Success in International Mergers

Case studies of the Swedish – Finnish mergers
Cloetta Fazer and Stora Enso

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_____________________   _____________________
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Abstract
Mergers are increasing due to the competitive and financial pressure of globalization. Previous research shows that there is a high failure rate in mergers. Mergers of equals often causes power struggle, as members of both companies seek control over the new organization. There is much written on ways and means that should be adopted by companies to ensure success, however there are few empirical studies discussing why specific merger have succeeded. The purpose of this thesis is to gain a deeper understanding of the factors contributing to success in international mergers. Factors that motivate the merger, the impact of culture as well as measures adopted in the pre- and post merger phases in order to reach success are being studied in depth. The authors have chosen to investigate Swedish and Finnish mergers since these, according to Svenska Studieförbundet Näringsliv (SNS) have been seemingly successful. Research is made on the mergers of Cloetta Fazer and Stora Enso and conclusions to be drawn are that both have been successful in measures adopted especially at the post merger phase and that both companies to a great extent have reached success.
Sammanfattning

1 Introduction

This first chapter will provide an introduction to our research topic. This will be followed by a problem discussion, which lead to our purpose and research questions. The chapter ends with the delimitations of our study.

1.1 Background

Current trends in merger activity

Ali-Yrkkö (2002) explains that there have been at least four merger waves since the end of the 19th century and that the fifth and current wave has been present since 1994. According to Horwitz et. al (2002) mergers are increasing due to the competitive and financial pressures of globalization. Balmer and Dinnie (1999) state that the phenomenal growth of mergers over the past years is characteristic of the current business environment and appears to have impinged on every industry and country. They continue explaining that few sectors are immune to the wave of consolidation sweeping the global economy, affecting both private and public sectors. According to Marks (1997) current trends in merger activity demonstrates that merger deals are more strategically driven and influenced by technological advances. Deregulation, social policies and changing customer demands encourage consolidation activity throughout whole industries (ibid).

Definition of merger

A merger is the joining or integration of two previously discrete entities (Ghobodian, James, Liu and Viney, 1999). It occurs when two companies integrate to form a new company with shared resources and corporate objectives (ibid). Epstein as well as Zaheer, Schomaker and Genc (2003) strictly defines a merger of equals as one where there is a 50-50 stock swap between the two merging firms and the board of the merged entity has members from both organizations.

International mergers

According to Leet, Parr and Rouner (1999) the merger business has been an extraordinary growth business with an immense rise in total dollar volume of merger activity worldwide year by year. Looking at the role of mergers around the world Buckley and Ghauri (2002) describe the Asian financial crisis of the late 1990’s as the cause of increased merger activity in the formerly successful developing countries of East Asia (Thailand, Malaysia, Indonesia, Philippines and Republic of Korea). Turning to Japan, Rock, Rock and Sikora (1994) state that in response to the increasing globalization of the Japanese market, Japanese economic organization with built-in protections and rigidities has undergone significant change in the past twenty years. The authors claim that Japan after the stock market crash of 1990-1992 with deteriorating corporate profitability, has entered a new phase of industrial consolidation and corporate restructuring in which international mergers will play an increasingly prominent role. Milman, Mello, Aybar and Arbaléz (2001) claim that in the “new” economic and business climate of Latin America, fostered by multilateral trade agreements such as NAFTA, MERCOSUR and the ANDEAN pact, Latin American firms must become more aggressive and competitive in order to survive. As a result, one of the strategic responses of Latin American firms, as described by the authors, has been to seek benefits by doing business abroad through new entry methods such as mergers.

Harper and Cormeraie (1995) claim that within Europe there has been a significant growth in the number of cross-national business activities including joint ventures, alliances, straight acquisitions and mergers. Although the pace is slowing, the overall upward trend is continuing under the economic pressure for companies to reduce costs, to become more
efficient and to expand their markets (ibid). The motives for mergers across European borders are according to Angwin (2001), establishing a presence in a new geographic area, gaining critical size to improve bargaining power along the value chain, economies of scale and acquiring technology as well as know-how. Calori and Lubatkin (1994), state that the large number of European cross-border deals demonstrates a clear intention to build a pan-European presence and reach economies of scale advantages in order to compete more successfully. The process of industry consolidation is explained by Angwin to be facilitated by the removal or reduction in barriers from European Union reforms. A merger regulation was proposed by the European Commission in 1973, however the EEC Merger Control Regulation (MCR) was not adopted until cross-border mergers increased, as a preparation for the single European market in 1989 (Morgan, 2001). Morgan further states that the regulation was intended to reduce transaction costs, to provide a level regulatory playing field for large mergers with cross-border effects in the Community and to prevent those with significant anti-competitive effects.

Johannisson and Mønsted (1997), states that the economic and social spheres of the advanced welfare states of Scandinavia are closely intertwined and that there has been great political effort to create economies of scale through collaboration. Due to the fact that business and community are closely tangled in all Scandinavian countries, intersectorial trust and informal social capital have accumulated in some areas and the authors’ claims this to be an incubating arena for enterprising activity.

According to SNS; Svenska Studieförbundet Näringsliv (www.sns.se), the industrial cooperation between Sweden and Finland has long traditions. Lately this cooperation has been expressed by an increasing number of acquisitions and mergers (ibid). This form of economic integration across the border has been rapid and seemingly successful. SNS further claims that the integration between the Swedish and Finnish world of business is of great importance to the economies of both countries. There has been “mega-mergers” such as Telia-Sonera, Stora Enso and Nordea but also mergers between Sampo and If; Atria and Lithell; Orion and Kronans droghandel; Hackman and Höganas keramik; Sekvencia and PC Superstore; OM and Hex; Tieto and Enator; Assa and Abloy; Fazer and Cloetta; and finally Ovako and Swedish SKF Steel (ibid).

**Distinguishing a merger from an acquisition**

Epstein (2004) claims that mergers and acquisitions often are analyzed as if they where the same even though the two ways of growing are significantly different. According to Horwitz et.al. (2002) an acquisition occurs when one organization acquires sufficient shares to gain control or ownership of another organization. Epstein emphasizes the importance of clearly distinguishing mergers and acquisitions since acquisitions involves a much simpler process of fitting one smaller company into the existing structure of a larger organization while a merger requires two entities of equal stature to take the best of each company to form a completely new organization. Whereas an acquisition conveys a clear sense of which company is in charge, a merger of equals often causes a power struggle, as members of both companies seek control over the new organization (Epstein, 2004). Both Buckley and Ghauri (2002) and Lynch and Lind (2002), on the other hand, claim that true mergers of equals do not exist since there is always one of the companies that has a more dominant position than the other. Hence, these authors consider mergers and acquisitions as synonymous.
Merger phases
Buckley and Ghauri (2002) describe the integration process of two merging firms as consisting of three phases, the pre-merger phase in which the merger is planned, the merger phase when the actual deal is made and finally, the post-merger phase in which the integration of the two companies starts. Habeck, Kröger and Träm (2000) further explain that the pre-merger phase consist of strategy development, candidate screening and due diligence.

1.2 Problem Discussion
Success and failure of mergers
Different studies report varying merger failure rates percentages; however, they all converge in stating that the failure rate is high. According to Marks and Mirvis (2001) many factors account for the merger failure; buying the wrong company, paying the wrong price, and making the deal at the wrong time. They further state that the core of many failed combinations is the process through which the deal is conceived and executed. According to Habeck, Kröger and Träm (2000) the failure risk is 30% in the pre-merger phase, 17% in the negotiation and deal phase and 53% in the post-merger phase. Despite overwhelming evidence that mergers fail to deliver anywhere near promised payoffs, companies in every industry continue to see mergers as the answer to their problems (Tetenbaum, 1999).

Armour (2002) defines merger success as maximizing shareholder value through the organization’s setting of tangible goals (e.g. double the value of the company every four years) with specific targets (specific levels of profit targeted every year). Bert, MacDonald and Herd (2003) emphasize the importance of timing and execution and define merger success as meeting or exceeding analyst’s expectations within the first two years after change of control. These companies are more likely to earn positive total shareholder returns (ibid). Brouthers, van Hastenburg and van den Ven (1998) claim that managers often have multiple motives for undertaking a merger. Therefore measuring merger success by examining single financial indicators of performance such as profitability or share value, fail to provide an accurate picture of merger success since it undervalues the achievement of other goals held by managers (ibid). The authors further suggest that the proper way to measure strategic performance is against the firm’s set of key success factors. These factors may include financial indicators as well as qualitative objectives such as synergy, obtaining needed competencies and improving the image of the firm. Success of a merger can according to Birkinshaw et al (2000) be measured by assessing economic valued added, more efficient use of resources, and the impact the merger has on organizational culture.

The overarching motive for combining with another organization is that the merged entity will provide for the attainment of strategic goals more quickly and inexpensively than if the company acted on its own (Marks and Mirvis, 2001). In this era of intense and turbulent change, involving rapid technological advances and ever increasing globalization, combinations also enable organizations to gain flexibility, leverage competences, share resources and create opportunities that otherwise would be inconceivable. (ibid) Walker and Price (2000) claim that companies engaging in mergers typically expect to gain revenue enhancement by reaching new customers and new markets, shared research and development costs, operations and cost improvement through economies of scale and finally strategic positioning by becoming a market leader.

According to Bijlsma-Frankema (2001) the high percentage of merger failure is mainly due to the fact that mergers are still designed with business and financial fit as primary conditions, leaving psychological and cultural issues as secondary concerns. Olie (1990) states that the
dominant values in a national culture have a profound effect upon organizations and organizational behavior. National culture influences the hierarchical structure of a firm as well as the formalization of an organization, its decision-making style and its strategy. Furthermore Olie claims that the national culture also has a profound effect upon the organizational culture and that the international merger is a special case. In foreign takeovers, potential cultural conflicts will be solved through the bargaining power of the dominant partner while such is impossible in a merger in which both partners are roughly of equal size or importance (ibid). In this case there are, according to Olie, two cultures or value patterns which are more or less compatible with each other. On the basis of research on national cultures, Hofstede (1980) argues that some cultures can be more easily combined than others. However Kanter and Corn (1994), contradict the previous authors statements on the importance of national culture, by saying that failure in mergers are often blamed on national cultural difference even though the actual reason might be structural problems in the organization.

Epstein (2004) claims that in some mergers, problems with the strategic vision, fit or deal structure stand out in retrospect as fairly obvious causes for relative or absolute failure. These mergers are typically victims of a poorly designed and implemented post-merger integration process (ibid). The author further state that too often companies have done an inadequate job of developing a post-merger integration strategy and even more common is the inadequacy of the implementation of this integration strategy. According to Olie (1994) effective integration, in mergers, can be defined as: the combination of firms into a single unity or group, generating joint efforts to fulfill the goals of the new organization.

The process of integrating two merging companies is a multifaceted process that requires simultaneous efforts in numerous areas, since the two companies must make decisions from a position of equals with competing ideas for achieving the merger vision they share (Epstein, 2004). Epstein as well as Zaheer, Schomaker and Genc (2003) further claim organizational integration to be particularly difficult in mergers of equals because of the assumption of equality by definition in these mergers. It can lead to confusion about who is in charge of various aspects of the merger integration process, and an expectation that neither side has to give in or give up anything in the process (Zaheer, Schomaker and Genc, 2003, Epstein 2004). Success of a merger hinges on the ability of decision-makers to identify a potential merger partner with a good strategic and cultural match (Heller, 2000). According to Epstein the seven determinants of merger success have been identified as strategic vision, strategic fit, deal structure, due diligence, pre-merger planning, post-merger integration and external environment. De Camara and Renjen (2004) provide best practices for successful mergers.

- Identify synergies. It is crucial that the senior management understand the merger strategy and communicates it to the executives engaged in pre-merger planning and in post-merger integration.
- Integrate well and integrate quickly.
- Develop a detailed integration plan long before the merger is closed.
- Consider clean teams; the members in a clean team are legally isolated in the pre-merger state from the rest of the two companies, this in order to share confidential information about the two firms. The use of a clean team allows the companies to complete detailed integration plans before the merger close.
- Active senior management commitment is critical to rapid merger integration.
- Objectively analyze the best processes and systems of the two companies, then select and implement the most superior ones in the merged company.
- Serve the customers despite the merger process.
• Communicate the vision to all stakeholders. The communication messages should be based on a realistic assessment.
• Manage the culture. Firms need to conceive the desired end state, the ideal culture they are looking to create for the new entity.

A current international trend of mergers is affecting industries in many areas, hence this is an interesting topic to explore. Furthermore the fact that companies despite the risks involved and demonstrated high failure rates insist on merging, attract our attention. Are there any special drivers that motivate companies besides what previously have been commented upon in literature? While there is much written on ways and means that should be adopted by companies in order to ensure success, there are few empirical studies discussing why specific mergers have succeeded and others have failed. Is there for example, a greater possibility of success where national or organizational cultures are more compatible or is this of minor importance in a merged entity? How strong is the relationship between measures adopted in the merger phases and the merger outcome?

We argue that more attention should be drawn to how companies have managed to achieve a successful merger. While often reference is made to success, previous studies in this area show diverging definitions of mergers success. The question arises as to which definition is the most appropriate and justifiable? It stands clear to us that defining merger success as increased shareholder value only is a too narrow definition. This since parameters that could have proven the consolidation to be more or less successful, are being missed. Birkinshaw et al (2000) explains that success of a merger can be measured by assessing economic value added, more efficient use of resources, and the impact the merger has on organizational culture. The impact on organizational culture can be further explored, according to Horwitz et al (2002), by assessing the retention of key personnel and the importance of serving the customers despite the merger process.

This combined definition of success; economic value added, more efficient use of resources, retention of key personnel and maintained customer service, is according to our opinion the most appropriate definition of merger success and will hence be used as a basis for our investigation. In accordance we will measure these variables within two years from the merger deal, using the time frame of Bert, Mac Donald and Herd (2003).

1.3 Purpose and Research Questions
The purpose of this thesis is to gain a deeper understanding of the factors contributing to success in international mergers.

In order to reach our purpose we have constructed the following research questions:

• How can the role of merger motivating factors in successful merger outcomes be described?

• How can the role of culture as a factor impacting merger success be described?

• How can measures adopted in the pre- and post-merger phases impacting merger success, be described?
1.4 Delimitations
The factors contributing to success in international mergers is a large but very interesting topic to investigate. In order to reach our purpose we have chosen to be country specific and focus on the mergers that have taken place between Swedish and Finnish companies. This since reference lately has been made in media to the success of these mergers. Furthermore, the Swedish-Finnish mergers have until present date only received limited attention in research. By studying Swedish and Finnish mergers more in depth we will hopefully shed light upon factors contributing to success in international mergers.

Since the time for writing this thesis is limited and the area of research is extensive there will be no investigation made on the negotiation and deal phase of the merger, we will only focus upon the pre- and post- merger phases. This due to the fact that literature presents negotiation and deal as being of less significance when considering the factors contributing to success and failure in mergers. We will further limit the study to include mergers of equals since organizational integration is considered to be particularly difficult in this type of consolidation. Finally there will be delimitation to companies that have been in the post-merger phase for at least two years. This in order to be able to determine the relative success of the merger.
2. Literature Review

This second chapter will, in sections 2.1-2.3, present theories connected to each of our three research questions. The literature has been collected with the purpose of suitting our research questions regarding motives, culture and measures adopted in the pre- and post-merger phases. It was also selected to fit mergers exclusively, however in some cases we have not been able to separate the concepts of mergers and acquisitions since authors of previous research, has treated mergers and acquisitions as synonymous. In section 2.4 we will present the variables that will be used to measure merger success. The chapter will end with a conceptual framework presenting the theories that we have chosen to rely on in this study.

2.1 Motives for Merger

In this section we will present theories related to our first research question; how can the factors motivating companies to enter into a merger, be described?

