsoft has ever participated in its history and represents a huge step for all its employees, not just the gaming division; there was also a dialogue about how AI will be involved and leveraged for the union contract terms AI has emerged as a divisive topic in several labor conflicts and these discussions will allow to debate how it will impact on workers, with

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[46] Data provided by the Games Industry Layoffs public tracker hosted on Obsidian Publishing

tools and technology benefiting and empowering and empowering them instead of harming. In addition to the deals made for the unionization of its employees, Microsoft has formed a partnership with the American Federation of Labor and Congress of Industrial Organizations, or AFL-CIO, to "create an open dialogue" focused on AI and its effects on workers, how it can support workers' needs and how AI development can be leveraged, by providing formal learning to its employees. Microsoft's collaboration in creating new possibilities and rights for workers was helpful in gaining more support for the acquisition of ABK, as well as in redefining the deployment and regulation of AI tools and similar technologies, which are increasingly critical in modern development and jobs, and in the future in the video game industry, so that they can be more skillfully integrated into existing workplace products[47] to create a stronger learning culture, and improve the resilience to the changes that AI will bring (AFL-CIO, 2023).

In 2010 Kotick described the culture present in Activision Blizzard as one of thrift, with its goal to instil in the corporate culture "scepticism, pessimism, and fear" of the global economic downturn that was present at the time, in which take away the pure fun of creating video games, focusing on rewarding profit and nothing else, carrying on a traditional business without the unstructured and unprofessional practices present in other video game companies. A strategy focused on the short term, and less on the long term, with an approach in which the question is how to make the audience spend more money, instead of how to entertain them, when it should be engagement to drive monetization not the opposite. ABK will have to work on their reputation; the employees will be the new corporate conscience, by holding leaders and employers accountable for the crisis that has hit the culture and the workplace. Employees do not want to work for a company that does not respect them, and that has a bad reputation outside, with low approval ratings for the CEO. The market value of a company's is based on reputation for 25%, that forms the basis for trust, customer and employee loyalty, business partnerships; a good reputation helps to ensure external visibility with positive results for both B2B and B2C audiences and relations. As stated by Cheng Meservey, Chief Communications Officer at Activision Blizzard, in corporate boards it is needed members who know the value of reputation, trust, and communication interests, able to communicate governance and strategy and establish confidence primarily with its own internal audience of employees. In fact, an external crisis is uncomfortable, but an internal crisis is existential (Axios, 2023). In their future works to be successful and trusted the ABK organization, with the support of Microsoft, will have to engage in leveraging with their community an internal and external communication direct, honest, and transparent. In this industry for developers and publishers there's no more important relationship that the one they create

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[47] There will be three main goals: more focus on AI education and tools for leaders and workers, the direct feedback coming from them, and joint policy and skills development.

and have with gamers and the communities related to their titles, based on their involvement and feedback and the transparency shown, maintaining it is crucial for future sales numbers and to survive in moment of crisis (Venturebeat, 2023). Indeed, many Activision Blizzard fans do not know whether to continue supporting the company, especially if the enjoyment they had with their games for years was at the expense of real lives. It is important to improve the reputation and transparency of ABK's communication even before the integration into Microsoft gaming division, as they are critical to establish and maintain positive internal and external relationships, ensuring collaboration, sharing information, and aligning goals. In acquisitions, it is about understanding the culture of both companies, a generator of the success of the deal, working to make sure that they are aligned, and that all previous, present, or ongoing problems are addressed.

3.4 Optimization process: executing operational integration (short term performance)

The execution of operational integration starts from the date the deal came to an end, October 13, 2023. This process is the most complex one in the entire timeline, it lasts for one to two years, and it involves all the contacts between the ABK and Microsoft for the creation of the new organization design.

A new organization structure is applied with a new leadership and management, which is responsible for establishing the synergies between the different teams and studios and producing short-term results in line with the objectives. It will present the synergies and adjustments that might be applied, future organizational design changes, to achieve greater efficiency and operational improvement for both companies and for Microsoft's Gaming division. Many of the drastic decisions are taken in this timeframe to begin immediately with a right start and oversee all the difficult challenges that comes with the integration and avoid being in the future with difficult situations to solve. When an M&A deal is completed, and the companies involved execute the operational integration, it is the new leadership that must make decisions that could shift the current balance.

Downsizing strategies are very common in acquired companies, in consolidations involving large companies with thousands of employees' layoffs are made because of an obvious presence of staff overlap in certain positions; many will find out if they still have a job or not, or if their position has undergone a change. With the addition of ABK Xbox has three publishing divisions for the development of games. Choices will be made about products already in development in Activision Blizzard with the possibility of eliminating products redundancies or those not in line with current plans and strategies. Over time there could be integration and centralization, especially where the focus is on eliminating costs and making operations more efficient, such as for the commercial side or marketing.

It is likely that Microsoft will maintain the same relationship with Activision Blizzard it has with the rest of the studios, based on granting autonomy in development, there will be a system of reporting from ABK to Xbox executives, and oversight. In the short term between ABK and the other two publishers probably there will be a streamline of technologies used, and then later, through better integration, also of personnel. Achieving the integration goals, tracking development across the board, and consistently presenting results would require the presence of an active integration team.

On January 25, Phil Spencer announce with an email to Microsoft Gaming employees the decision to reduce the gaming workforce by 1,900 positions out of the existing 22,000, 8% of the total staff, to set up a "sustainable cost structure" after having identified areas of overlap; a difficult period for their team, but confident to invest more in areas that will allow their business to grow and to follow the strategy of bringing more games to more players (Windows, 2024).

Microsoft laid off the entire internal customer support team dealing with ABK titles. The leadership of Microsoft Gaming and Activision Blizzard for the year 2024 is committed to aligning their strategies and execution plans to sustain the business.

Major changes have occurred in several areas of ABK, Blizzard Entertainment's leadership has undergone a major shift with President Mike Ybarra leaving the company, along with other employees in leadership positions, such as Chief Design Officer and Blizzard Entertainment co-founder Allen Adham. On January 29, was announced the new President of Blizzard Entertainment, Johanna Faries, with five years' experience at ABK as General Manager of Call of Duty and executive champion of ABK's Black Employee Network, she will accelerate the progress being made in the integration of the company thanks to her background and experience in building talented teams and establish an inclusive approach of trusting the people. She remarked how Activision, Blizzard and King are three different companies, each with their own culture, communities, and games (Blizzard, 2024) and the work she will pursue to bring greater sensitivity to the dynamics that occurred in the studio.