Categories of merger motives

Brouthers, van Hastenburg and van den Ven (1998) claim that there are three generally accepted categories of merger motives; economic, personal and strategic. These categories are presented in Table 2.1. Economic motives include among other things increasing profits, achieving economies of scale, reducing risk, reducing costs, taking a defensive stance or responding to market failures (ibid). Secondly, the authors state that mergers can occur because managers see a personal benefit. Thus, the category of personal merger-motives includes, according to Brouthers et al; increased prestige through increased sales and firm growth, or increased reward for managers through increased sales or profitability. Additionally, the managerial challenge presented by integrating two firms and overseeing a larger firm also contributes to the personal motives of merger activities (ibid). Finally, strategic motives such as finding synergies, expanding globally, pursuing market power, getting access to new resources (including managerial skills and raw material), product line extensions or creating a better position against competitors by either merging with a competitor or creating barriers to entry by becoming larger, may also motivate merger activities (ibid).

<table>
<thead>
<tr>
<th>Economic motives</th>
<th>Personal motives</th>
<th>Strategic motives</th>
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<tbody>
<tr>
<td>- Marketing economies of scale</td>
<td>- Increase sales</td>
<td>- Pursuit of market power</td>
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<tr>
<td>- Increase profitability</td>
<td>- Managerial challenge</td>
<td>- Accessing a competitor's knowledge</td>
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<tr>
<td>- Risk-spreading</td>
<td>- Acquisition of inefficient management</td>
<td>- Accessing raw materials</td>
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<tr>
<td>- Cost reduction</td>
<td>- Enhance managerial prestige</td>
<td>- Creation of barriers to entry</td>
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<tr>
<td>- Technical economies of scale</td>
<td></td>
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<td>- Differential valuation of target</td>
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<tr>
<td>- Defense mechanism</td>
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<tr>
<td>- Respond to market failures</td>
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<td>- Create shareholder value</td>
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Adapted from Brouthers, van Hastenburg and van den Ven (1998).

The category of economic motives has in research of large publicly traded companies, undertaken by Brouthers, van Hastenburg and van den Ven, proven to be the most commonly referred motives for merging. However, since both pursuit of market power (strategic motive) and increase of sales (personal motive) ranked among the top five reasons for merging in the
same study, it appears as if though companies have multiple motives for undertaking mergers (ibid).

**Sources of performance gains and sub motives**
The importance of economic motives for merging is furthermore emphasized by Ali-Yrkkö (2002), who claims that mergers occur mainly because companies seek economic gains. The economic motive is strongly related to the neoclassical theory where firm behavior is derived from the assumption that a firm maximizes its profit or value (ibid). However, Ali-Yrkkö states that maximizing profit or shareholder value is a too general motive for a merger since it does not reveal how the deal is assumed to lead up to profit or value improvement. The author further presents some possible sources of performance gains or sub motives in order to reach the main economic motive, namely cost reductions, market power, acquiring resources and managerial motives.

- **Cost reductions**: The term synergy is often used as a synonym for cost advantages. According to this motive, mergers are undertaken in order to achieve cost savings. Potential cost advantages includes both fixed costs and variable costs. By eliminating intersecting costs such as administration costs and IT expenditure, financial performance can be improved. Furthermore, synergies can be created when one firm has excess cash flow and the other has large investment opportunities but are short of financing. Due to the lower cost of internal financing versus external financing, combining these two companies may result in benefits. Also tax advantages from mergers may drive some firms to combine.

- **Market power**: According to the market power motive companies merge in order to achieve more market power. If the merger is large enough, the firm obtains a monopoly-like position in terms of above-normal profit. Moreover, if large economies of scale exist, a large company may set its price above marginal cost but below the level that would lead to entry. Thereby in some cases, large mergers cause an entry barrier for potential competitors.

- **Acquiring resources**: In addition to getting access to raw materials, intermediate products, and distribution channels, the resource seeking motive for merging also covers getting access to know-how such as technological, geographical or managerial knowledge. Rather than developing technology only through R&D, a merger can be used as a source of new technology. Moreover, cross-border mergers offer a potential means to get access to geographical know-how. Particularly for companies with a limited international experience, cross-border merger is an attractive mean to acquire country or continent specific know-how.

- **Managerial motives**: The background of managerial motives can be found from the principal-agency theory where corporate managers are explained to act as agents on behalf of the owners of the company (principal). Agency problems arise when ownership and management of firm are separated. These problems exist because owners and managers have different interests and because perfect contracts between owners and managers can not be written. The agency view assumes that instead of maximizing shareholder wealth, managers maximize their own wealth. These managerial incentives may drive a company to grow beyond the optimal company size. Hence, managers build their own empire in order to obtain personal benefits such as managers’ compensation, power and prestige. These benefits are often positively
related to the larger company size and the growth rate of sales. Moreover, managers of large companies have better opportunities to obtain positions in the boards of other companies. Mergers provide much faster means to grow than internal expansion does.

Ali-Yrkkö (2002) further claims that even though decisions to merge are made in firms and their boards, general economic trends and fluctuations affect assumptions and views behind these decisions. These macro-economic causes for mergers include merger waves, political decisions and changes in economic environment. Firstly, the author states that merger waves seem to coincide with immense changes in environment and technology such as the inventing of new means of transportation, communication and energy production. For example, the first merger wave (1897-1904) was accompanied by the completion of the railroad and the increasing use of electricity and coal (ibid). Ali-Yrkkö suggests that an important force behind the current merger wave (1994-present) is the development of communications and data processing technology. Cost savings achieved by utilizing this latest technology increase when the size of company increases (ibid). Secondly, Ali-Yrkkö claims that political decisions impact merger activity by the forming of free trade areas, such as NAFTA and EU. Moreover, he states that deregulation of financial markets and liberalization of foreign ownership restrictions have led to an increased number of cross-border deals. However, in some cases political decisions might decrease the merger activity since antitrust authorities are able to block deals that are assumed to lead to significant reduction in competition (ibid). Finally, changes in economic environment also form a basis of an industry shock explanation for mergers where different kinds of industry-level shocks push companies to react to changes by restructuring and merging (ibid).

**Specific motives for cross-border mergers**

Buckley and Ghauri (2002) claim that the commonly referred economic, personal and strategic motives for merging, does not specifically take into account the motives for cross-border mergers. They further present a framework in which strategic objectives for merging across borders are combined with sources of competitive advantage. This framework is presented in Table 2.2.

### Table 2.2 Motives for cross-border mergers

<table>
<thead>
<tr>
<th>Strategic objectives</th>
<th>National differences</th>
<th>Scale economies</th>
<th>Scope economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving efficiency in current operations</td>
<td>Benefiting from differences in factor costs, wages and cost of capital</td>
<td>Expanding and exploiting potential scale economies in each activity</td>
<td>Sharing of investments and costs across products, markets, and businesses.</td>
</tr>
<tr>
<td>Managing risks</td>
<td>Managing different kinds of risks arising from market or policy-induced changes in comparative advantages of different countries</td>
<td>Balancing scale with strategic and operational flexibility</td>
<td>Portfolio diversification of risks and creation of options and side-bets</td>
</tr>
<tr>
<td>Innovation learning and adaptation</td>
<td>Learning from societal differences in organizational and managerial processes and systems</td>
<td>Benefiting from experience-cost reduction and innovation</td>
<td>Shared learning across organizational components in different products, markets or businesses</td>
</tr>
</tbody>
</table>

Source: Buckley and Ghauri (2002)
Buckley and Ghauri’s framework indicates that national differences within the firm due to cross-border mergers would give the firm greater ability to move operations to the lowest cost country, improve the firm’s ability to cope with risks from market changes or change in government policy, and improve the ability to learn and adapt because of the different strengths associated with the culture of different countries.

The framework further suggests that scale economies created by the increase in market volume due to cross-border mergers would result in greater efficiency in each activity of the value chain, the need to balance scale and flexibility, and benefits from the experience curve. Furthermore, Buckley and Ghauri suggest that scope economies created by the addition of new products, businesses and markets due to cross-border mergers would result in sharing investments and costs, lower risk due to geographic, product, market and business diversification, and the ability to share learning across units.

The authors claim that the advantages due to national differences probably would be increased with greater differences between cultures. They further argue that to benefit from scale economies would require a horizontal merger (i.e. two firms in the same industry). Scale economies may be improved by higher volume requirements for certain components that can be shared (ibid). Scope economies are explained to be most likely where there is relatedness between products, markets or business (ibid). Scope economies of distribution might, according to Buckley and Ghauri, be developed by selling each company’s products by using the other company’s dealership network.

2.2 Impact of Culture

In this section we will present theories connected to our second research question; how can the role of culture as a factor impacting merger success, be described?

**Contextual factors impacting the merger success**

According to Kanter and Corn (1994) people often assumes that cultural heterogeneity creates tensions for organizations. In general, mergers create significant stress on organizational members, as separate organizational cultures and strategies are blended, even within one country (ibid). Differences in national cultures are assumed by Kanter and Corn to add another layer of complexity to the merger process. Yet, while national cultural differences clearly exist at some level of generality, it is more difficult to specify how the presence of such differences affects organizational and managerial effectiveness (ibid). The authors claim that evidence and observations in a range of situations raise questions about the usefulness of the “cultural differences” approach, for example:

- When people of different national cultures interact, they can be remarkably adaptable, as in the Japanese history of borrowing practices from other countries.
- Technical orientation can override national orientation. There is evidence that similar educational experiences – e.g. for managers or technical professionals – erase ideological differences; those within the same profession tend to espouse similar values regardless of nationality.
- Tensions between organizations, which seem to be caused by cultural differences often turn out, on closer examination, to have more significant structural causes.
- Cultural value issues – and issues of “difference” in general – are more apparent at early stages of relationships than later, before people come to know each other more holistically.
Central country value tendencies are often reported at a very high level of generality, as on average over large populations themselves far from homogenous. Thus, they fail to apply to many groups and individuals within those countries.

Group cultural tendencies are always more apparent from outside than inside the group. Indeed, people often only become aware of their own value or culture in contrast to someone perceived as an outsider.

Kanter and Corn’s research further suggest that contextual factors play the dominant role in determining the smoothness of the integration, the success of the relationship and whether or not cultural differences become problematic. The authors thus conclude that the significance of cultural differences between employees or managers of different nationalities has been overstated. On basis of their research, Kanter and Corn presents six contextual factors which acts as mediators in determining whether or not national cultural differences will be problematic.

1) *The desirability of the relationship*, especially in contrast to recent experiences of the merged companies. This issue sets the stage for whether the relationship begins with a positive orientation. When people are distressed, poorly-treated in previous relationships, have had positive experiences with their foreign partner, and play a role in initiating relationship discussions, they are much more likely to view the relationship as desirable and work hard to accommodate to any differences in cultural style so that the relationship succeeds.

2) *Business compatibility between the two companies*, especially in terms of industry and organization. Organizational similarities were, in Kanter and Corn’s study, more important to most companies than national cultural differences.

3) *The willingness of the acquirer to invest in the continued performance of the acquire and to allow operational autonomy while performance improved*. Of all the actions taken by a foreign partner, none seems to have a more positive impact on morale and on attitudes towards foreigners than a foreign partner’s decision to invest capital in its acquisition partner. When investment is accompanied by operational autonomy, the relationship is often viewed as very favorable and cross-cultural tensions are minimized. Furthermore, a high degree of autonomy will most probably slow down the speed with which the merged organizations develop a common culture.

4) *Mutual respect and communication based on that respect*. Open communication and showing mutual respect are critical to developing trust and ensuring a successful partnership. Employee sensitivity to possible cultural differences plays a significant role in reducing outbreaks of cross-cultural tension. Sensitivity to cultural differences and willingness to deal with problems directly minimizes organizational tension.

5) *Business success*. People are willing to overlook cultural differences in relationships which bring clear benefits. Ongoing financial performance affects the quality and nature of communication between the merger partners, and thus plays a role in determining whether or not cultural differences are viewed as problematic. If success reduces tensions, deteriorating performance increases them.
The passage of time. Time, at least, reduces anxieties and replaces stereotypes with a more varied view of other people. The levels of cross-cultural tension vary as a function of the stage in the relationship-building process.

The Cultural Compatibility index
Veiga, Lubatkin, Calori and Very (2000) argue that the objective fact that cultural differences exist does not necessarily imply that the merged partners’ employees will resist any post-merger consolidation attempts. The authors further claim that some cultural differences may actually facilitate an “assimilation” mode of integration. As part of a multi-study survey of 360 mergers, Veiga et. al. has developed a cultural compatibility index aiming at examining the compatibility of merging partners culture. The index consists of 23 variables which are commonly used to describe an organization’s culture and that are also perceived to be related to organizational performance. The cultural compatibility variables are presented in Table 2.3.

Table 2.3 Cultural Compatibility variables

| 1. | Encourages creativity and innovation. |
| 2. | Cares about health and welfare of employees. |
| 3. | Is receptive to new ways of doing things. |
| 4. | Is an organization people can identify with. |
| 5. | Stresses team work among all departments. |
| 6. | Measures individual performance in a clear, understandable manner. |
| 8. | Gives high responsibility to managers. |
| 9. | Acts in responsible manners towards environment, discrimination etc. |
| 10. | Explains reasons for decisions to subordinates. |
| 11. | Has managers who give attention to individual’s personal problems. |
| 12. | Allows individuals to adopt their own approach to job. |
| 13. | Is always ready to take risks. |
| 14. | Tries to improve communication between departments. |
| 15. | Delegates decision-making to lowest possible level. |
| 16. | Encourages competition among members as a way to advance. |
| 17. | Gives recognition when deserved. |
| 18. | Encourages cooperation more than competition. |
| 20. | Challenges persons to give their best effort. |
| 21. | Communicates how each person’s work contributes to firm’s “big picture”. |
| 22. | Values effectiveness more than adherence to rules and procedures. |
| 23. | Provides life-time job security. |

Source: Veiga, Lubatkin, Calori and Very (2000)

The cultural compatibility index asks managers of merged companies to respond on a five-point scale of perceived importance, where 1 signifies “not important” and 5 signifies “very important”, to each of the following three questions (using the variables in Figure 2.3). According to social movement theory these questions determines an individual’s level of cultural compatibility (ibid):

- What values do you feel should be emphasized at a company, whether or not they appear at your present company? (what ought to be)
- How where things at your firm before the merger? (what was)
• How do things appear now in the merged company? (what is)

The “ought to be” question (OTB) assesses the normative expectations of some proper state of affairs, the “before” question (WAS) assesses the original culture at one of the merged companies and the “appear now” question (IS) is intended to assess the culture at the merged company (ibid). The final Perceived Cultural Compatibility Index score (PCC) is then calculated through the following equation as presented by Veiga et al (2000):

\[
PCC = \frac{\sum_{i=1}^{23} OTBi ((OTBi - WASi) – (OTBi - ISi))}{23}
\]

In the equation, PCC equals the Perceived Cultural Compatibility score, OTB equals the ought to be response, WAS equals the WAS response and IS equals the IS response (ibid). The scoring procedure is described by the authors to distinguish cultural differences that evokes positive attraction from those that evokes negative attraction. A respondent’s compatibility score can range from -20 to +20, where -20 signifies the highest degree of unattractiveness; i.e. when the respondent answers the “ought to be” and the “was before” questions with a 5 (very important), and to the “appears now” with a 1 (not important) (ibid). According to Veiga et al a positive score suggests an attraction, in that the culture of the buying firm appears to be more in line with what the respondent believes important than with the culture of the acquired firm before the merger. A zero score suggests neutrality; i.e. the respondent perceives no differences between the buying firm’s culture and the acquired firm’s culture (ibid).

Types of organizational cultures and their compatibility

Cartwright and Cooper (1992) states that as culture is as fundamental to an organization as personality is to the individual, the degree of cultural fit that exists between the combining organizations is likely to be directly correlated to the success of the combination. A study conducted by the authors aimed at assessing the types of culture that integrate well and whether some cultures are more easily abandoned and amenable to change than others. The study identifies four types of organizational cultures, which are presented and described in Table 2.4.
### Table 2.4 Types of organizational cultures

<table>
<thead>
<tr>
<th>Type</th>
<th>Main characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>- Centralization of power – swift to react</td>
</tr>
<tr>
<td></td>
<td>- Emphasis on individual rather than group decision-making</td>
</tr>
<tr>
<td></td>
<td>- Essentially autocratic and suppressive of challenge</td>
</tr>
<tr>
<td></td>
<td>- Tend to function on implicit rather than explicit rules</td>
</tr>
<tr>
<td></td>
<td>- Quality of customer service often tiered to reflect the status and prestige of the customer</td>
</tr>
<tr>
<td></td>
<td>- Individual members motivated to act by a sense of personal loyalty to the &quot;boss&quot; (patriarchal power) or fear of punishment (autocratic power)</td>
</tr>
<tr>
<td>Role</td>
<td>- Bureaucratic and hierarchal</td>
</tr>
<tr>
<td></td>
<td>- Emphasis on formal procedures, written rules and regulations concerning the way in which work is to be conducted</td>
</tr>
<tr>
<td></td>
<td>- Role requirements and boundaries of authority clearly defined</td>
</tr>
<tr>
<td></td>
<td>- Impersonal and highly predictable</td>
</tr>
<tr>
<td></td>
<td>- Values fast, efficient and standardized customer service</td>
</tr>
<tr>
<td></td>
<td>- Individuals frequently feel that as individuals they are easily dispensable in that the role a person serves in the organization is more important than the individual/personality who occupies that role</td>
</tr>
<tr>
<td>Task/Achievement</td>
<td>- Emphasis on team commitment and a zealous belief in the organization’s mission</td>
</tr>
<tr>
<td></td>
<td>- The way in which work is organized is determined by the task requirements</td>
</tr>
<tr>
<td></td>
<td>- Tend to offer their customers tailored products</td>
</tr>
<tr>
<td></td>
<td>- Flexibility and high level of worker autonomy</td>
</tr>
<tr>
<td></td>
<td>- Potentially extremely satisfying and creative environments in which to work but also often exhausting</td>
</tr>
<tr>
<td>Person/Support</td>
<td>- Emphasis on egalitarianism</td>
</tr>
<tr>
<td></td>
<td>- Exists and functions solely to nurture the personal growth and development of its individual members</td>
</tr>
<tr>
<td></td>
<td>- More often found in communities or cooperative than commercial profit-making organizations</td>
</tr>
</tbody>
</table>

**Source:** Cartwright and Cooper 1992

The power culture is according to Cartwright and Cooper (1992) often found in small entrepreneur-led organizations or in larger organizations. It is described by the authors to have a charismatic leader who makes the decisions. If this leader is benevolent, then a “Patriarchal Power Culture” is likely, characterized by a loyal parent-child type of relationship with staff, although the environment can be oppressive and employees tend to be ill informed (ibid). If power is derived from status and position alone, then an “Autocratic Power Culture” is likely (ibid). In the latter, leaders are often assumed to be moving on and not to care, so their power is resented, as explained by the authors. In both types, staff has to get their satisfaction from the work and their commitment towards colleagues (ibid).

The role culture is, according to Cartwright and Cooper, typified by logic, rationality and the achievement of maximum efficiency. Bureaucracy is the norm and the company “bible” rules (ibid). The hierarchy is all important, competition between departments is common, employees are very status conscious and there are often many status symbols evident (ibid). The authors describe this culture to function well in stable conditions but be slow to change. It is often hampering to innovation, frustrating and impersonal (ibid).

In the task/achievement culture, Cartwright and Cooper explain that what has been achieved tends to be more important than how. This culture often exists as a sub-culture in parts of an organization, e.g. research and development (ibid). It is, according to the authors, often found in start-up high technology companies and in service industries. It is a team culture,
committed to the task (ibid). The task/achievement culture sometimes gives the customer what the company thinks is right rather than what the customer prefers (ibid). In Cartwright and Cooper’s person/support culture, egalitarianism is a key value and the organization exists to advance the personal growth and development of its staff. In this culture structure is minimal and information, influence and decision-making are shared equally. It is most often found in communities and co-operatives (ibid).

One might assume that cultural compatibility merely requires cultural similarity. However, Cartwright and Cooper found that merger partners could be dissimilar and still be compatible. The compatibility of the four cultural types is presented in Figure 2.1.

The authors explain that cultures further to the right on the continuum are more satisfying than those to the left, as they offer more individual self-direction, more participation and fewer individual constraints. Employees are therefore likely to be more willing to assimilate into cultures to their right on the continuum than to their left. If the movement required are to the left, “separation” can occur, i.e. the acquired company attempts to continue its original culture and own ways of doing things (ibid). On the basis of this, Cartwright and Cooper (1992), classify cultures according to their compatibility with other cultural types. This classification is presented in Table 2.5.

Table 2.5 The suitability of culture combinations

<table>
<thead>
<tr>
<th>Culture of the buyer</th>
<th>Culture of the acquisition candidate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Potentially Good candidates</td>
</tr>
<tr>
<td>Power</td>
<td>-</td>
</tr>
<tr>
<td>Role</td>
<td>Power, Role</td>
</tr>
<tr>
<td>Task/Achievement</td>
<td>Power, Role, Task</td>
</tr>
<tr>
<td>Person/Support</td>
<td>All culture types</td>
</tr>
</tbody>
</table>

Source: Cartwright and Cooper 1992
2.3 Pre- and post-merger Measures

In the following section we will present theories related to our third research question; how can measures adopted in the pre- and post merger phases impacting success, be described?

2.3.1 Pre-merger phase

Marks and Mirvis (2001) state that the pre-combination phase is when the deal is conceived and negotiated by executives and then legally approved by shareholders and regulators. The combination phase is when the integration planning ensues and implementation decisions are made. The post-combination phase is when the combined entity and its people regroup from initial implementation and the new organization settles in. According to the authors these are not clear-cut phases. Integration planning increasingly occurs in the pre-combination phase, before the deal receives legal approval (ibid).

According to Marks and Mirvis (2001) in the pre-merger phase, a financial tunnel vision has been predominating in the typical disappointing cases of mergers and acquisitions. There has, according to the authors, been a tendency for hard criteria to drive out soft matters in these cases. If the numbers have looked good, any doubts about organizational or cultural differences have tended to be neglected (ibid). In the successful cases, by contrast, the authors explain that buyers have brought a strategic mindset to the deal. They have positioned financial analyses in a context of an overarching aim and intent. Successful buyers have also, as described by Marks and Mirvis, had a clear definition of specific synergies that they have sought in a combination and concentrated on testing them well before any negotiations have commenced. For successful buyers human factors have also played a part. Members of the buying team in these cases have come from technical and operational, as well as financial, positions (ibid). During the screening phase, they have deeply investigated the operations and markets of a candidate when gauging its fit. According to Marks and Mirvis, sensible buyers have carefully considered the risks and problems that might have turned a strategically sound deal less healthy. This does not mean that the financial analyses have been neglected or that they have been any less important to success (ibid). To the contrary, the authors’ state that what makes mergers successful is both an in-depth financial understanding of a proposed merger, and a serious examination of what it would take to produce desired financial results.

According to Marks and Mirvis (2001) steering a combined entity toward the successful path begins in the pre-merger phase. Combination preparation covers strategic and psychological matters. The strategic challenges concern key analyses that clarify and bring into focus the sources of synergy in a combination (ibid). The psychological challenges cover the actions required to understand the mindsets that people bring with them and develop over the course of a combination (ibid). This signifies increasing people’s awareness of and capacities to respond to the normal and expected stresses and strains of living through a combination. There are according to Marks and Mirvis (2001), four different aspects that has to be taken into consideration by executives, staff specialists and advisors, purpose, partner, parameters and people. These can in turn be further divided into sub-issues.

1. Purpose

- Clarify strategy: Strategy setting begins with scrutiny of an organization’s own competitive and market status, its strengths and weaknesses, its top management’s aspirations and goals. The results define a direction for increased growth, profitability, or market penetration in existing businesses, for diversification into new areas, or simply for cash investment. Most buying companies have standard metrics for evaluating a candidate that include its earnings, discounted cash flow, and annual
return on investment. They also have objectives about the impact of a combination on profitability, the combined organization’s earnings per share, and future funding requirements. In successful cases these financial criteria are respected and adhered to, but balanced by careful consideration of each of the synergies sought in a combination and what it will take to realize them. Most combinations involve expense-reduction. Executives who seek to create value have to be able to demonstrate to staff on both sides that there is more to the deal than cost-cutting, and that involves a crisp statement of how synergies will be realized and what that means for the people involved.

- Clear search criteria: Marks and Mirvis (2001) state that a firm first needs to know what it is looking for in an acquisition candidate or merger partner. Understanding precisely what synergies are sought sets the stage for subsequently mining opportunities through the combination planning and implementation phases. The more unified both sides are about what is being sought, the more focused they can be in realizing their objectives. There are two sets of supportive criteria; one is a generic set of criteria that guide a firm’s overall combination program and strategy. These are characteristics of organizations that must be present in any combination partner. The second set of criteria guides the assessment and selection of a specific partner.

2. Partner

- Thorough screening and due diligence: Marks and Mirvis (2001) explain that the screening of candidates covers the obvious strategic and financial criteria, but also extends to include assessments of the human and cultural elements that can undermine an otherwise sound deal. How deep is the management talent in the target? What labour relations issues wait around the corner? How does the company go about doing its business? Is their culture a good enough fit with ours? A thorough pre-merger screening comes only from speaking directly with a good cross-section of the management team from the potential partner. It requires speaking and listening to people both for the formal business issues as well as the less formal “how does it really work” issues. The due diligence team should be broadened and not just include financial people but include staff professionals from areas like human resources and information technology, and operating managers who will be working with new partners if the combination is carried out. Operational managers have a particularly important role on due-diligence teams; they can find many reasons why a deal that look good on paper would fail in the early stage. Differing viewpoints and preferences for how to conduct business are not solely a reason to negate a deal, but incongruent values, genuine distrust and outright animosity should be noted as red flags.

According to Marks (1999) the objective of cultural due diligence is not to eliminate culture clash in a combination since that would not be possible. Neither is the purpose of cultural due diligence to find a perfect fit between organizations that are to be integrated (ibid). In reality a moderate degree of cultural distinctiveness is beneficial to productive combinations (ibid). According to Marks the best combinations occur when a fair amount of culture clash prompts positive debate about what is best for the combined organizations. The fundamental benefit of cultural due diligence is to prepare executives for the demands of joining together previously separate organizations (ibid). Marks claims that a cultural due diligence raises awareness of and sensitivity to the cultural issues in a merger. It complements financial and strategic criteria and makes the selection process more sophisticated. The author further explains that a cultural due diligence helps anticipate the demands of integration and finally it assists to
determine the cultural “end state” of a consolidation. According to Marks (1999) approaches to conduct cultural due diligence fall into four general categories:
- Integrating cultural criteria in the earliest merger discussions
- Staffing and preparing due diligence teams with an eye toward cultural criteria
- Adding cultural criteria to due diligence data collection
- Using formal tools to assess cultural fit

3. Parameters

- Defining the end state: Marks and Mirvis (2001) describe that partners in successful combinations share a commonality of purpose and recognize and accept the terms of their relationship. People are able to focus their energy on a common goal and not on any wishful thinking that may contradict the realities of the combination. However, in many cases corporate marriage contracts, tend to be implicit rather than explicit and are open to interpretation and misunderstanding (ibid). Carefully defining the end state of a deal can end the rumors of the pre-merger, failing to do so can lead to an even more unpleasant divorce. The authors clarify that while the work of achieving the desired end state will involve many people, the initial step is the responsibility of senior executives involved in doing the deal. Beyond checking misperceptions, a well articulated desired end state communicates to the work force that their leadership has a solid sense of where it wants to take the combined entity (ibid). Finally, a clear and understood desired end state guides combination planning and implementation. The different cultural integration end states that can be adopted are illustrated by Marks and Mirvis in the Figure 2.2.

![Figure 2.2 Degree of Post-Combination Change Envisioned at Pre-Merger Phase](source)

The following is a brief description of each end state presented by Marks and Mirvis (1992):

**Preservation:** An end state where the acquired company faces a modest degree of integration and retains its ways of doing business. Strategic synergies generated in a preservative combination come from the cross-pollination of people and work on joint programs.
Absorption: When the acquired company is absorbed by a parent and assimilated into its culture, the lead companies generally bring in new management and conforms the target to corporate reporting relationships and schedules.

Reverse takeover: The acquired company dictates the terms of the combination and effects cultural change in the lead company. When this unusual type of combination occurs, it typically involves the absorption by an acquired business unit or division of a parallel unit in an acquirer.

Best of both: The achieving of synergy between companies through their partial to full integration is more successful than others, but also the most risky and toughest one. Financial and operational synergies are achieved by consolidation. Their functions are crunched together which often leads to a reduction in force. The optimal result is full cultural integration and the blending of both companies’ policies and practices.

Transformation: When both companies undergo fundamental change following their combination synergies come not simply from reorganizing the businesses, but from reinventing the company. This is the most complicated of all the combination types and requires a significant investment and inventive management. Existing practices and routines must be abandoned and new ones discovered and developed.

4. People
- Prepare people psychologically: According to Marks and Mirvis (2001) in an acquisition, the buyer and seller usually have very different psychological perspectives on the deal. In cases where the role of lead and target are not so well delineated, psychological factors can also influence the relationship (ibid). Members of one’s side may see themselves – or be seen by the other side - as more worldly, technically sophisticated, financially strong, or savvy in the marketplace (ibid). Yet the very premise for the merger, that the partners will gain access to or leverage each other’s technology, patents, customers, or some other capability that they do not already possess, calls for a true meeting of the minds. According to the authors, psychological mindsets influence early dealings and can dominate the critical months of transition planning and implementation. And they often carry over into the combined organizations. Awareness of these mindsets, both one’s own and one’s partners’ helps both sides to prepare for a successful combination. Marks and Mirvis further state that psychological preparation can include sensitization seminars to foster dialogue about their respective mindsets. Individuals hear about combination mindsets, express their hopes and concerns going forward, and learn tactics for coping with their mindset and that of their counterparts. People can also be educated by readings, presentations, or discussions of the human realities of a combination.

2.3.2 Post-merger phase
Five Drivers of Success
There are according to Epstein (2004), five drivers of success in post merger integration. Failure on any one of the five can impede the achievement of merger goals.