Change in creativity and development Activision Blizzard spent a lot of resources on its core franchises, Call of Duty, World of Warcraft, Diablo and Overwatch, focusing its creativity on established and well-known titles, it works for them financially and the results are consistently excellent, but there is a noticeable lack of alternatives in the releases of recent years. Activision Blizzard owns many IPs that have not seen the light of day in years, and there has been some dismay from longtime fans of these forgotten titles. Microsoft has shown a willingness to exploit the full potential of old IPs by reintroducing them to new audiences, but also of new ideas with original titles, with smaller scale but successful creatively. Even Blizzard Entertainment has focused on only a few

titles in the last decade, losing nearly a generation of gamers, now needs to evolve by offering new experiences on a more regularly and on more devices. A major goal in the business strategies of publisher Xbox Studios is to create and secure variety across different line-ups of games that coexist on their platform together with both small and large games in large scale, not focusing on a few genres; new types of IP allow more people to be attracted to a subscription and expand the gaming community. Focusing on creativity would allow Xbox Studios to empower creators, attract new indie developers who want to build their vision for games, and to infuse variety (GamesIndustry.biz, 2023). This same approach should be adopted in Activision and Blizzard to be open to new ideas and projects, providing variety and experimentation, and not with a business based exclusively on well-established major IP. It is unlikely that Microsoft will alter their roadmap and rather will continue with what the studios have planned for the upcoming years. A new direction, a stronger work culture and ethic can be beneficial for the company, especially in an industry where creativity is one of the most crucial and necessary tool, in this competitive talent environment large studios like Activision and Blizzard struggle to find and attract talented and skilled people who are willing to create new videogames, rather there's a significant issue of abandonment by relevant and capable developers or directors due to the lack of stimulus and motivation, or the desire for change setting up on their own by founding independent studios or joining with others.

It was announced that the survival game "Project Odyssey" (Schreier, 2024), that had been in development for more than 6 years, and that was still years away from release has been cancelled due to its struggling technology and engine, but also because of the company's inability to attract and retain seniors' workers. The decision to cancel a development project for so long can be linked to new directives from Microsoft, which may have made the decision to focus on other new projects for the future that hold more promise and moving the people on team to other existing projects in development.

Microsoft also shut down the department that oversaw physical retail sales of games, this hints at what strategy Xbox may be following for the long term, more focused in digital. In the short term the Xbox console hardware and ecosystem will remain the core area and strength for Microsoft to offer a complete experience. On January Microsoft made it known of how with the addition of Activision Blizzard King the number of Xbox monthly active users reached a record with 200 million (Microsoft, 2024).

Intelligence Driven Organization ABK will have the opportunity to implement its organization with a framework developed and applied by Microsoft in its divisions and businesses, the Intelligence Driven Organization, IDO. Microsoft is a key player in the tech sector and over the past few years

has heavily invested R&D (Research and Development) on AI and related technologies that are able to leverage its potential. Azure is Microsoft's platform used, both internally and as a service for third-party B2B (Business-to-business) and B2C (Business to Customer), for AI-related services and tools to be integrated into different areas of a business or organization improving its productivity, production efficiency, and data collection. IDO refers to "the leverage of data with the AI to better understand and make decisions," through which a digital transformation is achieved capable of redefining the company organization, with the ability to learn and evolve rapidly in the future. Since 2014, Microsoft has adopted with the new CEO Nadella this vision which inspires change and transforms every process, with benefits for goals of inclusive growth and sustainable development[48], and has involved all staff (Microsoft, 2021). Is a new dimension of the way people work and an approach that can help organizations, through predictive analytics, to be able to respond quickly to change and realize first what they are going to be in the future, becoming more efficient, agile, and adaptable.

In an IDO "the *digital feedback loop* is a channel of information that is activated when business processes are redesigned around data (from customers, products, employees, and operations) collected and exploited to improve and optimize that process by AI-enabled applications. All the information is accessible to the relevant business processes" (Microsoft, 2021).
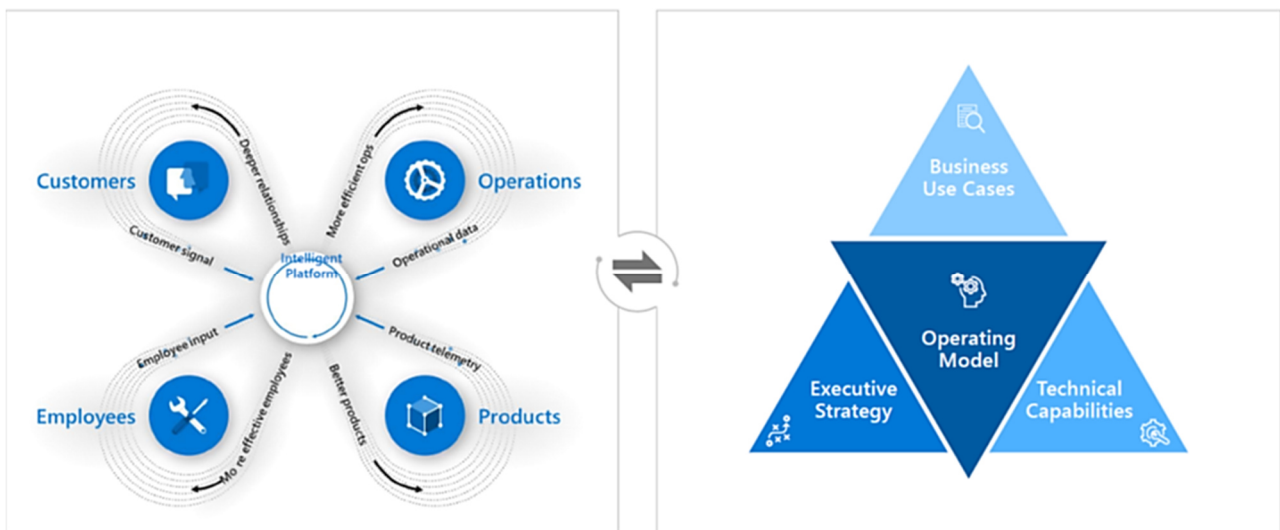

Fig. 3.1 Digital feedback loop and IDO four pillars   *source: Microsoft, 2019.*

Feedback loops promote positive change, make organizations more productive on a large scale and customer centric, improve business operations, personnel efficiency, quality of goods and services, and building stronger relationships with its customers.

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[48] Microsoft aims to become a carbon-neutral, water-positive, zero-waste company by 2030.

There are four main key pillars to realize IDO framework and a successful transformation: an *executive strategy* in which is anchored an intelligence-based culture, *technical capabilities* needed, identifying where and when they should be developed, a set of *business use cases* identified and prioritized to implement the strategy, an *operating model* or the day to day execution framework (people, process and technology) for the digital transformation.

ABK like Microsoft can also benefit from digital transformation, driven by data and AI, learning, and evolving over time, becoming resilient and prepared for future challenges. By implementing the IDO ABK's organization will be provided with a roadmap useful for its integration, to design the processes and its outcomes, build the capabilities needed, and then implement, monitor, measure and improve this over time. This can be done by creating digital feedback loops, as seen in relation to Burgelman's model, these are tools that a company can use during the execution of operational and strategic integration to revise the assumptions made in the integration logic. The gaming ecosystem itself is composed by two-sided business, on one side there are the developers and creators of the games, while on the other the gamers; when a game is released, the gamers interact with it and based its results and the information shared the developers will continue to work and modify it: this approach generates a continuous cycle, a loop, on strengthening the system to grow.