1. Coherent Integration Strategy
Epstein states that the new organization should have a well articulated integration strategy that reinforces that it is a “merger of equals”. This integration strategy is in addition to the merger strategy and articulates how the merger will be integrated (ibid). An early opportunity to
implement the integration strategy occurs when making decisions on the new organizational structure. It is preferable that companies begin with an open mind and not are constrained by the structure of either previous company. This approach should continue throughout the post-merger integration phase, in the selection of systems, processes and practices. The author claims that decisions should not be made on the basis of imitating the status quo from one organization or the other. All decisions should be made on the basis of a neutral, objective decision-making process that considers the solutions employed in the previous organization, as well as any other alternatives, along with the system conversion costs (ibid). Epstein states that in personnel decisions, employees of both companies must be judged by the same standards and the candidate selection process based on merit rather than as a basis for a power struggle. If the name of one company is being adopted as the name of the merged entity, extra effort must be made to reach out to the customers of the other merger partner, so that customers understand their importance to the new company (ibid). Technical decisions may require more careful consideration of interoperability and thus favour one organization’s applications, but that decision must be based on sound technical information rather than organizational politics (ibid). Finally, Epstein explains, that the integration strategy must include a commitment to address two key constituencies in every aspect of the post-merger integration: employees and customers. A well conceived and well-articulated integration strategy will fail if employees are not prepared to implement it- and customers are not inclined to give their business to the new company. Further, the retention of needed employees and customers during and after the merger transition is critical to ultimate merger success. The integration strategy must be carefully developed to implement the strategy for the merger itself and execute on the strategic vision and strategic fit that led to the merger decision. (ibid)

2. Strong integration team
Epstein further claims that commitment to successful post-merger integration must be demonstrated through the structure, leadership, and composition of the integration team. The team must be a discrete, full-time function with ample resources and strong leadership (ibid). The author explains that the team should follow a project-management approach where integration project teams are separate from the core business. Most team members should be dedicated full-time to the post merger integration, and the team should be balanced with members of both companies (ibid). Moreover, the post-merger integration leader should be ambitious, confident, and a fully dedicated senior executive who disavows all biases stemming from the leader’s former company. According to Epstein, an important objective of the integration team is to ensure that the integration process is convenient from the customer’s perspective. It is the company’s merger, not the customer’s (ibid). Feedback from customers should be used to tailor the new company’s strategy where relevant, and the company should over-deliver during the transition period to compensate customers for any confusion, uncertainty, or possible dissatisfaction with the new offerings (ibid). The author states that integration team must work to eliminate any culture clash in the new organization. When the company cultures are not well integrated or the effort is either not supported or undermined by company leadership, the results are often disastrous (ibid).

3. Communication
Epstein emphasises that during the post-merger integration phase, and especially at the beginning of the process, communication from senior management must be significant, constant and consistent. Moreover, it must build confidence in the merger and the integration process, reinforce the purpose of the merger with a tangible set of goals, and provide decisive responses to a variety of stakeholder concerns (ibid). The author claims that each constituency
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must receive information that explains its role in the merger with a presentation that is tailored to them and consistent with the overall company message. Because of high levels of concern about the impact of the merger on their individual well-being, customers and employees need a very high level of communication throughout the process (ibid). Over-communication is one of the common elements of success in post-merger integrations. For human resources, communication may be the most important driver of success. The author further states that information on candidate selection processes and severance policies must be quickly disseminated to prevent losing employees whose skills are vital to the new firm. Once employees know they are being retained, roles and responsibilities must be articulated clearly and advised of any training necessary to facilitate their contribution to the merged company (ibid). Epstein claims that employees whose positions are eliminated should be treated with dignity, informed of decisions rapidly, and assisted in finding new employment. Communication is also vitally important in dealing with customers who must be apprised of the direction of the new company and how it affects their relationship (ibid). Epstein concludes; from the customer’s perspective, a merger brings uncertainty, and the combination of strong performance and strong communication efforts are the best reassurance.

4. Speed in implementation

According to Epstein, speed is essential in successful post-merger integration, and fear and indecisiveness can often be obstacles to rapid action. Early completion of integration projects can both mitigate risk and permit an earlier realization of merger benefits (ibid). Immediate planning and design following the agreement is essential for rapid post-merger integration. Epstein explains that the majority of planning should be completed before the merger is announced to the public. Following the announcement, the timeline should be highly compressed, with the goal of integrating front-office operations in the shortest possible time (ibid). The author describes that companies often set an integration program that includes a stretch goal for speed of implementation. Companies that move too slowly in the integration process face a number of threats, especially with regard to the two key constituencies (ibid). Epstein states that employees may regard the slow pace as a sign of uncertainty and may pursue opportunities at rival firms where the situation seems more stable. Customers may likewise fear instability and seek competitors’ products if the visible aspects of the integration are not achieved rapidly (ibid). The author claim that on the technical side of the post-merger integration, a slow pace may hamper innovation, and prevent the companies from achieving the back-office synergies that are usually vital to the merger strategy. Solutions should therefore focus on speed and functionality over perfection, and “80-percent solutions” should typically be accepted (ibid). According to Epstein, the importance of speed to the success of post-merger integration is often underestimated. There is significant correlation between the speed of integration and merger success.

5. Aligned Measurements

Epstein finally concludes that in order to achieve merger success, mergers need a clear definition and articulation of the drivers of success, how it will be achieved, and the appropriate measures of success. A successful post-merger integration requires the creation of measures that are well aligned with the merger strategy and vision (ibid). Targets and milestones must be created in all areas, especially for the measurement of synergies, and sophisticated tracking systems must be created so integration leaders can easily monitor progress throughout the organization (ibid). The author explains that the responsibility for creating these metrics should be shared by the integration team, business units, and functional areas. The integration team leader should present a consistent set of priorities to leaders in business units and functional areas and together they should tailor specific metrics that are
consistent with organizational goals and relevant to employees throughout the organization. Epstein claims that both financial and non-financial measures should be included in the information provided to integration and business leaders to adequately monitor performance. This includes both process and results measures that report on past performance and are predictors of future performance (ibid). The company should quantify cost savings and revenue synergies so that both employees and investors have a tangible sense of the integration’s process. The author concludes that customer satisfaction and retention, cultural integration, employee satisfaction and retention, operational reliability, and risk management are among the measures that may be included among the non-financial measures of performance.

**Seven Key Practices**

According to Tetenbaum (1999) there are seven key practices that improve the chance for expected integration and synergies in mergers and acquisitions;

Whereas most integration efforts focus on an organization’s formal systems and processes, cultural integration refers to its informal systems and processes (ibid). Tetenbaum claims that the latter can have a highly insidious impact on the melting of two organizations. Attending to the integration of culture is critical (ibid). According to Tetenbaum, responsibility for overseeing the integration of all administrative, physical, organizational and cultural aspects of the consolidation is usually assigned to an integration team selected by senior executives who provide sponsorship, set priorities, and allocate resources. It is the role of the integration team to make the day-to-day decisions that will drive the process forward, to provide guidance throughout the implementation phase, and to develop operating charters for task forces along with coordinating the data and recommendations that come in from these task forces (ibid). The role of leader for the integration team leader is vital to the success of the implementation phase of the process (ibid). Tetenbaum explains that the leader of the integration team should be assigned to the role full-time because of the complexity of the task, the time it consumes and the huge responsibility it bears. Moreover, the cultural component of the integration argues for someone on the team, to have a background in anthropology or sociology or a basic understanding of groups, organizations and cultures as well as a deep knowledge of and experience with change management (ibid). Tetenbaum states that members of the team should be assigned on a full-time, permanent basis.

The author states that the integration should be planned as soon as the merger process begins (rather than as a separate stage after the deal is completed). Throughout the process there must be close collaboration between the human resource individual assigned to conduct the human resource audit, the integration team member assigned to conduct the culture audit, and the integration team leader charged with the responsibility for implementing all plans and overseeing the total integration of the two companies (ibid). In the subsequent section follows the seven key practices as described by Tetenbaum (1999);

1. **Provide input into go-no go decision**

Tetenbaum claims that in contrast to organizations that underestimate the role of culture and manage their integration accidentally, those bent on success will place transition issues and culture centre stage even before a letter of intent is offered. They will invite the senior human resource manager and the integration team leader into the process early on to provide an important and respected voice in the decision of whether or not to merge. The earlier they can participate in the process, the better able they are to work through issues that can negatively impact business outcomes if they are ignored.
A successful merger requires an assessment of the fit between the two organizations and a judgement as to whether they can readily be joined. The culture audit is meant to discover likely trouble spots and to have a plan to manage the differences. (ibid)

2. Build organizational capability
This signifies according to Tetenbaum, having the right people in the right position to effectively perform the tasks that are needed to achieve the organization’s goals. The integration team in collaboration with the human resource staff have to focus on the importance of retention, rifting and recruitment of employees. The human resource staff needs to ensure that the appropriate people find incentives in the work situation (e.g., providing challenge, autonomy, variety, meaningfulness) or in the career area (e.g., developmental opportunities, personal growth, training) through for example a reward strategy. In the financial area, retention bonuses and deferred cash accounts are preferable to inflated salaries. In addition to retaining the “right people” it is important to find the right roles for them. Rifting is explained by Tetenbaum as especially difficult and complex for everyone involved, however the reality is that most companies begin their union with the elimination of redundancies. What is critical in the downsizing is how the process is handled. These decisions should be made in a way that is both beneficial to the company and humane to the individual. The way terminated employees are treated during the downsizing and are supported afterwards has a dramatic effect on survivors’ attitudes. Recruitment is easier to manage but equally important. Here, the human resource staff needs to identify critical gaps that must be filled. (ibid)

3. Strategically Align and Implement Appropriate Systems and Procedures
Another major function of the integration team is according to Tetenbaum, to ensure that the systems and procedures to be implemented are in keeping with the strategic intent of the merger. One way to ensure focus is to establish success indicators at the outset that are consistent with the business strategy. These then provide a standard against which all decisions and efforts can be tested. An important role of the integration team is to ensure that the systems and procedures to be implemented are in alignment with one another in a way that creates strategic leverage and produces the desired performance. (ibid)

4. Manage the culture
Tetenbaum claims that the integration team must both identify a culture (i.e., values, norms, beliefs, behaviours) that supports the organization’s strategic goals and repeat that culture throughout the joined companies. The first phase identifying an appropriate culture to support the business goals is difficult and time consuming. The second phase repeating the new culture throughout the organizations is equally difficult for three reasons. Firstly, a mega merger, involving a huge number of employees can be a challenge due to its large size, secondly, many of these mergers are built upon previous mergers. Finally, culture addresses individual and organizational beliefs and values, elements which are among the most difficult to change. This explains why merging two companies whose cultures are dissimilar can absorb an inordinate amount of resources, especially time during which attention gets diverted from customers, competition and productivity. (ibid)

Tetenbaum explains that the integration team manages the integration of the two organizations’ cultures in two major ways; First, the team draws upon cultural artefacts to create the blended culture. A powerful artefact is the use of symbols (e.g., logos, slogans, pictures, signs, uniforms) to convey an image and then the use of a variety of activities (e.g., storytelling, rites, rituals, ceremonies) to reinforce that image. It is up to the integration team
leader to ensure that there is substance to the cultural efforts; that they are authentic, consistent with the company’s goals, and appropriate to the image of the organization.(ibid)

A second way the integration team manages the culture is by collaborating with managers throughout the organization to leverage the consolidated organization’s strengths in the face of the disruption caused by the union. One way to get both sets of employees on board while maintaining productivity and preventing slippage is to set a super-ordinate goal, one that can only be achieved by both organizations working together effectively.(ibid)

5. Manage the post-merger drift by managing the transition quickly
Tetenbaum explains that one reason for post-merger drift (drop in productivity when going through a large-scale change) is that, far from being motivated by and committed to the merger, employees face psychological shock and become preoccupied with their own self-interest and distracted from their work. Therefore it is crucial that the integration team and human resource staff make decisions about layoffs, restructurings, reporting relationships, within days after the deal is signed and disseminate them as soon as possible. It is important to take advantage of the “window of opportunity” to do what needs to be done even if it means sacrificing precision or making some mistakes. The integration team has the responsibility to work with managers and employees throughout the organization to attack the causes of post-merger drift or the synergies they have identified will not be attained. One caveat: In their attempt to move quickly, team members must be careful to treat people with respect, to be sensitive to their sense of loss, and to be supportive of their efforts, no matter how small. (ibid)

6. Manage the information flow
Tetenbaum claims that inadequate communication impacts negatively on employee motivation and increases resistance. Therefore, the integration team needs to make a maximum effort in transmitting information throughout the organization upward, downward, as well as outward to customers etcetera. Focusing upward, team members must keep the senior executives informed, conducting frequent briefings and making presentations to persuade or otherwise influence them as to the need for certain changes, additional resources, or assistance with resistance in the ranks. Focusing downward, the integration team must ensure that all messages are reaching all employees at all levels of the organization. Every channel of communication must be used with the messages conveyed continually and consistently. Finally, the integration team must ensure that communication is also moving outward; to customers or clients, vendors, the community, and the media. (ibid)

7. Build a standardized integration plan
According to Tetenbaum, integration plans are a key factor in achieving the desired synergies in a union, thereby gaining competitive advantage. As such, integration should not be left to chance; it must be planned. Companies whose growth strategy is founded on mergers and acquisitions are experienced deal makers and have developed procedures within their organization to streamline the process: what functions must be involved, how and when they should be involved, which people are responsible for due diligence, and which for planning and implementation. They document the process through a series of checklists that serve as reminders of tasks to be done, deadlines and people responsible. This helps to ensure consistency among the different mergers and acquisitions handled throughout the company. If the organization does not have a standardized plan, the integration team should collaborate with important agents in the merger and acquisition process to develop one. (ibid)
2.4 Success Variables
Success of a merger can be measured by assessing economic valued added, more efficient use of resources, and impact on organizational culture (Birkinshaw et al. 2000). Horwitz et al. (2002) further explore the impact of a merger on organizational culture and define retention of talented people and customer service as important ingredients in the overall success of a merger.

Variables for assessing merger success:
- Economic value added
- More efficient use of resources
- Retention of key personnel
- Maintained customer service

For the sake of this study, we will measure these variables within two years from the merger deal, using the time frame of Bert Mac Donald and Herd (2003).

2.5 Conceptual Framework
Based on the literature reviewed in earlier sections of this chapter we can design a model which illustrates how success in international mergers can be achieved. The model will serve as a basis for data collection and for analyzing our data, and is presented in Figure 2.3.

At the bottom of the conceptual framework the motives of a merger are presented. They include cost reductions, market power, the acquiring of resources and managerial motives. In accordance with the macroeconomic factors these motives influence the companies to adhere to each other. The measures adopted in the pre-merger phase are all important since the screening and planning performed within this phase decide two factors; firstly, whether there will be a merger or not, secondly, measures performed will affect the post-merger phase, which starts immediately after the deal is signed. The impact of culture influence the merger outcome and is therefore considered first separately, as demonstrated in the conceptual framework, followed by studying the measures adopted during the pre- and post-merger phases. Furthermore, there are five drivers of success, all of them equally important when considering the post-merger integration process and the final objective of reaching merger success. In this research we have chosen to define success of the merged entity as consisting of four variables namely; economic value added, more efficient use of resources, retaining key personnel and maintaining customer service. These variables will be measured two years after the deal is signed.

Motives for merger
For our first research question, we have chosen to rely on Ali Yrkkö’s (2002) theory of merger motives, which covers both internal motives and external/macroeconomic factors creating merger motives. There were three theories to choose between and all of them according to our opinion are very suitable. The theory of Ali Yrkkö however is easy to comprehend, and all embracing, therefore this theory was selected.

The impact of culture
Our intention is to answer our second research question, which concerns the impact of culture on mergers, by using the Cultural Compatibility index developed by Veiga et al. (2000) and the theory of contextual factors by Kanter and Corn. This choice is based on the fact that there has been an absence of a robust measure of cultural compatibility and Veiga’s theory is especially designed to fill this gap. We believe the two theories complement each
other in an interesting way. The Cultural Compatibility index with its 23 variables is investigating in depth the present situation in the merged entity, comparing it to the situation as it was in the company of the interviewed person before the merger, as well as his/her viewpoint on how the ideal situation in a company would be. By using a scale of perceived importance between 1 and 5 the manager is asked to rate each of the 23 variables looking at the past, present and the ideal situation as perceived by the respondent.

The theory of Kanter and Corn’s (1994) is a complement to the Cultural Compatibility index. This since it looks broader at contextual factors determining the smoothness of the integration, the success of the relationship and whether or not cultural differences have become problematic. However, we will exclude the third contextual factor of this theory, since this factor concerns strictly acquisitions and therefore is not appropriate for our study.