In ABK, like the rest of the companies in Gaming division, access to such resources and expertise would result in many opportunities: with the collection of large amounts of gamer data ABK can improve its gaming experience and customize it according to community demands. The use of AI, machine learning (makes it possible to identify patterns in data and build reusable models that can automate business processes), Cloud computing in game development can help create more immersive experiences, boosting innovation, with greater simulation of certain dynamics, such as AI of Non-Player Character, NPCs[49], may be able to improve business security and optimize the online services of their games, and give greater and faster assistance and support to players to solve problems, as well as to promise production efficiency. Internal and technological development would benefit from Microsoft's technologies to stimulate innovation in game and accelerate the transition to using new tools or next-generation graphics engines. The organization and internal management with the integration of processes used by Microsoft would be empowered with organizational agility, more speed, and scalability of their data, ABK's operational efficiency would improve in operations as management solution in the lifecycle and support of video games, better collaboration, and communication in ABK and with other Xbox teams and studios, sharing practices and resources or collaborating and supporting a common project. IDO applied to business problems would provide a

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[49] "Non-Player Character" Characters controlled by the computer or the game system itself and not by the player.

better understanding of goals and identify possible risks. There would be better human resource management, with a focus on support, training, and development, through various programs, for ABK staff to be able to adapt to the new systems to be leveraged, methodologies to be followed, and new technologies to be benchmarked; ABK would have access to many of the talents in the division, through cross-pollination of these, and would become more attractive in the industry to provide opportunities for growth and investing in staff. Many of these ideas will also be applicable to governance, using best practices to be flexible and continually execute out the security, identity, and compliance life cycles, and adoption and attempts at change management; instead of setting up such procedures separately for each capacity, they do so for the entire company (LinkedIn, 2020). These are all changes that rely on carefully managing integration processes and building synergies, which are essential for successful.

In the course of its cultural transformation, Microsoft tracked the progress done by asking their employees if they had seen an impact on the culture with positive change; the information and data were then evaluated against attributes measured over time, by including quantitative and qualitative analytics and regular focus groups to ensure full comprehension of the trends emerged by the results, allowing transparency and openness for the organization (Microsoft, 2021). As Xbox president Sarah Bond said, there were many things that Microsoft's gaming division needed to fix in order to build an organization that could achieve what it wanted, the first step in doing so was reshaping the culture (to build products for the whole world, you need to represent everyone) that would be an important part of Xbox's evolution, starting with the leadership team and ending with the culture present in each studio (McKinsey, 2022).

Digital innovation cannot exist without a cultural shift and the adoption of new systems and processes, as well as restructuring their organization to integrate and maximize new digital channels, digital leaders[50] are also cultivating a culture and mindset that encourages cross-functional cooperation and has made investments in people rather than only concentrate on the technical aspects of organizational design (HBR, 2017). Cloud is also a relevant resource and business for Microsoft, and Activision Blizzard can benefit by integrating Microsoft's cloud infrastructure and services Activision Blizzard had since 2020 a multi-year agreement with Google for its cloud service and eSports broadcasts (GamesIndustry, 2022).

Gaming Ecosystem Organization GEO Microsoft with the last generation of console applied an important shift in its business and activities, by moving from a console-centric approach to a "ubiquitous global gaming ecosystem" (McKinsey, 2022), not focused only on the final consumer

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[50] Digital leadership is the result of the combination of people's creativity and advanced technology present in an organization where the business cultures, products and operations depend on the use of digital technologies.

but also on the rest of the value chain with developers, publishers, and producers on console, Pc and mobile. This shift was allowed by the investment made in cloud gaming and the introduction of its subscription Game Pass. Microsoft formed in 2021 GEO, a Gaming Ecosystem Organization, an Xbox team of about 600 people located all around the world, to support of all game creators present across its system, a digital ecosystem to give the developers all the tools needed to build games playable on any devices. Making videogames is hard and takes time, speeding up development with this system they were able to reduce cost of development and running needed, with a gain in flexibility and scalability; this group helped developing project and new solutions, taking the insights, and using it as a tool to pass to all the creators present in Microsoft (ibid.).

The future of gaming is tied to the cloud, which is democratizing game development. In game development, after a product is released, its cycle is not over, continues with constant updates, adapting and integrating it with new features. At Microsoft, this work has a technical benefit because of cloud computing and Xbox's game development have many great synergies; Microsoft launched ID@Azure program and the ID@Xbox initiative, with the aim of making their cloud technology, their infrastructure and support accessible to every developer. These elements could be all useful in the operational integration of ABK, to better align the studios and create synergies between them and the entire division, to enhance the operations in ABK, and improve players' experience.

New direction for business plans During the execution of operational integration, the short-term period, Activision Blizzard's current and upcoming titles, or in development now will be multiplatform, even with the novelty of Nintendo consoles, reaching a broader audience, following up the steps and agreements made to see the M&A completed. There is a possibility that ABK games could be released for Xbox users, either at full price upon release or directly at day-one on its Game Pass subscription service, in line with the strategy implemented with all their recent developed games; however, this one doesn't look like immediate choice in Microsoft's strategies, but more a vision for the longer term, when the ABK integration has been fully executed. In the short term it could not be a commercially sustainable decision as it raises financial questions for the sustainability of games development for the many studios it now owns[51]. Activision itself was against the immediate inclusion of its titles in multi-game subscription service because of the possible harm to newer releases for the Buy-to-Play sales (GamesIndustri.biz, 2023). With the integration of ABK Microsoft will be able to access and exploit the mobile gaming market thanks to King, that could significantly enhance its present; with the right synergies it will be more easily to compete on the mobile devices

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[51] When Xbox releases its day-one games also on Game Pass it gets a decline in title sales for at least the year period since its inclusion in the service, thus cannibalizing its sales and potential revenues from a full price.

with its own app store on Android or Apple devices[52], mainly on the long term; the same strategy can be applied for PC.

With Microsoft's support could be a promising future for some Activision Blizzard brands that have not been in development for many years, there is an opportunity to revive many franchises and create a solid portfolio of games, thanks to Microsoft's available funds. No longer being a single company, ABK can focus more time and resources on its own projects without having to immediately respond with results to shareholders, release games that required more commitment, or approach titles that do not have a long-term business model, GaaS, or with microtransactions. In the short-term Xbox Game Pass will be impacted the most with the addition of back catalogue and of future releases, the publishers and the studio working at the gaming division will become more dependent on the Xbox ecosystem and on the subscription that could improve its offerings also with mobile content or lower cost-tier. It is still unproven that Game Pass will be the primary business model for Microsoft games platform, for sure Xbox will remain committed in the short term to its console business. A multi-game subscription service with day-one releases will remain prohibitive for other competitors and services. In the short term a decision will be made for the absorption of Battle.net, Activision Blizzard's vertically integrated home storefront platform for accessing its titles, into Game Pass, with improvements in the Xbox ecosystem and platforms for a better user experience (GamesIndustry.biz, 2023).

There have been rumours about the possibility that Xbox makes many of its first party-studios developed games multiplatform in the short term, expanding them to the rest of console competitors such as Sony's PlayStation and Nintendo Switch, ending its strategy of console-exclusive games; the current Xbox and Pc audiences that Microsoft has may not be large enough to achieve the margins they have for their short-term performance goal, hardware sales didn't met the projected sales and revenues will decline year over year (Microsoft, 2024). Allowing its own titles, such as Starfield, to land to PlayStation's larger audience may help to improve the profitability and use it as more resources to invest in their Xbox ecosystem (*ibid.*). A move that follows Microsoft's philosophy to be present on every screen, but one that could negatively impact the future for the Xbox ecosystem in maintaining its competitiveness if the console does not have exclusives to offer its customers who have invested in it. This strategic decision, could result in short term gains but long-term damage devaluing heavily the entire Xbox proposition, changing its size from first party to third-party publisher, and certainly going to influence strategies for Activision Blizzard's current and future titles. It seems quite premature and short-sighted to move on this plan even before giving Microsoft's recent

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[52] Regulatory changes were introduced at the end of 2023 and in January 2024 that provide opportunities for competitive app stores.

acquisitions and investments, not yet fully integrated, the chance to have influence and prove the sustainability of this ecosystem for the long-term (Forbes, 2024).

Microsoft's counter to the concerns raised by Antitrust authorities about releasing past and future Activision Blizzard titles on other streaming services for the next 10 years shows how the short-term strategy is to continue to distribute its games without any platform limitations. This long period is significant, almost two generations of consoles, and it is not certain that the ecosystem of Microsoft or competitors in the industry will undergo major changes and new directions. By looking at the industry in general, in the short term at the end of 2023 it was projected that it would maintain the same levels in the years to follow, with a steady increase in the number of gamers in the world and increased in-game spending, these factors will drive the market in 2030 to pass in games revenue $300 billion (MIDiA Research, 2023). Recent new methods of accessibility to video games, such as VR viewers, and subscription services, will increase in popularity, subscriptions will represent a fundamental aspect of the changes in commercial dynamics and in the development of games, with the possible dilution of gamers purchasing an individual title at a higher price than an entire library with these services.

Performance goals In late January 2024 Microsoft became the most valuable company in the world, with market capitalization of over $3.000 billion; on January 30 released the financial results for the second quarter of fiscal year 2024, ended December 31, 2023, the first time with additional revenues from the ABK acquisition. The Xbox content and services revenue increased 61%, the Gaming division revenues increased by 49% and contributed for $7.11 billion in the quarter, mainly thanks to Activision Blizzard's revenue. Gaming is now the third largest business at Microsoft, behind Office and Cloud services, above Windows. Microsoft expects for Q3 overall gaming revenue to grow in 40 percent, with 45 points due to Activision Blizzard, while the rest of Microsoft's gaming revenue, Xbox content and services, could be down next quarter (Microsoft, 2024).

The acquisition cost more than the initial cost, $75.4 billion (from purchase accounting, integration, and transaction-related expenses) (Microsoft, 2024).

With the addition of Activision Blizzard King, Xbox's monthly active user count has reached a record 200 million.

Events occurred recently There will be also more news about the Antitrust authorities, the FTC made an appeal in December 2023 hoping to block the acquisition, reporting how Microsoft, after the past 2021 acquisition of ZeniMax Media, released its last 2 games, Redfall and Starfield, exclusives to PC and Xbox, key evidence overlooked by the federal court (Reuters, 2023). On Feb. 7, 2024, the FTC filed a notice the U.S. Court of Appeals to warn them about the recent activities and layoffs Microsoft

and ABK were undertaking, highlighting how it was contradictory to the outlined terms in which it was promised that Microsoft would allow ABK to operate independently post-acquisition[53]. Microsoft claimed that "Activision was already planning on eliminating a significant number of jobs while still operating as an independent company", and layoffs "cannot be attributed fully to the merger.[54]" (Insider Gaming, 2024).

Feedback Loop The feedback loops at the end of the operational integration can be triggered when they reached the performance goals set for the short-term but needed to revise the one for the long.

While integration logic could remain similar to the original, based on the economic conditions, the competition, or the results obtained in the short-term by the integration, it may be necessary to make adjustments to the initial assumptions, with unsettling and drastic short-term actions, like additional number of layoffs, changes in the leadership, redefining projects on which the studios are working, with possible delays or cancellations, and impacts on game development schedules.

The decision that will be made on the exclusivities of Xbox and ABK titles might give in the short or long term the first results and performances: if negative they will surely need a change of strategy and feedback loop to return to the initial one. After the conclusion of this process, Microsoft should implement a feedback loop that involves all stakeholders, including Activision Blizzard employees and the leadership teams of both companies, to include employee satisfaction surveys, periodic meetings to review integration progress and the effectiveness of the newly integrated operations, and analysis of operational performance data. Based on this feedback, Microsoft can identify issues and take any corrective measures. It is essential to assess the outcome of the organizational culture, the cohesion between the two and the possible emerging cultural challenges or conflicts, through surveys and interviews are collected employees' opinions and perceptions of how the new culture impacts their work. This feedback loop is critical for adapting and shaping the shared culture to make sure it is inclusive and aligned. A strong feedback loop could provide a better testing of the strategies Microsoft's gaming division will put in place, and the possible changing market conditions in the short term by looking at new technologies, the industry's performance, and competitors, to then be able to proceed to the next process with strategic goals for the long term[55]. At the same time, any inefficiencies or gaps in organizational design and its functioning should be identified with a close review of the organization's structures, decision-making processes, and communication flows so that it results in an effective and agile organization. It will be important to define in advance the strategy's

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[53] https://www.documentcloud.org/documents/24412390-24-02-07-ftc-letter-to-9th-cir-re-abk-job-cuts
[54] https://storage.courtlistener.com/recap/gov.uscourts.ca9.344453/gov.uscourts.ca9.344453.118.0_1.pdf
[55] A stronger feedback loop, between the process of operational integration and that of integration logic, was in fact one of the main shortcomings in the HP-Compaq M&A deal, that could have allowed top management to modify more rapidly the initial assumptions, leading to the long-term performances without missing them.

consequences for Xbox and ABK's plans in more detail, setting priorities and deadlines for the major strategic projects that will require intense execution throughout the process of strategic integration. Business strategy decisions prese will need an adequate and legitimate explanation for Xbox's major clients and for the consumers acceptance. From what is known the operational integration is moving rapidly, and this is a good thing, also to save costs. It will be interesting to see how Microsoft will transform ABK in the short-term, to be more feasible to the current market, not only for economic value, but also for fostering innovation and creativity in the organization.

3.5 Consolidation process: eexecuting strategic integration (long-term performance)

The process of consolidation and innovation is the last of the processes that will be applied for the integration of ABK. Being a process that in the timeline presented lies far in the future, there will be an analysis of those changes that might be sustainable in the organizational design of Microsoft and its Xbox gaming division now that Activision Blizzard will undergo the final stages to be fully integrated, delving into the strategic synergies in the long term and what market and innovation opportunities this company, and the industry as a whole, will be able to exploit in the future. The operational integration phase's tasks, related to IT, culture, and organizational performance, will need to be completed by the strategic integration process and proceed with the implementation of significant strategic initiatives. A new culture needs to be established over the years in ABK with a strong commitment from the leadership; it takes many years to fully integrate the two organizations' IT systems and designs, while managing the results on operations and finances. In the long-term with the execution of the strategic integration there will continue to be constant monitoring of organizational and cultural dynamics, with adjustments and improvements based on what employee feedback and business performance will be. What should happen, and what is hoped for, is that Activision Blizzard, in addition to having resolved the culture and mismanagement issues of the past, has regained the trust of its employees, and improved its reputation within the industry and in the eyes of consumers.