**Pre- and post-merger measures**

To be able to answer our third research question we will rely on the theory by Marks and Mirvis (2001) regarding the first part, the pre-merger phase. This phase includes purpose, partner, parameters and people with subsequent issues. Marks (1999) theory on cultural due diligence will also be adopted since it makes the pre-merger phase more complete when added as a sub-issue. The theory of Marks and Mirvis is the only theory found that have explained successful pre-combination planning. However the theory by Marks and Mirvis are not exclusively for mergers. The authors are treating mergers and acquisition as synonymous and use the notion combination instead of merger or acquisition. For the second part, the post-merger phase, we apply Epstein’s (2004) five drivers of successful post-merger integration. The author considers mergers to be more difficult to deal with than acquisitions and has designed the five drivers of success specifically for mergers. Therefore we choose to rely on this theory when constructing our conceptual framework instead of Tetenbaum (1999) who mix the concepts of mergers and acquisitions.

**Success**

We rely on Birkinshaw (2000) and Horwitz et. al (2002) when constructing the four variables of success shown in our conceptual framework. These variables will be used as tools in order to assess whether or not success have been achieved in our sample-companies two years after the merger deal or when the merger have been legally accepted. The timeframe suggested by Bert, MacDonald and Herd, 2003) of two years is being used. There are no clear cut phases for when the different phases of a merger have ended, however the majority of steps in the post merger process should have come to an end within a time frame of two years which justify an evaluation of the success variables set.
Figure 2.3 Conceptual framework

RQ 1
Motives for merger
- Cost reductions
- Market power
- Acquiring resources
- Managerial motives

Macroeconomic factors creating merger motives:
- Merger waves
- Political decisions
- Changes in economic environment

Pre-merger Measures
- Clarify strategy
- Clear search criteria
- Thorough screening and due diligence
- Cultural due diligence
- Prepare people psychologically

Negotiation and deal

RQ 2
Impact of Culture
- Cultural compatibility index
  - 23 variables rated on a scale of 1-5
- Contextual factors
  - Desirability of the relationship
  - Business compatibility
  - Mutual respect and communication based on that respect
  - Business success
  - The passage of time

Post-merger Measures
- Coherent integration strategy
- Strong integration team
- Communication
- Speed in implementation
- Aligned Measurements

Success
Economic value added
More efficient use of resources
Retention of key personnel
Maintaining customer service

RQ 3

3. Methodology

In this third chapter the methodology used to conduct this study will be described. The issues that will be discussed are research purpose, research approach, research strategy, data collection, sample selection, data analysis and finally quality standards.

3.1 Research Purpose

While the purpose of this study is to gain a deeper understanding of the factors contributing to success in international mergers, and since the research questions stated in chapter one demand descriptive answers, the research purpose of this thesis is mainly descriptive. Since we have not been able to find previous research covering the exact same topic as we have chosen to investigate, our research also has exploratory influences. In chapter six of this thesis, where the findings and conclusions are presented, effort has been made to begin to explain the issues that this thesis has been describing. Consequently, the research purpose of this thesis is mainly descriptive, however also to some extent exploratory and explanatory.

3.2 Research Approach

In order to conduct this study we have chosen a qualitative research approach. Holme and Solvang (1991) describe qualitative research as gathering, analyzing and interpreting data that cannot be quantified. Furthermore, they state that this research approach is appropriate when investigating several variables from a few number of entities, thereby trying to reach a deeper understanding of the data collected and the problem studied. A qualitative research approach is chosen since our purpose of this study is to gain a deeper understanding of the factors contributing to success in international mergers. Additionally, since we have relied on data from two sample-companies as opposed to a larger number of units, we argue that a qualitative research approach is the most appropriate.

3.3 Research Strategy

As research strategy we have, for the sake of this thesis, chosen to conduct case studies. Yin (2003) claims that a case study has a distinct advantage as research method when a “how” or “why” question is being asked about a contemporary set of events, over which the investigator has little or no control. We found case studies to be the most appropriate research strategy since our research questions are stated as “how” questions and since we as researchers have no control over the events that has been examined, namely the mergers undertaken by our sample-companies. Further, as the area of international mergers is highly complex and as each merger is carried through and dealt with differently by the involved companies, we find that case studies is the research strategy that best can shed light upon the factors we have chosen to investigate. To be able to conduct a more robust study, provide more compelling evidence from our collected data and add validity to our findings, this thesis have relied on two case studies. The use of two case studies has given us the opportunity to focus on detail and depth as well as compare the cases to each other.

3.4 Data Collection

For the sake of this study, data has been collected through interviews. Specific information covering the topics emerged in our conceptual framework, upon the mergers involving our two sample-companies Cloetta Fazer and Stora Enso has been difficult to find in documents and archival records. Therefore, we have chosen to collect our data through interviews since it offers us as researchers the opportunity to gather extensive data upon our research topic, namely the factors contributing to success in international mergers. Furthermore, some of our questions demands answers based on the personal opinions of people involved in a merger,
rather than objective facts presented by the companies. Given that personal opinions seldom, if ever are reviewed in written documents, this serves as yet another reason for the choice of interviews as data collection method. With the conceptual framework presented in chapter one of this thesis, as a basis, we have developed an interview guide covering the topics that we wanted to investigate. This interview guide can be found in Appendix 1 (English version) and Appendix 2 (Swedish version).

Yin (2003) presents three types of interviews; open-ended, focused and survey. A focused interview is, according to Yin (2003) signified by having a conversational nature in combination with the following of a certain set of questions. In this case study focused interviews has been used as we have developed an interview guide in order to cover the aspects emerging in our conceptual framework. Furthermore, we wanted to conduct the interviews in a conversational manner, since we wanted to be able to receive in-depth company-specific details not included in our interview guide and have the possibility to ask follow-up questions. In addition to interviews, documentation has been used as a secondary and complementary source for data collection. Documentation, such as the companies’ annual reports and information presented on the companies’ web pages, has been used to complement our collected data.

When collecting our data we have conducted two interviews by phone, one with a representative from Cloetta Fazer and one with a representative from Stora Enso. We are aware of the advantage of personal interviews over interviews conducted by phone, however, because of wide geographical distances and a limited amount of time we have chosen telephone-interviews as the way to collect our data. At the initial contact with the respondents the date for the interviews were agreed upon. In order to give the respondents an opportunity to prepare, we sent our interview guide to them by e-mail approximately one week before the interview. Both interviews were conducted in Swedish since both our respondents were of Swedish origin. The length of the interviews varied from 30 to 75 minutes. Empirical data on the success variables have been collected both from the interviews as well as from the companies’ annual reports.

In order to facilitate the collection of data with regards to the Cultural Compatibility Index, we constructed a table where we display the answers of theory’s three questions regarding the present situation in the merged entity, the situation as it was in the company of the interviewed person before the merger as well as the respondent’s perceived ideal situation, on each of the 23 variables. Moreover, the empirical data of this study is collected from two respondents, the integration team leaders from each sample-company, and hence there is a risk that the data is too narrow to give a fair picture of the past and present situation.

Finally, the success variables have been measured, as intended, two years after the merger deal in Cloetta Fazer, using the annual report of 2001. The merger of Stora and Enso took place in August 1998. Since we have chosen to rely on the annual report of 2000, more than two years have passed since the merger became legally accepted.

### 3.5 Sample Selection

Mergers occur in all kinds of industries and companies engaging in mergers often face similar merger-related obstacles regardless of which industry they belong to. Therefore we have chosen not to investigate a specific industry since we believe that companies experiences of mergers and hence also our findings of this thesis can be rather easily applicable across industries.
The fact that there has been extensive and seemingly successful consolidation activity across the Swedish-Finnish border have triggered us to further investigate this phenomenon. However, part of this consolidation activity takes the form of acquisitions in which the integration process, according to Epstein (2004), is far easier. Our intention with this thesis has been to investigate mergers of equals, meaning mergers where there is a 50/50 ownership, since compared to acquisitions, mergers of two relatively similar companies is far more complicated as a new organization has to be created and power struggles often are involved.

Larger companies fulfilling our sample criteria of being mergers across the Swedish-Finnish border as well as being mergers of equals, are Telia-Sonera, Nordea, Stora Enso and Cloetta Fazer. These companies has been contacted and offered the opportunity to participate in this study, however only two companies have responded affirmative to take part in our research, namely Stora Enso and Cloetta Fazer.

After explaining our research topic to the communications department at the respective companies, we were referred to Björn Hägglund, Deputy CEO of Stora Enso and Curt Petri, Vice President and Head of Group Finance and IT at Cloetta Fazer. These persons were identified as having the most relevant experience and knowledge to answer our questions since they both were directly involved in the merger integration process on a management level, at their respective companies.

3.6 Data Analysis
Data analysis consists of examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study (Yin 2003). Yin suggests three general analytical strategies for analyzing data in a case study, relying on theoretical propositions, thinking of rival explanations and developing a case description. When relying on theoretical propositions, the collected data is analyzed, compared and explained against previous studies/ theories. We have chosen to use this strategy when analyzing our data, given that our study relies on theories that we aimed to test against our sample-companies. According to Miles and Huberman (1994), data analysis can be defined as consisting of three concurrent flows of activities:

1. **Data reduction**: The process of selecting, focusing, simplifying, abstracting and transforming the data in a way that allows for the “final” conclusions to be drawn and verified.
2. **Data display**: Taking the reduced data and displaying it in an organized, compressed way so that conclusions can be more easily drawn.
3. **Conclusion drawing/ verification**: Deciding what things mean by noting regularities, patterns, explanations, possible configuration, casual flows, and propositions.

The data in this study has been analyzed according to the three steps presented above. With each research question as a separate section, the data has first been reduced through a within-case analysis, where the data from each company has been compared to the theories presented in our conceptual framework. Thereafter, our data for each research question has been further reduced through a cross-case analysis in which our two sample-companies are compared to each other, identifying similarities and differences.
3.7 Quality Standards – Validity and Reliability

Nachmias and Nachmias (1997) explain validity as measuring what one intends to measure. Yin (2003) presents four tests that have been commonly used to establish the quality of any empirical social research, such as case studies:

1. **Construct validity**: establishing correct operational measures for the concepts being studied.
2. **Internal validity**: establishing a casual relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.
3. **External validity**: establishing the domain to which a study’s findings can be generalized.
4. **Reliability**: demonstrating that the operations of a study – such as the data collection procedures – can be repeated with the same results.

The construct validity of this study has been increased by using both interviews and documentation as sources of evidence. Further, our interview guide has been read by our supervisor, and changes have been made in order to clarify questions. During the interviews, a tape recorder was used along with note-taking to ensure that every piece of information was collected and that double-checking of the answers was possible after the interview. We have also had the opportunity to send the compiled data to the respondents by e-mail, to make sure that their answers were rightly interpreted. To increase the internal validity of this research, we have used the pattern-matching technique suggested by Yin (2003), in that we have compared patterns of our collected data to patterns predicted by theory. Regarding external validity, we have relied on analytical generalization, meaning that we have generalized our results to the theories presented in our conceptual framework, a method suggested by Yin (2003) as the most appropriate in case studies. To increase the reliability, our interview guide was sent to the respondents approximately one week before the interview took place, so that they could have time to prepare themselves and give well-founded answers during the interviews. To further increase the reliability of our research we have conducted a multiple case study, since this will give a broader set of data than a single case study. Finally, the fact that the results from the interviews have been compared to documented facts such as the companies’ annual reports should further increase the reliability.

An issue that might lower the reliability of this study derives from the fact that our area of research is of highly sensitive nature and deals with aspects that concern the very core of a company. This might in some cases, have hindered the respondents from sharing information of confidential kind. Yet another reliability matter is that the questions in our interview guide concerning the leadership during the merger integration process, could not be answered by our respondents since they both held a position as managers. Regarding measures of success, the figure on retention of key personnel in Stora Enso is measured two and a half year after the merger instead of after two years as intended. This due to that data on key personnel retention is not available exactly after two years after the merger. Finally, the fact that our respondent at Stora Enso was able to give an interview of 30 minutes while our respondent at Cloetta Fazer gave an interview of 75 minutes, somewhat reduced the amount of data collected from Stora Enso. This in turn might lower the reliability of this study since it reduces the base on which generalizations can be drawn. On the other hand the empirical data collected from Stora Enso was concentrated, specific and in accordance with our research topic. Therefore we argue that this has not lowered the reliability of our study.
4. Empirical Data

This chapter contains our collected data. The data was collected through telephone interviews with Curt Petri, Vice President and Head of Group Finance and IT of Cloetta Fazer and Björn Hägglund, Vice President of Stora Enso. All questions where answered during the interview, except for the Cultural Compatibility Index for Cloetta Fazer which was e-mailed two days after the interview. The data from our two sample-companies; Cloetta Fazer and Stora Enso, will be presented in separate sections, with each section covering the topics emerging from our purpose and research questions. In the beginning of each section we will provide a presentation of our sample-companies.

4.1 Case One: Cloetta Fazer

Merger background

Cloetta was founded in 1862 in Copenhagen, Denmark by the three Cloetta brothers of Switzerland. In 1891, Karl Fazer opened a French-Russian bakery in Helsinki and six years later he started industrial production of confectionary. The cooperation between Cloetta and Fazer was initiated in 1990, where after Fazer acquired Chymos and started operations in Poland in 1993. In 1994 Cloetta was listed on the stock exchange and four years later acquired Candelia. The joint company Cloetta Fazer was formed on January 1, 2000 through a merger between Swedish Cloetta and Finnish Fazer Konfektyr, both large companies with strong brand portfolios and strong market positions that were considered to complement each other well. The company is a market leader in the Nordic confectionary industry with its 22% market share and an annual turnover of SEK 3 billion. Key markets are Sweden, Finland, Poland, Norway, Denmark, the Baltic States and Russia. Competitors are Kraft – Freia/Marabou, CSM – Malaco/Leaf, Toms – Bon Bon, Cadbury – Dandy and Wedel – Bassett. Cloetta Fazer has five production plants; two in Sweden, two in Finland and one in Poland. The number of employees is approximately 2,100 of which 48% are employed in Finland, 33% in Sweden and 19% in Poland. The company’s key brands are Fazer Blå, Dumle, Kexchoklad, Geisha, Polly, Center, Ässät, Panteri, Marianne, Fazermint, Bridgeblandning, Tyrkisk Peber, Liqueur Fills and Sportlunch. Cloetta Fazer’s mission statement is to create fun and enjoyment. Cloetta Fazer is organized according to a matrix structure shown in Figure 4.1.
4.1.1 Motives for Merger

The overarching motives behind the merger between Cloetta and Fazer were a consolidation-wave among customers and competitors, combined with an overcapacity in the industry. The consolidation among the confectionary industry’s customers, such as ICA, Nordiska Axfood and Coop Norden, has created a pressure for suppliers to become more efficient and lower the prices, which in turn have triggered mergers among the suppliers, as described by our respondent, Curt Petri, Vice President and President of Group Finance and IT.

Cost reductions have served as a way for Cloetta Fazer to become more efficient, and the merger allowed the sharing of costs primarily in administration, sales, production and marketing. The merger further aimed at sharing major investments. By coordinating activities such as production and packaging, investments in machinery and equipment were done in one facility instead of in two as before the merger. This led each facility to specialize in the production of one product instead of having several facilities producing the same or similar products.

A clear motive for the Cloetta Fazer merger was to strengthen the market position. As explained by our respondent, size of the company is crucial in the confectionery business – “if you are too small, the customers will not even invite you to the negotiation table and you will receive no shelf-space in their stores”. Furthermore, the ambition of the customers to become Nordic through consolidation, motivated Cloetta and Fazer to merge and follow the customers, in order to get a position in, and have the ability to distribute products effectively across all of the Nordic countries.