In the month of the ABK Xbox acquisition, they held a meeting in the same room with the leaders of all Xbox-owned studios. Leaders and teams contacted each other exchanging ideas and visions. Microsoft's emphasis is that all the games it produces are important for the achievement of its vision of creating a system of studios where these different dimensions coexist where creative people feel safe and supported to do the best work, a sort of "greenhouse" (The Fourth Curtain, 2023). The type of approach that Microsoft Gaming Division might take with all of its studios and with the new addition of ABK is that of a greenhouse, in which instead of controlling the development of the

organization exclusively from the top of the hierarchical structure Microsoft should let the organization growth gradually, acting like a gardener (with Phil Spencer as the CEO) that contribute to identify the right conditions to apply and "enable all the plants (studios with their employees) to flourish and thrive" (McKinsey, 2017), similar to what is the organizational design in Zappos, a flat organization with self-management teams. The organization is represented by circle within circles connected by lead-links with consensus that might lead to groupthinks fostering production of new ideas and visions, innovations, and exchange of knowledge. Zappos[56] adopted two main principles to design an entire organization: it uses adhocracy, a flexible, adaptable form of organization with a lack of formal structure and a strong focus on connections and horizontal links and fosters self-management. The adoption of a right amount of self-management and adhocracy in Microsoft Gaming Division organization for the many studios and for ABK's strategic integration could be a right integration strategy, which would allow teams to make decisions more autonomously than before and adapt quickly to fast changing environment and shifting market and consumer needs, for a more dynamic and responsive workplace with Microsoft technologies becoming essential to keep these changes under control, with information accessible to anyone and transparency that enable cross-team integration (Bernstein, 2016). One of the main pillars of a company with these characteristics, one that is more open, flexible, and self-managing, is values alignment (McKinsey, 2017), with core values that are assimilated by employees more quickly and that define the company culture, instead of being presented like PR statements to which no one really pays attention: these should not be listed by the company like a trophy, but actively considered in the choices and initiatives that the company does (IGDA, 2021), leading to four necessary conditions for this concept and culture to work, alignment, belonging, accountability and commitment (Lim, 2022)

The strategic integration will require focus and urgency during and after the operational integration to not miss the full potential of the merger and the long-term performance goals; if the top managers fail in this process, it won't be possible to perform an effective feedback loop to assess the progress made against the basic assumptions of the integration logic, causing internal and external disappointment. Therefore, it is important to have a clear distinction between the performance you want to achieve in the short-term and those in the long run.

Going back to the theory of the first chapter, with the successful integration and the positive result for the organization and its culture, the outcome to be aimed for in ABK is that of a Social Merger with the employees at ABK loyal for the new dimension of the company inside the division in

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[56] In holocratic organizations leadership responsibility belongs to the roles, not to the individuals, hierarchy exist but doesn't lead to bureaucracy.

Microsoft, they feel at home and included into the new workplace with a shared identity. The studios participate in conversations with the ones present in Xbox by sharing their works, resources, and knowledge with their new coworkers. By contrast is to avoid cases such as: the cultural clash where employees do not welcome the changes that have occurred since the merger with Xbox, they don't cooperate and there's internal competition on the development for the games their working on, or deviation from the roadmap that will affect the productivity or the final quality of the product; the identity ambiguity or Them vs Us syndrome; the Cultural Shock after the completion of the deal with the employees disoriented by changes in the new organization and leadership, the bigger structure of which ABK is part of, and the influence of Microsoft culture. Changes to an organization are inevitable in a M&A deal, and the future conflicts can only be addressed if it is present a leadership alignment and cohesion that supports the new vision and helps foster cross-cultural communication among the many studios in Xbox. When Microsoft acquired ABK during the scandal it triggered intense discussions among Microsoft employees were worried that ABK's negative corporate culture could spread within Microsoft, and that the ability of the two companies to integrate their cultures would significantly affect the acquisition deal. An inadequate and unclear cultural integration may create hostile work environment, internal conflicts that may erode unity, synergies, productivity and hinder the objectives: the post-acquisitions process will be essential for cultural integration.

Business strategy In the long term it will be hard to imagine that an Xbox player will have to pay full price to access to Activision Blizzard's past games, with these becoming a stable and relevant part of their subscription service, more important and central in the business strategy that Xbox is implementing with the prioritization of cloud and subscription over console (may render hardware distinctions less relevant) (FTC, 2022). Activision Blizzard titles will continue to be sold on the rest of the platforms as well, at least until the end of the contracts established, and available on other subscription services for the agreements, such as Nvidia GeForce Now and Ubisoft+. After the ten-year deal offered to PlayStation, in the long term, Call of Duty and other titles may become exclusive to the Xbox ecosystem. By taking this drastic decision, Microsoft will exclude a large portion of revenues from the other platforms or consoles; I see this becoming a possible scenario only if Game Pass or the Xbox consoles, if still around and as an alternative for users, have achieved great growth and very high subscriber numbers, enough to cover the non-revenue coming from third parties. Another possibility is for Xbox to continue to develop cross-platform games, but offer its users exclusive smaller titles, or services, events, and additional features. The matter on exclusivity for Activision Blizzard is different from what happened for ZeniMax Media, as there are not many active games, and the titles currently on PlayStation or other platforms will not be removed, the dilemma will be on future games, those titles that have yet to begin their own development phase, and currently

there is no idea what they might be, both due to confidentiality and the fact that the company is mainly relying on their main franchises for years now (Forbes, 2023). For Activision Blizzard's studios, this would entail a greater and unique focus on developing products that are only compatible for Xbox users, thus concentrating and maximizing the resources and time for just publishing games on one platform, without having to make it accessible to others with different technologies, taking full advantage of Xbox's technologies, also for greater optimization of the final products.

This industry and its growth as we said it is driven by shifts in technology or in its distribution with a view to expanding audience, engagement, and monetization. Many of the plans of Activision Blizzard will also be related to what the tech industry and its key players, including Microsoft will be able to offer, what will be the next innovations and steps forward in our society and habits, which are increasingly related to technological and media and entertainment innovations. Certainly, AI will be a more exploited tool in this area and in Activision Blizzard because of the direct connection with Microsoft, which is investing heavily in it for the future. For now, it looks like the whole industry is leaning in a direction where the focus is on less but mature products instead of taking risky bets (GamesIndustry.biz, 2023), with less options and prototypes and more budget spent on the production of a title. Since the pandemic there has been an encouragement for self-sufficient studios in expanding their size by increasing employees, teams, and budgets, too much in relation to the availability and potential of the industry; by becoming less sustainable, now the market, companies and those who work in them are paying the consequences of not taking a cautious approach in the investments, with downsizing or closures. The current diversified business model of Microsoft gaming allows them to invest in different kinds of products and contents, large or small, while still having a financial success (thanks also to the many resources at their disposal). With the integration of Activision Blizzard Xbox will be able to look back at the catalogue that made these two companies famous; the important aspect as Spencer said (Windows Central, 2024), is that there's "passion in the team behind the projects" and motivation if they want to go back and revisit franchise, characters and stories, and it requires that these projects are approached and assigned to the right teams in a rational and strategic way using their complete abilities (not create something for financial gain, and not deliver on the product, with respect, not only PR announcements). Tim Stuart admitted that Microsoft in the future as a long-term goal would like to expand its audience by allowing to access Game Pass and Xbox first-party titles on "every screen that can play games" (GameSpot, 2023), even to the competitors, expanding their current horizons and approaching "a bit of a change of strategy", and the Activision Blizzard acquisition will be an important tool once integrated to reach Microsoft 'goals faster, than it was able to on its own. All these studios and games in the future will be tied together by the service of Game Pass, with every aspect of its business that is feeding, supporting, and subsidizing each other instead

of clashing and competing. In the long term, despite being under scrutiny by antitrust authorities, Microsoft would make further acquisitions, to expand with new studios in its own division, or to integrate them within Activision Blizzard in support. Another event that in the long term may involve ABK's strategic integration is that Xbox leadership decide to rationalize the present studios to create other larger ones, or to absorb and integrate to some existing ones to strengthen them.

The layoffs that took place in January 2024 in the division responsible for the physical retail sales of games seem to indicate what could be the future of Xbox and in what direction development studios are headed in the future. Artificial intelligence and cloud tools that Microsoft is investing heavily in for the future of its ecosystem will also be integrated into the gaming division, becoming a solid foundation of how services will be provided to consumers, what will be the support and development behind the products. Tim Stuart talked about how these aspects will create opportunities for developers and players (TechRaptor, 2023): AI will be important in the transition from discs and consoles to online and digital games, it will save a significant amount of cost and time, like those spent on localization or game testing, thanks to greater accuracy and speed, which will change the way developers generate codes, instances, entire games, or art and design assets. With leaks that circulated due to a leak of documents during the FTC investigation, we know what the timeline of Microsoft's plans is in terms of hardware, software, and business (The Verge, 2023), with the future release of new hardware, including two new consoles, updated with improvements on the technical and performance side, both all-digital. In addition, there are plans on a future console for 2028 defined as a "hybrid game platform" able to leverage cloud computing, with the use of AI and machine-learning, for a new type of immersive gaming experience, in line with the future business visions Microsoft wants to aim for; work on this project is expected to begin around 2024. Microsoft has the aspiration to become by the year 2030 (TweakTown, 2023) with its Xbox ecosystem, the leading and first interconnected video game platform by revenue.

While the metaverse is still currently and will be for a few more years only conceptual, Microsoft is a company that has the resources and strengths in areas related to this big idea of connectivity, such as AI, virtual and augmented reality, or cloud computing, elements that would give it the lead and position it at the vanguard, thanks to Activision Blizzard's games for the creation of metaverse-related experiences.

Feedback loop During the execution of the strategic integration, if Microsoft is failing to pursue its long-term strategic ambitions, or fails to achieve its performance targets, or Activision Blizzard King failed to realize the strategy change aimed for, the mechanism of feedback loops is a valuable opportunity to adapt the strategy set at the start to current contingencies or the one occurred in the

evolving market, rethink it, and reformulate the original objectives, including paying attention to competitors, such as Sony and Nintendo, and consumer reactions to their business strategy and business decisions. A strong feedback loop from this process based on achievements and frequent progress review can help top management ensuring constant attention to the evolution of ABK's strategic integration, the entire organization, and the chosen business strategy, to pursue initiatives to overcome the obstacles it will encounter and prevent a reduced attention to the multi-year strategies. For the integration to be successful in the long-term Microsoft will need to focus on four main factors: key strategies initiatives (with a focus on the market and its competitors), cross-organization IT integration (with ABK adopting Microsoft's competencies and resources), organizational effectiveness, and the creation of a new culture. If Microsoft Gaming chose to significantly alter its and ABK's pre-merger organizational configurations, their employees will have to learn new skills after moving to a completely different company; during the operational integration and after in the strategic one should be implemented changes to enhance transparency and the new organization's functioning. A new culture shapes gradually over a long period of time and is slowly modelled by mangers at all levels of the organization, following the values defined prior the launch of the operational integration process; ABK's organization and culture should be transformed with multi-year assistance and top management commitment throughout the strategic integration process with leadership-training program. Since ABK and Microsoft have different cultures, establishing a new one would require a multi-year focus, for this reason it is relevant to act more rapidly and effective[57]. To measure cultural change, frequent surveys could be implemented to involve employees in evaluating their perceptions of the established organizational culture and the effectiveness of the organizational design.

Microsoft should implement a mechanism to constantly monitor the long-term impact of the acquisition on its objectives, with analysis of financial metrics such as return on investment, revenue growth, product performance, and customers' perception of the brand, and setting benchmarks that will be used to track advancements. Feedback must also be collected from stakeholders, employees, customers, and strategic partners, assessing the effectiveness of strategic integration. Based on the results, Microsoft will adjust the strategy to maximize the long-term value from the acquisition of ABK. All the companies in the gaming sector are attempting to predict how long the stability will persist and how quickly the market would expand, as we saw far quicker market growth than actually occurred: top management of an acquiring firm should exercise caution when announcing longer-term objectives up front, many times they fail by underestimating the significance of strategic

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[57] "Launch-and-Learn" approach.

integration, declaring "victory too soon" (Burgelman and McKinney, 2005) about merger's longevity with a following decrease in effectiveness and a lack of focus. Microsoft and ABK should form teams composed by talented personnel and managers of every department of both companies to work on the integration[58] plans, to do research and quickly determine in a "product roadmap" which products and offering from ABK and Microsoft to keep and which to discard[59]; those who lose their jobs when their products are discontinued could look for other position in the firm[60] reinforcing other projects under development. The integration team must be divided in two section one that deal with operational integration concerns, the other with strategic ones to monitor any changes in the environment between the announcement and the merged firms' actual start of operations, to determine if the fundamental assumptions used to formulate the integration logic and performance targets would need to be adjusted to concurrently deliver multi-year strategic goals. The collaboration between employees of two different companies in these teams will be a complex challenge because of the different views on how to manage conflicts, or for the cultural discussion[61]. Cultural Integration Team[62] could bring merger initiatives to speed cultural integration, facilitators could provide integration sessions to encourage employees in getting to know each other, learning, and aligning with the company's vision, to identify and solve problematic areas, or intensive courses to teach employees how to collaborate across Microsoft Gaming Division following the merger.

These feedback loops over the long term could allow for a more in-depth assessment of the strategic impact of ABK's integration and the ongoing adaptation of Microsoft's business strategies to maximize the long-term value of the acquisition.

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[58] HP and Compaq formed "clean teams" to work exclusively on the integration "clean" by the daily concerns of running businesses.

[59] To avoid the same mistakes made earlier by Xbox with Bethesda for the Redfall title. The cancellation of Project Odyssey may show that this initiative has begun already.

[60] "Adapt-and-Go" approach; this could bring a rapid execution and accelerate savings.

[61] "Putting the moose on the table" approach.

[62] "Fast Start" and "Fast Value" program.

CONCLUSIONS

This study focused on the issues of mergers and post-merger integration, with reference to organizational culture. The question on which the thesis is based, addressed to the specific case of Microsoft's striking acquisition of Activision Blizzard King, one of the largest M&A deals in the tech sector, is how Microsoft acquiring ABK, through a careful and planned integration plan, was able to represent an advantage and a new beginning for a company burdened in recent years with organizational culture problems. This concluding section traces the entire work, the three chapters, and the key lessons learned from the case study analyzed, and the application to it of a conceptual model of post-acquisition integration, finally focusing on the summary of future implications, highlighting what Microsoft and ABK should focus on in the future.

As noted, the tech sector, in which Microsoft is a leader, is the one that is demonstrating the greatest growth, traveling at great speed with innovations and new products and services that are changing habits, lifestyles, activities, and work. The latter has undergone a major shift because of the pandemic, with business organizations having to make changes and readjust to new requirements. Companies operate in environments where there is a high level of competitiveness and growth becomes a key factor for the survival and continuity of their business, with expanding their size becoming the answer and M&A is a strategic external growth operation.