One motive for the merger was to strengthen the balance sheet and combine the financial resources of the two companies. Another motive for merging was to combine the
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distribution channels of the two companies, thereby creating synergies and increasing effectiveness. Regarding managerial motives for merging, our respondent claims that leaders of a company always have the ambition to build something, and therefore managerial motives might be one of the reasons behind mergers. However, our respondent finds it difficult to determine whether or not this ambition stems from the willingness to build something that is desirable from society’s point of view, or simply is a way for the leader to gain personal power.

Furthermore, from a macroeconomic perspective, our respondent claims that mergers are undertaken when the industry and the companies are mature and when the right opportunity arises. This was the case in the confectionery industry at the time of the Cloetta Fazer merger. Curt Petri mentions that macroeconomic trends such as the creation of the EU can stress the industry to mature. Without the EU, Cloetta and Fazer would most probably have faced tolls, import restrictions and other obstacles that could have precluded some of the synergies intended with the merger. Our respondent further claims that if the occurrence of consolidations in an industry increases, the companies within that industry can feel a pressure to grow through mergers to avoid being left behind and being unable to stay competitive.

4.1.2 Impact of Culture
Cultural Compatibility Index
The data in the cultural compatibility index presented in table 4.1 was collected by asking the respondent Curt Petri to submit ratings of theory’s 23 variables based on firstly his own judgments of how the situation should be in a company (the first question in table 4.1), secondly how he perceived the situation to be in Cloetta before the merger (the second question in table 4.1) and thirdly how he perceives the situation to be in the merged Cloetta Fazer (the third question in table 4.1). The rating scale used ranged from 1 to 5, where 1 signify “not important” and 5 signify “very important”. The values given by our respondent where then inserted in the equation developed by Veiga et al (2000) in order to receive a score on the perceived cultural compatibility between Cloetta and Fazer.

The cultural compatibility values given by our respondent at Cloetta Fazer are presented in Table 4.1.
### Table 4.1 Cultural Compatibility Index – Cloetta Fazer

<table>
<thead>
<tr>
<th>Values</th>
<th>What values do you feel should be emphasized at a company, whether or not they appear at your present company?</th>
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<td>4</td>
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<tr>
<td>15. Delegates decision-making to lowest possible level.</td>
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<td>3</td>
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</tr>
<tr>
<td>16. Encourages competition among members as a way to advance.</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>17. Gives recognition when deserved.</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>18. Encourages cooperation more than competition.</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>19. Takes a long-term view even at expense of short-term performance.</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>20. Challenges persons to give their best effort.</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>21. Communicates how each person’s work contributes to firm’s “big picture”.</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>22. Values effectiveness more than adherence to rules and procedures.</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>23. Provides life-time job security.</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

The final Perceived Cultural Compatibility Index score (PCC) calculated through the following equation:

\[
PCC = \sum_{i=1}^{23} \frac{OTBi ((OTBi - WASi) – (OTBi - ISi))}{23}
\]

The calculated Cultural Compatibility Index score for Cloetta Fazer is 1.39. (Calculations presented in Appendix 3).

**Contextual factors** determining whether or not cultural differences will be problematic and whether or not the merger will succeed

- *Desirability of the relationship*: According to Curt Petri, the desirability of the merger is crucial in order to succeed. “If the merger is not desired by the management team, it will never succeed because no one will put effort into making the merger work.” On the other hand, the desirability of the Cloetta Fazer merger differed between different people, where those who were allowed to keep or increase their power generally were more positive to the merger while those that lost their power due to the merger generally were more negative.
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- **Business compatibility:** Before the merger, Cloetta and Fazer were very similar in many aspects; they were in the same industry, they had the same functions, they had a similar history in that both companies were old companies and both had previously grown through acquisitions and mergers. Our respondent emphasizes that considering these similarities one would assume that the businesses would be highly compatible and that the merger would be easy to carry through. However, after the merger deal, it became obvious that the two companies during their long history had developed a strong corporate culture with their own deeply-rooted way of doing things. The harmonization and integration of the two strong corporate cultures, where national differences also played a part, therefore demanded a great effort of the involved. Curt Petri argues that business compatibility is important when merging two companies, nevertheless he emphasizes that being too similar can serve as a disadvantage rather than an advantage.

- **Mutual respect and communication based on that respect:** Respecting each other and communicating effectively is explained by our respondent to be crucial in making the merger work. According to him, the first reaction after the merger deal was announced to the employees was not respect but rather surprise and dissociation. The dissociation stemmed from the fact that the employees were used to their own company’s way of working and saw this way as superior. Curt Petri explains that at first, employees of the two companies ended up in trenches and thought that people of the other company had an odd and wrong way of doing things. To obtain mutual respect, the management of the newly merged Cloetta Fazer, strived to make the employees respect each other’s success, learn from each other and develop best practices with input from both companies.

- **Business success:** Cloetta Fazer has shown a good result after the merger in 2000, and this has according to our respondent undoubtedly contributed to the success of the merger and also eased the overcoming of cultural differences. The good results have triggered pride in the company and a feeling that the merger did succeed despite numerous doubtful alarmists. A negative aspect of the good result, as explained by Curt Petri, is that the company has not felt the pressure to solve problems that they knew existed, since the result was good anyway. Without a positive result, our respondent claims that Cloetta Fazer had been forced to change things that do not work satisfactorily immediately, instead of waiting as sometimes has been the case.

- **The passage of time:** According to our respondent, the passage of time has greatly influenced the ability to overcome cultural differences in Cloetta Fazer. Immediately after the merger was announced, people in both companies took positions in trenches against each other, but as time has gone by, people have instead taken positions of respect and understanding.
4.1.3 Pre- and post-merger Measures

Pre-merger phase
On a short term basis the merger strategy for Cloetta Fazer was to increase profit, in a longer perspective the purpose of the merger was to create a company with a strong brand portfolio where value could be retained by making further investments. The industrial environment of both Cloetta and Fazer is characterized by an industry of well acquainted competitors, between whom continuous dialogs exist. Cloetta and Fazer had previously been cooperating in both production and selling, hence the merger between them gradually developed from an alliance formed in the early 1990’s. Regarding the integration strategy, there was an official strategy. As always there were also, according to the respondent, several different individual goals and these goals were not exactly corresponding. The official strategy however, was to merge in order to survive due to increased competition, price pressure and consolidation among the customers. There was consensus about the overall objective but not about how to reach it. The integration was set up as a project for one year with a management group that consisted of project leaders with sub-projects such as; dealing with the new structure of the selling organization in Sweden, what product line there should be in Denmark, where to produce Dumle etcetera. This project ran for one year and was strictly managed on a result- and activity basis. After one year the project ceased and its work tasks were handed over to the regular organization.

There was a great deal of knowledge about each other in the two companies before the merger and the common thought was also that there were more similarities than differences, therefore further exploration of the cultures was regarded as unnecessary, besides the ordinary due diligence that was performed. Rumours where circulating that a merger was going to take place, but the employees were not further informed in the pre-merger phase. The Cloetta Fazer merger was a merger of equals at least on the paper, with 50/50 ownership, furthermore both companies were of equal size, had about the same management resources and were financially equal. The term equal was all-embracing, beneath the surface however, differences existed in the knowledge of production and marketing but also in the numbers of managers on the second and third level. The deal included that the CEO Lennart Bohlin from Cloetta should be the CEO of the new company. Karsten Slotte from Fazer was appointed as vice president and CEO for the confectionery division of the company. The origin of Fazer is Swedish-Finnish, the company is Swedish-oriented, and on management level the language spoken is Swedish and hence the official language of the merged entity came to be Swedish. The headquarter was to be located in Stockholm. The head management group consist of eight persons, two of them from Cloetta, one from Poland and hence neutral, one externally recruited and four members from Fazer.

Post-merger phase
Coherent integration strategy
A new/semi-new organizational structure was created, a so called matrix organization. Each unit was held responsible for its result. Initially a one-year project dealt with the harmonization of work processes, production and marketing, human resources, logistics etcetera. Regarding the selection of processes, systems and practical work, best practices
of the two companies were used. The responsible project leader for each unit met at a forum for the corporate management group where the overall harmonization was handled. A specific integration plan did not exist that embraced all processes, every project leader, had to deal with the process himself, and accordingly it received a personal colored touch. However, in order to be able to proceed with the integration in a proper way, consensus in the corporate management group was needed. Officially, people were recruited on the basis of their merits but the respondent adds, “since the recruiters are ‘human beings’ it is possible that other factors have been involved”. The project leader appointed key personnel as project leaders. These project leaders would be in charge of specific tasks, where they in turn had to select members. The respondent, Curt Petri, was during the harmonization phase, in charge of the project in the area of finance, IT and economy. The project organization consisted of 40 to 45 people and the process of clarifying the new roles for each of them was achieved rapidly, however some of the employees were not satisfied with their new roles and left their jobs. In two months the team was built. 40 employees became redundant when two companies of Fazer and Cloetta in Sweden combined into one. Fortunately within six months, and by the help of external consultants, they all managed to find new jobs or relevant education.

Conflicts have arisen due to the matrix organization, between the process of harmonization and the profit units. Competition is normally the purpose when creating a matrix organization, however this is difficult to combine with a merger integration process. If people were not open-minded during the harmonization process they experienced great difficulties adapting to the merged entity. In fact there are people who still have the wrong attitude, but this the respondent believe, is mostly a problem for that individual. The customers were communicated that the merged entity had a new company name, Cloetta Fazer, as well as a new logotype, the umbrella identities Cloetta and Fazer as well as product identities; Dumle, Kexchoklad etc. Subsequently, a massive information campaign was launched towards internal and external customers in order to explain the new identity. The respondent emphasizes the importance of not underestimating the differences in organizational cultures when merging two companies. These differences are according to the respondent, much greater and difficult to deal with, than the differences in national cultures; “it is about the identity of people and who they perceive they belong to, furthermore the norms and values of people and organizations are very deeply rooted”.

Strong integration team

During the harmonization, there was great emphasis on having equal representation of Swedish and Finnish members in the project group, working more or less full-time with the integration of the two companies. According to the respondent it was clear who to contact if there were any doubts, and support was available 24 hours a day. Management meetings were held frequently, where each project leader could report the progresses. However, the respondent includes, there is always a feeling of scarcity of resources and insufficient amount of time under circumstances like this. In Cloetta-Fazer there have been cultural clashes, mainly due to differences in organizational culture. At first glance the two companies seemed to be quite similar, but after the merger, the differences between them became more obvious. In Finland, Fazer is considered as one of the
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absolute strongest brands, and it has been a market leader for a long time, a national symbol, especially when thinking of Fazer blå. Fazer has been used to have a prominent position in the society as well. Cloetta, on the other hand, has always occupied second place in Sweden, challenging the position of the market leader Marabou. Cloetta has made its way by using other, more unsystematic and quick methods.

After the merger seminars were held in which fifty managers (10 from Poland and 20 to 25 from Finland and Sweden each) tried to clarify the image of both brands by using metaphors. Fazer was visualized as a luxury model of a Swan-boat, while Cloetta resembled the new peppery Volkswagen, happy and fast but not as elegant as its companion. The respondent further explains that there were contrasting historical differences, which made people view things from different perspectives. In Cloetta for example, issues that aroused were taken care of in a fast and simple way, compared to a Swan-boat in a market leading position, with a more academic approach where all issues were investigated thoroughly. Four to five cultural seminars were held, in which metaphors were used, where managers became aware of the existing differences, laughed at them but also came to respect them and each other’s success. During the integration process there has also been a project set up for creating a new corporate identity. A survey made has served as a base for the project group to identify the mission and core values of the new company.

Communication
Cloetta Fazer is a customer-oriented company. The communication towards stakeholders during the integration phase worked well. The communication towards the employees however, has been adequate but maybe not so fast. It started out from the project group, and from there it went on to the employees. The respondent argues that it is better to progress more slowly than too fast, since it is dangerous to communicate details without being absolutely sure. If the piece of information communicated is inaccurate, it is difficult to take a step backward beside the negative effect of creating excessive stress. The communication has to focus on the positive side of the merger and not the opposite, as well as being continuous and constant. Finally people will be convinced about the advantages of a merger. The customers have been very considering. The customers of Cloetta Fazer are retailers, going through a similar process themselves, building Nordic alliances in order to achieve synergies. Employees on the other hand, sometimes have had difficulties in coping with their new roles, especially when they have lost individual power. The respondent further explains that Cloetta Fazer deliberately tried to retain as many employees as possible. This can have its pros and cons, the latter occurring when employees have to adjust to a larger company where there exist other agendas, desires and needs than what they are used to and believe in. Not everyone is fond of adapting but this is once again, more on an individual level.

Speed in implementation
The project spanned over one year and was strictly set up after all rules in theory, it is according to the respondent, Curt Petri, favorable to have a time limit and progress quickly.
Aligned measurements
Cloetta Fazer used / uses a balanced scorecard where issues, such as customer satisfaction is followed up four times a year. Employee satisfaction is checked by using employee questionnaires. Questions that have been asked include the working situation, view of leadership, personal working role etcetera. These results have been satisfying but also showed improvements over time. Curt Petri states, that if Cloetta Fazer had to merge the companies over again, there would be a different approach when explaining the integration of the merged entity to the employees. Instead of expressing it in an abstract and overarching way, they would explain it more clearly. Another important aspect to consider is the need to explain the matrix organization in more detail. According to the respondent, conflicts are easily built in, with this type of organizational structure, both in horizontal and vertical levels, which might result in a boomerang effect of conflicts that can be hard to handle.

4.1.4 Success Variables
Economic value added: There has been an increase in profits due to the economies of scale generated by the merger. According to the annual report of 2001 (two years after the merger) Cloetta Fazer delivered the economic synergies that had been promised of 75 billions SEK annually.

More efficient use of resources: Increased efficiency in production is the major positive synergy effect. Operational margin in core operations was estimated to 10% and has been 12% which is higher than expected (annual report 2001).

Retention of key personnel during the merger was managed through the involvement of talented people in the project organizations that was set up. There has been key personnel leaving but there are according to the respondent few cases, (no exact figure given). A training and educational program has been launched with the purpose to retain top talent employees (annual report 2001).

Regarding customer service, figures on customer satisfaction is according to the respondent satisfying and steadily improving.

4.2 Case two: Stora Enso

Merger background
Enso Oyj is originally a sawmill built by the Norwegian firm W. Gutzeit & Comp in southern Finland in 1872. In 1919 the company was bought by the Finnish government and began making paper in 1912 when it acquired Enso Träsliperi Aktiebolag. The company suffered severely during World War II but an intensive rebuilding programme helped it become one of the leading companies in Finland. In the 1960s Enso-Gutzeit also began operating abroad. After the merger with Vitsiluoto Oy in 1995 the company name was changed to Enso Oyj. Copper mining began a thousand years ago in Falun, central Sweden and Stora Kopparbergs Bergslags Aktiebolag has its roots from these times. When Stora Kopparbergs Bergslag became a limited company in 1888, sawmilling, energy, pulp and paper production was joined with iron and steel production. In 1978 a
fundamental change took place when the company sold its iron and steel facilities and concentrated on energy and the forest industry. The expansion continued during the following two decades and in 1998 STORA and Enso Oyj were combined to form Stora Enso Oyj.

The combination was designated as a merger of equals. The company bought Consolidated Papers in the United States in the spring of 2000 and is now the world’s second largest paper and paperboard manufacturer after International Paper (IP). Stora Enso produces publication and fine papers, packaging boards and wood products, areas in which the Group is a global market leader. Stora Enso’s sales totaled EUR 12.2 billion in 2003. Stora Enso has a strategy of global growth through mergers and acquisitions, and to focus on core business areas.