The first chapter presented several theoretical concepts, necessary to create a framework for following chapters: Fit and contingency theory, the decisions to be made to achieve growth, the theoretical part related to Mergers and Acquisitions with the reasons of the parties to undertake this market transaction, the procedures, the difficulties, and challenges arising; the Burgelman-McKinney model was introduced for this purpose. The theory of Organizational Culture and the challenges and consequences for cultural integration following an M&A transaction were examined.

The second chapter analyzed the context of the chosen case study, the companies involved Microsoft and Activision Blizzard King, their history, business and organization, the reasons for the acquisition, the video game industry, how video game companies' function and are organized.

In the third chapter, a bridge was created between the theory covered in the first part and the integration process in the case study, allowing for an analysis of how alignment between the two companies will be crucial for success in the short and long term. The acquisition of ABK and the change management of both companies during the integration was examined through the four processes of the conceptual model adopted. Through the model the convergence between the two organizational structures was studied and the fit that has been and will be applied in terms of corporate

culture, leadership, video game production and development, and technology, with a critical approach to the efforts that will be required to be able to manage the challenges and take advantage of the opportunities during the integration.

In the analysis of the pre-acquisition phase, the first process, it became apparent that both parties needed detailed pre-planning, a thorough assessment of their corporate cultures, processes, and operation of the two companies, through negotiations and agreements. This provided a solid foundation on which to work for future challenges and strategic objectives they want to pursue, created an overview of what ABK's problems are to be solved, and a clear definition of the *integration logic*. It can be concluded that both companies conducted it well.

The second process addresses the stages of acquisition acceptance, all the way to the closing. During the creation of the integration plan, change management of the organization and business strategy emerged as a critical area to pay attention to; crucial was the approach with employees ensuring open and transparent communication about the current situation to actively involve them in the upcoming integration process. The measures taken by ABK to be ready for the transition and the shift to a new organizational culture helped mitigate internal tensions, which played a decisive role in the company's crisis and reputational damage and the decision to exit by joining the acquisition.

In the post-acquisition phase, the third and fourth processes, the initial construction of the new organization was observed with the first results of operational integration in the short term. This will be followed by the strategic integration, the process leading to the final consolidation in the long term. Integration in the short term, as has been confirmed by recent news reports, has immediately begun to bear fruits and some of the responses, for the achievement of the objectives.

Managerial Implications

The conceptual model adopted made it possible to give a temporal representation, a *timeline* of how the acquisition between Microsoft and Activision Blizzard King started, what the integration logic was, and how it evolved over time: a guide through the different stages of the acquisition. It was then possible to identify several areas of improvement where both companies will need to focus on the integration processes and give maximum effort, such as changes in its organizational structure, culture, and development of new skills.

It was helpful to analyze other M&As that have occurred to get a comprehensive view of how a company should act and move for the post-integration strategy, thanks to the contribution of the literature and theory. The study of both companies, how they operate, and their respective goals

allowed us to expose a model that provides an enriched perspective and solution of how they should approach and leverage integration, and the most important key steps and themes for top managers to examine.

Changes in *corporate culture* are the starting point. Microsoft's current culture is known to be oriented toward making sure that its employees give their best and are empowered, committing to innovation, diversity, and inclusiveness. Its culture could positively impact on Activision Blizzard's (Fig. 4.1)[63], which has been affected by the various incidents of harassments and internal imbalances.

Fig. 4.1: The results of improving ABK's corporate culture   source: realized by Author.

By becoming part of the Microsoft Gaming division, changes may be introduced in Activision Blizzard's corporate management; as we have seen some have already occurred in its *leadership*, starting with the departure of CEO Bobby Kotick to the new direction in its various studios and internal oversight areas. New *best management practices and procedures* that contribute to better leadership and management, and foster a healthier and more inclusive work environment, must now be implemented. *Company policies* need to be updated and revised to align with the new ethical and professional standards that are being promoted internally at Microsoft. Redesigns may be needed in ABK's *organizational structure* to ensure greater efficiency and alignment with business goals and the achievement of certain performance in the long term; for example, new divisions, teams, or roles created specifically for better adaptation to different phases of integration or for project work. Analysis of what the business performance (such as KPIs, performance indicators) will be during

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[63] The graph shows through a series of sequential situations the flow of improvements that occur at ABK after joining Microsoft and because of an improvement on its corporate culture. The result shows how an increased focus on the role culture can play in this integration can lead to a consequent increase in the overall performance of the entire organization.

these phases will be critical in determining how effective the integration and activities implemented have been.

As we have seen Microsoft is a fully digitalized company and is investing heavily in *new technologies* such as the Cloud and Artificial Intelligence, technologies and resources that will lead companies to evolve into the future and achieve a higher level of efficiency and performance. Microsoft integrating these tools and processes into Activision Blizzard, as it does for the rest of its divisions, would enable ABK to improve its operational efficiency, making it a part of the Microsoft ecosystem in which all activities are interconnected, thereby improving *internal communication* and *collaboration* with the rest of the studios, promoting the sharing of information and resources, the creation of expected *synergies* (Fig. 4.2)[64], and support for the joint production and development of its titles. The introduction to new technologies and business platforms would implement the adoption of agile development methodologies, with significant improvements in the lifecycle management of its games, and optimization of operations for accelerated development and timely releases.
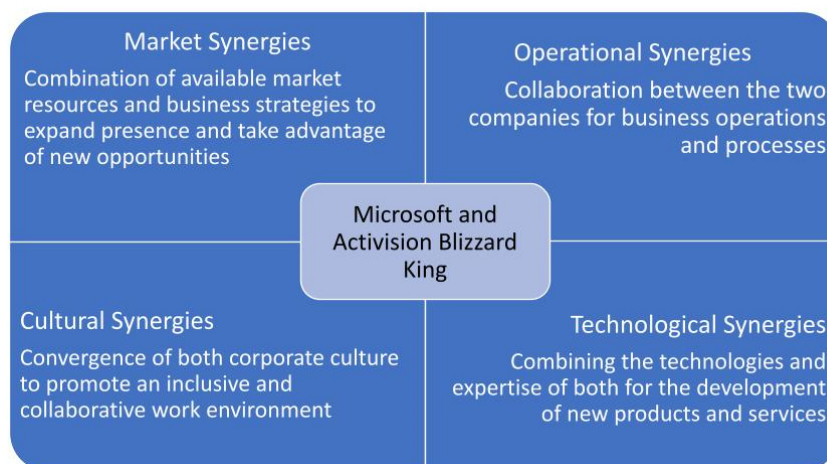

Fig. 4.2: Categories of synergies that apply between Microsoft and ABK   source: realized by Author.

By monitoring the application of synergies in ABK in the short to medium term, it will be possible to explore the various possibilities in improving operations and efficiency in development. A contribution for additional optimal strategies to apply will come by analyzing consolidated processes and considering new perspectives and opportunities that may arise when the expertise and assets of the two companies will be combined and get in touch. It will be interesting to observe in this critical

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[64] The graph shows the four main categories of synergies that will be involved in the ABK integration (with Microsoft at the center indicating their common goal of maximizing value with the right integration), these are: technological, operational, market, cultural. The synergies will be able to support and influence each other, intersecting and collaborating for the operations and activities to be conducted.

phase of adaptation, important for ensuring a solid foundation for long-term strategic consolidation, what level of flexibility and learning capacity ABK will have in the new dimension it covers.