A merger or acquisition undertaken by Stora Enso must support core business development, provide customer and production synergies, improve asset quality and competitiveness, and be in line with the market outlook. Stora Enso has 43,000 employees in more than 40 countries in five continents. The company serves its mainly business-to-business customers through its own global sales and marketing network. Customers are large and small publishers, printing houses and merchants as well as the packaging, joinery and construction industries worldwide. The main markets are Europe, North America and Asia. The mission of Stora Enso is to promote communication and well-being by converting renewable fiber into paper, packaging, and processed wood products. Stora Enso is committed to developing its business towards ecological, social and economic sustainability. Stora Enso had the highest score in the sustainability ranking among forest products companies in 2003. Stora Enso is organized in one industrial group. The organizational structure is streamlined around Stora Enso’s three core product areas: Paper, Packaging Boards and Forest Products. The organizational chart of Stora Enso is presented in Figure 4.2.
4.2.1 Motives for Merger

According to our respondent Björn Hägglund, Deputy CEO at Stora Enso, creating synergies and achieving growth in the results of the companies were the first and foremost motives behind the merger between Stora and Enso. He claims these motives to be of particular importance in a capital-intensive industry such as the forest industry. “The motive behind all mergers must be to create something that is more than the sum of what the two companies could achieve on their own.” As explained by our respondent, cost reductions, market power, acquiring resources and managerial motives where all sub-motives, underlying the overall merger-motives. Regarding cost reductions, the combining of the two companies allowed for large cost savings and synergy gains. This especially since Stora and Enso before the merger, had very similar organizational structures and through the merger could rationalize their operations and hence become more efficient.

Björn Hägglund explains that, when considering market position as a motive for merging, Stora and Enso saw value in becoming the largest European forest company and the largest globally in terms of production. Mr. Hägglund further claims that becoming larger compared to competitors, is a positive effect of a merger, however the size-factor alone does not create a merger-motive. “If you cannot produce good results by merging, the motive of becoming larger is worth nothing, and there is no point in merging.”

Another underlying motive for the Stora Enso merger was to combine the resources of the two companies, thereby creating a stronger company with more resources, knowledge, experience and a wider geographical reach. Björn Hägglund further states
that managerial motives also could have been underlying the decision to merge Stora and Enso.

Finally, our respondent argues that macroeconomic factors encouraging Stora and Enso to merge were the development of the European Union along with a consolidation activity among customers. The fact that customers through mergers and acquisitions became larger created incentives for Stora and Enso to grow as well. This in order to have a geographical structure similar to the growing customers’ structure and to be able to supply products more effectively world-wide. There have also been consolidations among competitors in the forest industry, but this has not, according to Björn Hägglund, affected Stora and Enso’s merger-decision as much as the customers’ consolidation.

4.2.2 Impact of Culture
Cultural Compatibility Index
The data in the cultural compatibility index presented in table 4.2 was collected by asking the respondent Björn Hägglund to submit ratings of theory’s 23 variables based on firstly his own judgments of how the situation should be in a company (the first question in table 4.1), secondly how he perceived the situation to be in Stora before the merger (the second question in table 4.1) and thirdly how he perceives the situation to be in the merged Stora Enso (the third question in table 4.1). The rating scale used ranged from 1 to 5, where 1 signify “not important” and 5 signify “very important”. The values given by our respondent where then inserted in the equation developed by Veiga et al (2000) in order to receive a score on the perceived cultural compatibility between Stora and Enso.

The cultural compatibility values given by our respondent at Stora Enso are presented in Table 4.2.
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Empirical Data

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<table>
<thead>
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</thead>
<tbody>
<tr>
<td>15. Delegates decision-making to lowest possible level.</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>16. Encourages competition among members as a way to advance.</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>17. Gives recognition when deserved.</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>18. Encourages cooperation more than competition.</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>19. Takes a long-term view even at expense of short-term performance.</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>20. Challenges persons to give their best effort.</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>21. Communicates how each person’s work contributes to firm’s “big picture”.</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>22. Values effectiveness more than adherence to rules and procedures.</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>23. Provides life-time job security.</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

The final Perceived Cultural Compatibility Index score (PCC) calculated through the following equation:

\[ PCC = \frac{\sum_{i=1}^{23} OTBi ((OTBi - WASi) - (OTBi - ISi))}{23} \]

The calculated Cultural Compatibility Index score for Stora Enso is -7.
(Calculations presented in Appendix 4).

Contextual factors determining whether or not cultural differences will be problematic and whether or not the merger will succeed

- **Desirability of the relationship**: According to Björn Hägglund, both companies must have a desire to merge if the combined company is to be successful. If the unifying is not desired and appreciated, the merger will never take place. The Stora Enso merger was desired from both Stora’s and Enso’s perspective.

- **Business compatibility**: The fact that Stora and Enso before the merger had very similar organizational structures is explained by our respondent to have eased the process of integrating the companies and deal with the differences in national
culture that emerged along the way. “The possibilities of creating synergies and understanding each other are much greater if the companies are similar in terms of industry and organization.”

• **Mutual respect and communication based on that respect:** A mutual respect existed between Stora and Enso both before and after the merger, and this has according to Björn Hägglund contributed to making the combined company function well.

• **Business success:** Stora Enso’s positive result after the consolidation is claimed by our respondent to have contributed to the success of the merger. He argues that it is a lot easier to reach agreement and solve issues related to cultural differences if the result of the company is good.

• **The passage of time:** According to our respondent, as time goes by, merged companies can either grow together or grow apart. “If there will be a crisis in the relationship, it will most probably arise rather soon after the merger deal.” With regards to the passage of time as a factor impacting merger success, Stora and Enso have since the merger grown together, adapted to each other and developed common ways of working.

4.2.3 Pre- and post-merger Measures

*Pre-merger phase*

There existed a clear overarching merger strategy, in both Stora and Enso before the merger. The search criteria were rather specific from a competitive point of view, there had to be a strategic fit between the partners. As soon as the companies knew who they were going to merge with, the process of developing an integration strategy started. According to our respondent the characteristic of the integration strategy and the cultural integration end state, depends on whom you are going to integrate with. “We decided to create the best of both companies as far as this was possible”. In order to appoint the top managers of the company, both the respondent, Björn Hägglund, CEO of Stora and Jukka Härmälä, CEO of Enso appointed one headhunter each, whose tasks were to investigate possible candidates. The result of the headhunters’ work was examined by both CEOs and the chief of the board of directors, Claes Dahlbäck and the top managers of Stora Enso was appointed. The intention was to make this process as objective as possible. There was an integration team, of which Björn Hägglund was the chairman. The rest of the team consisted of equal amount of top managers from both companies. All departments were represented in the process, however the human resource department held a more prominent position. Both companies were practically a mirror copy of each other when it came to the organizational structure of the departments. A cultural due diligence was performed in addition to ordinary due diligence. By the assistance of external consultants Stora Enso developed and carried through a survey of employee attitudes. This was performed more or less immediately, in the pre-merger phase. After the merger there have also been regular follow-ups on employee attitudes. There has been great emphasis on dealing with the cultural aspects of the merged entity. The employees were prepared for the merger as soon as the pre-merger planning process started. The
merged company also arranged several integration seminars. According to Björn Hägglund, the Stora Enso merger was a merger of equals.

Post-merger phase

Coherent integration strategy

Mc Kinsey, an international management consulting group, sat up the organizational structure for Stora Enso. There was quite a resemblance though, with the organizational structures it replaced, since it had the same divisions, but it was twice as big. The organizational structure has been moderately changed lately, due to the fact that there are many top executives retiring from their posts. Stora Enso has used existing processes and systems as well as practical work from both sides, tried to manage it, but also further developed processes and systems to better suit the new organization. Stora Enso was influenced by both companies but mostly by Enso, who had more managers in a leading position and were “heavier in the top” and this influences a lot. Regarding the appointment of key personnel which the respondent regarded as an important issue, Stora Enso has tried to deal with the selection as objectively as possible. In the survey on attitudes, one question dealt with whether or not people regarded the selection process as fair. If the survey revealed that there were any managers who did not perform as intended, these managers were corrected. There were no problems regarding the retention of key personnel, in fact many of them thought that the merger process was rather interesting. Very few quit their jobs; Stora Enso has an extremely low turnover rate, which also can be seen in the high number of employees which presently are reaching the age of retirement. There was extensive communication taking place with the customers, because they got worried. Previously the customers had two competitors as suppliers, and all of a sudden, they were left with just one supplier. There was a lot of communication made to the employees. One important aspect of the integration strategy of Stora Enso is the vision set up expressing that the company was going to be a world leader on the forest industry market, and that a set of values was developed in accordance with this vision. There was a great amount of effort dedicated to this process. Almost every employee was involved. The respondent believes that this process was very important in tearing down old identities and making employees feel that they were taking part in something totally new and significant for the future. The respondent believes that this “mission, vision, value” process was the most important component of them all in the integration strategy.

Strong integration team

Both nationalities were represented in the integration team that was set up by Stora Enso. The work of the integration team was not full time, rather a part time job, since other important matter had to be dealt with simultaneously. Given that the integration team consisted of the top managers, the need of sufficient support and resources where in the hands of the managers themselves. There have been cultural clashes for instance about the practical way of working. In Finland there are usually less planning prior to and more of learning by doing, which leads to quite many changes of decisions during the working process. In Sweden organizations usually put down a great amount of effort in the pre-planning phase instead, which in turn give the effect that the Swedes have not left the starting blocks when the Finns have come half a way, then the Swedes accelerate so the goal is reached by both nationalities at the same time. There have been problems
stemming from these differences during the integration process, however, the company has been aware of the differences and dealt with them in a proper way. Hence, this has been possible to deal with since Stora Enso has regarded the cultural differences as something absolutely natural and normal. “No one is surprised; it is rather something you can laugh at”.

**Communication**
According to the respondent, the communication is never sufficient and it can not be overloaded. The respondent believes the communication was adequate, and regarding proper timing, the respondent states that the stakeholders most certainly would like to receive information earlier but this is not possible due to legal and other aspects. There was not so much emphasis put on how the companies would fit together, instead focus was placed on the future. “When you have decided to merge, communication should neither focus on how it was before, nor if it is good or bad, instead focus has to be placed on the future”. Most of the customers understood the changes that were made due to the consolidation, but there were problems with some customers who got worried because of the scarcity of suppliers. Employees overall understood their new roles, in smaller localities with a lot of headquarter personnel, such as Falun and Immatra, there were great many employees that got worried, because they understood that the merger would lead to some kind of centralisation. This actually happened; the international office is presently located in London. There was not many lay offs during the merger between Stora and Enso, instead great many people was faced with unemployment after an acquisition that was made in the United States some time afterwards.

**Speed in implementation**
There existed a time schedule, “as fast as possible” was key words. According to our respondent, speed is important, however this has to be made without to much carelessness. The merged entity had to be well-functioning already the day after the EU approval of the merged entity. There is a need to be correct and specific when stating which company the products are sold by. The day after the approval, this was functioning. Customers knew that the products were sold by Stora Enso. The time aspect considering when a merger integration process has come to an end is very speculative. In practical terms a couple of months after the approval of the authorities on competition of the EU, Stora Enso had completed their integration process.

**Aligned measurements**
There exist clear measures for example on how synergies have been reached. Stora Enso still performs surveys on employee attitudes. This has been extended with the use of internal customer surveys on how the staff units deliver to the divisions, how the internal units work, but also on the customers’ view of the merged entity. There are studies made internally by Stora Enso, in addition to objectively held studies. There are a great amount of measures adopted, and these are openly declared, which has proven to be a very good method.
4.2.4 Success Variables

Economic value added: Synergy benefits related to the merger of Stora and Enso totaled EUR 240 million during the year 2000 (Jan 2000, estimated 170).

More efficient use of resources:
- Purchasing and logistics was 50% in 1999, 23% in the year 2000.
- Sales and administration was 23% in 1999, 21% in the year 2000.
- Production streamlining was 17% in 1999, and 46% in the year 2000.

Synergies were greatest in Fine paper, packaging boards and Magazine paper.

The annual report of 2000 states concerning the retention of key personnel, that two and a half year after the merger and in an exceptionally competitive labor market, the company has lost only 2% of an identified group of 200 top employees in leadership positions.

There is an emphasis on bringing the company closer to its end customers and continuously improve customer service. During the first year after the merger the company hardly lost any customers (Annual report of 2000). According to the respondent customer satisfaction is regularly being checked with satisfying results.
5. Analysis

In this chapter we will analyze our collected data. Each case, i.e. the data collected from each sample-company, will be presented in separate sections followed by a cross-case analysis where the two companies are compared against each other. Regarding success variables there exist differences between Stora Enso and Cloetta Fazer since the collected data is not exactly corresponding. However, each company present how they have met the merger objectives set, when it comes to economic value added and on more efficient use of resources. Stora Enso is giving a more detailed description in figures on more efficient use of resources. The company also present the outcome of a study made on retention of key personnel in their annual report which is not the case of Cloetta Fazer. The analysis of data collected will serve as a basis for the conclusions drawn in chapter six.

When analyzing the data we will follow the three steps suggested by Miles and Huberman (1994). The data will first, case by case, be reduced through a within-case analysis in which our sample-companies will be compared to the theories selected in our conceptual framework. The within-case analysis will then be followed by a cross-case analysis containing a comparison of the data from Cloetta Fazer and Stora Enso. The intention with the cross-case analysis is to discover similarities and differences between the companies. The data will be displayed in tables to give the reader an overview of the collected empirical data, a method suggested by Miles and Huberman (1994). Finally, conclusions based on our analysis will be drawn in chapter six.

5.1 Within-case analysis: Cloetta Fazer

This section presents a within-case analysis of Cloetta Fazer, in which the data collected from the company will be compared to the theories presented in our conceptual framework.

5.1.1 Motives for Merger

Our empirical data on merger motives will in this section be analyzed against the theory developed by Ali-Yrkkö (2002).

Theory identifies three macroeconomic factors that stress companies to merge. These macroeconomic factors are compared to our data in Table 5.1. In addition, theory highlights economic motives as being the most important behind companies’ decisions to merge. Further, theory presents four underlying motives driving the economic motive. These motives are compared to the empirical data collected from Cloetta Fazer in Table 5.2.
Analysis

Table 5.1 Macroeconomic factors creating merger motives - Cloetta Fazer

<table>
<thead>
<tr>
<th>Theory</th>
<th>Empirical data verifies/ falsifies theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger waves</td>
<td>+</td>
</tr>
<tr>
<td>Political decisions</td>
<td>+</td>
</tr>
<tr>
<td>Changes in economic environment</td>
<td>-</td>
</tr>
</tbody>
</table>

Note:
Codes: +   Data fits/ agrees with / supports theory
          + - Data somewhat fits/ agrees with/ supports theory
          -   Data does not fit/ agree with/ support theory

Table 5.2 Motives for merger - Cloetta Fazer

<table>
<thead>
<tr>
<th>Theory</th>
<th>Empirical data verifies/ falsifies theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reductions</td>
<td>+</td>
</tr>
<tr>
<td>Market power</td>
<td>+</td>
</tr>
<tr>
<td>Acquiring resources</td>
<td>+ -</td>
</tr>
<tr>
<td>Managerial motives</td>
<td>+ -</td>
</tr>
<tr>
<td>A motive identified by our empirical data, not included in the theory</td>
<td>An overcapacity in the industry</td>
</tr>
</tbody>
</table>

Note:
Codes: +   Data fits/ agrees with / supports theory
          + - Data somewhat fits/ agrees with/ supports theory
          -   Data does not fit/ agree with/ support theory

The main driving forces behind Cloetta’s and Fazer’s merger were a consolidation-wave among customers and competitors, combined with an overcapacity in the industry, two external forces that pushed the companies to combine. The motive of merging because of an overcapacity in the industry is not considered in theory. Merger waves on the other hand is considered as a macroeconomic force creating merger motives for companies, a force strongly supported by our empirical data in which Cloetta Fazer faced increased consolidation both among customers and competitors. Regarding cost reductions, the empirical data of Cloetta Fazer supports theory in that yet another motive with the merger was to achieve cost savings, reach synergies and hence become more efficient. Included in theory’s cost reduction motive is that companies through merging can reach synergies created from differences in the companies’ access to investment capital and investment opportunities. This is not experienced by Cloetta Fazer, which instead of taking advantage of each others access to capital and investment opportunities, through the merger, have specialized their production facilities so that investments can be done in one facility instead of in two. This has resulted in synergies in the area of investments. Achieving tax advantages through merging was not a motive for Cloetta and Fazer.