By introducing new tools into ABK, Microsoft will also have to invest in *employee training and development programs* to make them part of the new trends, and sensitize them to their new workplace, the new processes, and activities they will be subjected to, and those practices necessary to incentivize diversity and inclusion within the corporate culture. Activision Blizzard King, as is usually the case in Microsoft's gaming division with its studios, will retain a certain level of *autonomy* in its game development. Microsoft's presence, however, could encourage greater focus in its game *development strategy*, avoiding the mismanagement problems that the ABK company has been accustomed to in recent years, with low frequency in the release of new games and the cancellation of many projects after years of work. The quality of titles would improve, as well as the satisfaction of the gaming community by meeting expectations and preferences, with greater attention to internal and external feedback and player requests. Microsoft will certainly have an influence on Activision Blizzard's strategic direction in the future, putting more emphasis on cloud gaming, creating new genre-defining games, as ABK has already done in its history, and looking for new growth opportunities in the video game industry, among all the Metaverse.

Dissertation also analyzed the motivations behind the investment from the point of view of both the strategy for Microsoft Gaming's business, as well as financially, with an analysis of the benefits Microsoft will gain in the video game industry by owning ABK. The investment in the Metaverse is certainly one of the biggest reasons for Microsoft's acquisition; in the tech and media entertainment sector, it will be a challenge as to who will be able to first exploit and capitalize on the opportunities of this new frontier, or others in which Microsoft already has a strong presence such as Cloud and AI; Microsoft with its own resources and technologies, and the control of ABK's IPs, among the most important and relevant players in the industry, is willing to bet on it now that it has secured an advantage.

The collection and analysis of *feedback* (*Fig.4.3*)[65] plays a primary role in establishing the impact of the acquisition and its consequences on the perceptions of stakeholders and those involved in or affected by it, helping to identify areas that require further adjustment and those that are succeeded. Important will be the implementation of a *monitoring and transparency system* that remains constant over the long term, to resolve with better attention and effective communication problems still current at the company, address emergencies and timely changes or delays in operations in a timely manner,

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[65] The model is based on a continuous cycle of evaluation and improvement to drive successful integration. In the figure the arrows indicate the direction between the process steps of information flow and feedback.

demonstrating a continued commitment to ABK's change, maintaining trust and engagement during the transition period. Monitoring the synergies achieved both operationally and culturally will maximize the value that can be achieved by combining the two companies.
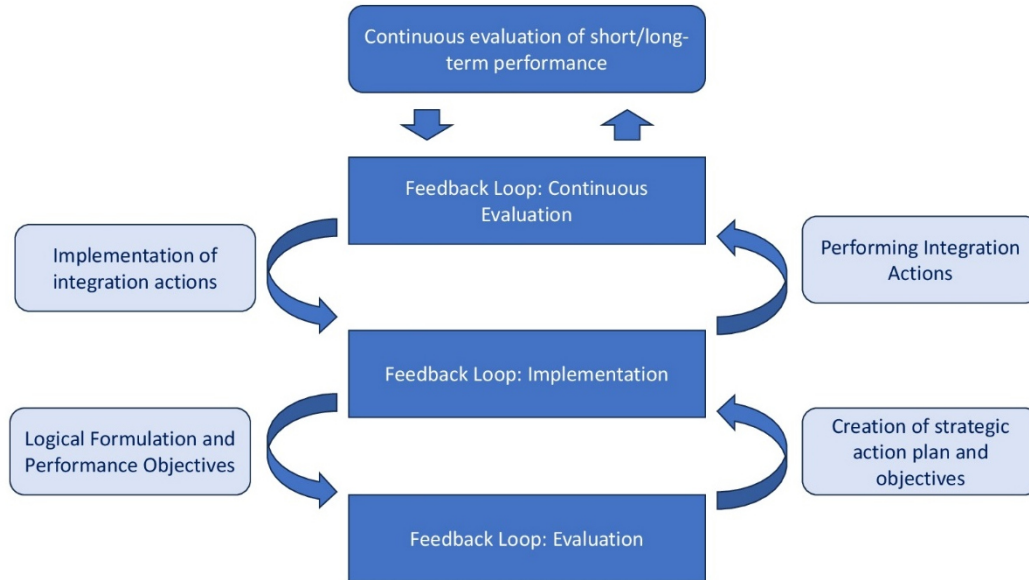

Fig. 4.3 - Feedback Loop   *source: realized by Author.*

Limitations and future research

It remains important to point out how the effectiveness of all these new measures and changes will depend a great deal on Microsoft's ability and willingness to address Activision Blizzard's past and internal issues now that it is part of its company and gaming division, with determination and transparency; the new leadership chosen by Microsoft Gaming and Activision Blizzard will have the crucial role of ensuring the proper integration processes, with active employee involvement and increased transparency.

Some of the issues analyzed will certainly require re-evaluation later in time to get a clearer picture of how they have evolved, such as what impact the acquisition has had on culture and employees, or what Microsoft Gaming's long-term strategies will be and how future ABK titles will integrate into its ecosystem. Thus, it is necessary despite the initial actions taken by the companies to keep an open mind about integration evolutions and developments in the future. The four processes examined in the strategic dynamics, and the feedback loops, present and tell a complete story in half with major considerable progress already achieved, but with many key elements still to be resolved and question marks to be filled. ABK's integration team and leadership should already be focused on planning and launching multi-year initiatives, without underestimating the time and effort required, so that the

feedback loop can be used as a viable alternative to keep current processes in line with the challenges the rapidly changing industry will present and compete effectively.

In conclusion, the acquisition of Activision Blizzard King by Microsoft represents a great opportunity for both to consolidate and increase their position within the video game industry. Implementing an integration strategy through careful planning and implementation would maximize the benefits of the acquisition and the achievement of long-term goals. It would build a new organization capable of restoring the balance within ABK through a new culture and guidance from Microsoft; for both the ability to adopt critical thinking about some of the dynamics and issues to be adopted to be flexible and focused on positive change.

This thesis has highlighted with the specific case of Microsoft and Activision Blizzard what the challenges and complexities are when a company is acquired and needs to be integrated, giving importance to the relevance of the corporate culture, and has tried to define what might be the possible paths to success. My interest in these topics and this area have allowed me to contribute insights that future research and studies may examine again how the performance of this integration and its processes has evolved as progress has been made and determine what the positive results and outcomes have been, and which the actions and the timing.

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What made me choose this topic and this acquisition for the subject of Organizational Design?

While I was catching up the course conducted by Professor Sara Lombardi, my interest focused on organizational culture, a topic relevant to the organizational implications of mergers and acquisitions, another interest of mine; there was a case study we discussed in class concerning Valve, a company in the video game industry, that I was passionate about and that resonated with me when the clamorous deal between Microsoft and Activision Blizzard was announced. The operation impressed and fascinated me because it is a project that has enormous potential and represents a turning point for the future of these two companies and the tech and gaming industry.

Ever since I was a boy, I have always admired these brands and the technological and video game marvels they have produced throughout their history, thrilling hundreds of millions of gamers around the world; today I realize that the video game market is a big reality in the technology industry and predominant in the entertainment sector, and that even if not everyone recognizes it as valuable in modern society, it is worth 300 billion a year and it has acquired great economic and social relevance.

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