Achieving a stronger market position was a clear motive for the Cloetta Fazer merger, strongly connected to the increasing customer and competitor consolidation in the industry. Theory’s description of the market power motive focuses mainly on the companies’ effort to, through a merger, strengthen their market position towards competitors. For Cloetta Fazer on the other hand, the market power motive is both
derived from increased competition and increased consolidation among competitors as well as from the customers’ increased consolidation activity.

The acquiring resources motive argues that companies merge in order to acquire various kinds of resources from the merger-partner. Our empirical data partly supports that getting access to resources is a motive for merging, however Cloetta Fazer emphasizes that it was the combining of resources rather than the acquisition of resources that served as a motive for their merger. Regarding managerial motives, theory states that mergers sometimes is undertaken because managers see a personal benefit in merging the company they are in charge of. Our empirical data supports this part of theory in that it identifies managerial motives as a possible reason behind mergers. However, our data stresses the difficulty of determining whether or not the managerial motives derives from the managers’ personal motives alone or from a combination of personal motives and a view of what is best for the company.

Macroeconomic trends beyond merger waves, claimed by theory to stress companies to engage in mergers are political decisions and changes in economic environment. Our data verifies this statement partly since it presents the creation of the European Union (the result of political decisions) as a factor easing the process of and hence creating motives for merging Cloetta and Fazer. Changes in economic environment is not claimed to have impacted the Cloetta Fazer merger-decision.

5.1.2 Impact of Culture

Our empirical data on the impact of culture will in this section be analyzed against the Cultural Compatibility Index developed by Veiga et al (2000) as well as against Kanter and Corn’s (1994) theory of contextual factors determining whether or not cultural differences will become problematic and whether or not the relationship will succeed.

The Cultural Compatibility Index measures how attractive or unattractive the corporate culture of a merger partner is to a manager of the other company. The attractiveness is derived from comparing the manager’s opinion on how things should be in a company with how things where in his/ her company before the merger and how things appear after the merger. Hence, one can ascribe the differences to the effect of the merger partner. A respondent’s Perceived Cultural Compatibility (PCC) score can range from -20 to +20 where -20 signifies the highest degree of unattractiveness. A positive score suggest an attraction, in that the culture of the merger partner appears to be more in line with what the respondent believes important.

When analyzing the empirical data of Cloetta Fazer against theory of Cultural Compatibility, the perspective will be from Cloetta’s point of view, i.e. how attractive Fazer’s corporate culture was to Cloetta and thus how desirable Fazer’s impact on the corporate culture of the merged entity was. This perspective is necessary since our respondent Curt Petri worked for Cloetta before the merger.

The Perceived Cultural Compatibility (PCC) score for Cloetta Fazer is 1.39 (calculations given in Appendix 3). The score is based on the values given by our respondent Curt
Petri in Table 4.1. The PCC score 1.39 signifies a slightly positive attitude towards Fazer’s corporate culture and the impact it has had on the corporate culture of the merged company.

When looking at the values in the Cultural Compatibility Index in Table 4.1, there are some variables that receive a higher score for Cloetta than for the united Cloetta Fazer, indicating that “things where better” in Cloetta before the merger. Examples of such variables are; being an organization people can identify with and measure individual performance in a clear and understandable manner. On the other hand, several other variables received a higher score for the merged company than for Cloetta, indicating that things are better after the merger, as perceived by our respondent. Examples of such variables are; encourages creativity and innovation, is receptive to new ways of doing things, stresses team work among all departments, acts in a responsible manner towards environment, discrimination etc. and encourages cooperation more than competition.

The contextual factors claimed by theory to play a dominant role in determining the smoothness of the integration, the success of the relationship and whether or not cultural differences will be problematic, are compared to our empirical data in Table 5.3.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Empirical data - Cloetta Fazer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desirability of the relationship</td>
<td>+/- -</td>
</tr>
<tr>
<td>Business compatibility</td>
<td>+/- -</td>
</tr>
<tr>
<td>Mutual respect and communication based on that respect</td>
<td>+/-</td>
</tr>
<tr>
<td>Business success</td>
<td>+/- -</td>
</tr>
<tr>
<td>The passage of time</td>
<td>+/- -</td>
</tr>
</tbody>
</table>

Note:
Codes:  
+/-  Is believed to be important and has impacted the merger  
+/ -  Is believed to be important but has not impacted the merger  
-/ +  Is believed to be unimportant but has impacted the merger  
/- -  Is believed to be unimportant and has not impacted the merger

Our empirical data supports theory in that all of theory’s contextual factors are considered to be important. The desirability of the relationship has, as explained by Mr. Petri a more complex bond to the success of the Cloetta Fazer merger than generally suggested by theory. This since the degree to which the relationship was desired greatly differed between individuals with an obvious connection to the individual’s loss of or gaining of power caused by the merger. Regarding business compatibility, our empirical data partly supports theory in that it identifies business compatibility as being important, yet it highlights that being to similar can serve as a disadvantage rather than as an advantage.

The role of mutual respect and communication based on that respect, greatly eased the integration of Cloetta and Fazer and helped overcoming cultural differences. However, this respect did not emerge naturally in the beginning of the merger process when people “ended up in trenches against each other”. Instead the mutual respect developed after
extensive management efforts. Business success and the passage of time are two factors strongly supported by our data to contribute to the success of the merger, the smoothness of the integration and the overcoming of cultural differences.

5.1.3 Pre- and post-merger Measures

Pre-merger phase

In the following section our empirical data on pre-merger measures will be analyzed against the theory of Marks and Mirvis (2001) and Marks (1999). Theory and empirical data is displayed in Table 5.4

Table 5.4 Pre-merger phase – Cloetta Fazer

<table>
<thead>
<tr>
<th>Pre-merger phase</th>
<th>Theory</th>
<th>Cloetta Fazer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Clarify strategy</td>
<td>Definition of direction for increased growth, profitability or market penetration in existing businesses, for diversification into new areas or for cash investment</td>
<td>Short perspective; increase profits Long perspective; Create a company with a strong brand portfolio and possibilities for further investments</td>
</tr>
<tr>
<td></td>
<td>Standard metrics for evaluating the candidate and objectives about the impact of a combination on profitability</td>
<td>Strengthen the balance sheet</td>
</tr>
<tr>
<td></td>
<td>Consideration of synergies sought and what it takes to realize them but also what it means for people involved</td>
<td>Synergies in for example production was taken into consideration.</td>
</tr>
<tr>
<td></td>
<td>Understanding precisely the synergies sought. Generic and specific search criteria.</td>
<td>Industry characterized by competitors who knew each other well. The merger has gradually developed from an alliance. No need for search criteria</td>
</tr>
<tr>
<td>Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Thorough screening and due diligence including Cultural due diligence</td>
<td>Covers strategic and financial criteria but also human and cultural elements. The due diligence team should include staff professionals from finance, HR and IT as well as operational managers</td>
<td>Ordinary, financial and strategic due diligence performed – project group No cultural due diligence performed</td>
</tr>
<tr>
<td>Parameters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Defining the end state</td>
<td>A clear and understood cultural desired end state which guides combination planning and implementation</td>
<td>No exact definition of combination end state</td>
</tr>
<tr>
<td>People</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Prepare people psychologically</td>
<td>Psychological preparation can include sensitization seminars, education through readings, presentations or discussions of human realities of a combination</td>
<td>People were not communicated in the pre-merger phase about the merger. Cultural seminars were provided after the merger</td>
</tr>
</tbody>
</table>

Compared to the theory and the first of the four objectives set; purpose, Cloetta Fazer partly corresponds to theory regarding clarifying strategy. There was a clear strategy both in short and long-term but there existed different viewpoints within the company about how to reach the objectives set. Beneath the official strategy there also existed unofficial, and more privately held strategies. Cloetta Fazer corresponds to theory regarding
realization of synergy effects and what it meant for people involved, the strategy regarding employees for example was to retain as many as possible during the integration process. On the sub-issue clear search criteria, Cloetta Fazer correspond to theory in respect of understanding precisely the synergies sought. However Cloetta and Fazer do not correspond to theory regarding the need for generic or specific search criteria. This was not needed. The companies knew each other quite well already since both had been competing in the same industry for more than one hundred years. There existed similarities between the two companies in many respects, at least when observing the companies from outside. Furthermore the companies had already established an alliance with each other and had collaborated previously in both production and selling, before the pre-merger planning was initiated.

Regarding the second objective in theory, partner, theory brings up the importance of making a thorough screening and due diligence. Members in the due diligence team should be represented by professionals from finance, IT and the human resource department as well as operational managers. Theory emphasize the importance of making a cultural due diligence beside the ordinary strategic and financial criteria studied. Cloetta Fazer corresponds to theory only partly. There were a thorough screening and due diligence taking place by the project group in the matrix organization that was set up. A cultural due diligence however was not conducted since the common belief was that this was not necessary.

Regarding the third objective, parameters and the sub-issue defining the end state, theory highlights the importance of defining a cultural integration end state. Cloetta Fazer does not correspond to theory in this respect. There existed no clear definition of the end state of the two integrating company cultures.

The fourth objective in theory; people, concern the psychological preparation of people and their mindset before the merger. With regards to this Cloetta Fazer does not correspond to theory since they did not act proactively. Employees were not prepared previously to the merger, there was no communication to the employees in the pre-merger phase that a merger between Cloetta and Fazer was about to take place in a proximate future. Cultural sensitization was instead dealt with after and not prior to the merger, when the cultural clashes forced the company to act. Four to five cultural seminars were held in order to shed light upon the differences in culture between the companies and how to cope with them.

Post-merger phase
In the following section our empirical data on post-merger measures will be analyzed against the five drivers of success developed by Epstein (2004). According to Epstein failure on any one of the five drivers can impede the achievement of merger goals. Theory and empirical data is displayed in Table 5.5.
**Table 5.5** Five drivers of success – Cloetta Fazer

<table>
<thead>
<tr>
<th>Post-merger phase</th>
<th>Theory</th>
<th>Cloetta Fazer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coherent integration strategy</strong></td>
<td>Promote merger of equals</td>
<td>An integration strategy that embraced all processes did not exist, instead separate integration strategies for each business area. Cloetta Fazer was promoted as a merger of equals at least on the paper</td>
</tr>
<tr>
<td></td>
<td>Meritocrat decisions</td>
<td>Employees were officially selected on the base of merits.</td>
</tr>
<tr>
<td></td>
<td>Clean schedule with respect to structure, practices chosen without respect to previous companies practices</td>
<td>Retention of key personnel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A new / semi-new organizational structure was created. Cloetta Fazer adopted best practices with input from what had been previously used in both companies.</td>
</tr>
<tr>
<td><strong>Strong integration team</strong></td>
<td>Full-time- discrete team with ample resource and contributions from senior management</td>
<td>Full time project group with a project leader responsible for a specific unit in the matrix organization. The project group reported to a steering committee. Consensus needed Support available 24 hours a day</td>
</tr>
<tr>
<td></td>
<td>Equal contributions from both companies</td>
<td>Great emphasis on having equal representation in the project group</td>
</tr>
<tr>
<td></td>
<td>Integration team must work to eliminate any cultural clash</td>
<td>Cultural seminars and project work</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Customers of both companies must understand changes in business Employees of both companies must understand new roles and opportunities</td>
<td>Communication towards customers clear and appropriate</td>
</tr>
<tr>
<td></td>
<td>Focus on how companies fit together</td>
<td>Communication towards employees adequate but a bit slow concerning new roles and opportunities, too abstract regarding the merger process and the new matrix organization. Focused on the positive outcomes of the merger</td>
</tr>
<tr>
<td><strong>Speed in implementation</strong></td>
<td>Fast decisions are key for both strategic goals and promoting stability and reducing uncertainty in organization</td>
<td>The project spanned over one year and was strictly set up. Time limit as well as a quick progression regarded as important</td>
</tr>
<tr>
<td><strong>Aligned measurements</strong></td>
<td>Balance between financial and non financial measures Tracking of revenue and cost synergies Both process and result measures</td>
<td>A balance score card is being used Customer satisfaction as well as employee satisfaction is regularly followed up.</td>
</tr>
</tbody>
</table>

**Considering the first of the five drivers of success, coherent integration strategy**, Cloetta Fazer corresponds partly to theory based on the fact that every business unit had its own integration strategy. There was no specific all-embracing integration strategy set up. It was considered a merger of equals at least when the deal was closed. Officially people
were selected on the basis of their merits. Key personnel were retained when project leaders appointed them to the project team. The key personnel in turn appointed the rest of the team members. In total the project team consisted of 40 to 45 members.

Cloetta Fazer corresponds only partly to theory with respect to structure and practices chosen, where theory states that decisions should not be made on the basis of imitating the status quo from one organization or the other. In the case of Cloetta Fazer, a new / semi-new matrix organization was set up which was held responsible for its own result. Best practices with input from both companies have been influencing the new processes, systems and working practices set up.

*Regarding the second driver of success, strong integration team,* empirical data corresponds fairly well to theory. There was a full-time project group set up. The project leader of each unit was held responsible for the harmonization of work processes, production and marketing, human resources, logistics, etcetera. The integration process was highly influenced by each project leader. If problems arose, it was clear who to contact and support was available 24 hours a day. In order to proceed with the integration process, consensus was needed in the corporate management group /steering committee where project leaders regularly met. There was great emphasis on having an equal representation of both Swedish and Finnish participants in the project group. The project was strictly managed on a result and activity basis. The characteristics of the cultural clashes that aroused were mainly of an organizational, not national origin. There have been conflicts arising from the harmonization process in the result units belonging to the matrix organization. These conflicts were handled through four to five cultural seminars. The outcome of these seminars was satisfying. Light was shed upon existing differences in organizational cultures; employees came to respect them as well as each others success. A project was also set up with the objective of creating a new corporate identity for the consolidation, with a new mission and core values. The project group was involved in this project.

*The third driver of success concerns communication,* empirical data corresponds to a great extent to theory. Cloetta Fazer is a customer-oriented company. Both external and internal customers were informed through a massive information campaign, that the merged entity had a new company name, a new logo-type, the umbrella identities of Cloetta and Fazer, and the product identities. The communication has been focusing on the positive aspects of the merger; it has been continuous and constant. Regarding pieces of information given to the employees of Cloetta Fazer it has been adequate but not especially fast, with the intention to avoid expressing details erroneously. There have been incidents where employees have had difficulties in coping with their new roles. The communication towards employees could also have been less abstract considering the integration process and the matrix organization that was set up.

*Considering the fourth driver of success; speed in implementation,* empirical data supports theory to a great extent, Cloetta Fazer set up a strict time schedule regarding their integration process, the harmonization was to be completed within one year. When
the year came to an end, the project group handed over their work tasks to the regular organization. Speed is emphasized as being of great importance.

Finally the fifth driver of success; aligned measurements, data from our sample-company correspond to theory in the aspect of having both financial and non-financial measures. A balanced score card is being used. Customer satisfaction is measured regularly, four times a year, employee satisfaction is also regularly kept track upon. Employee satisfaction is checked by using employee questionnaires.

5.1.4 Success Variables
In the following section data of Cloetta Fazer will be compared to the success variables described by Birkinshaw et.al (2000) and Horwitz et. al (2002).

- Economic value added
- More efficient use of resources
- Retention of key personnel
- Maintain customer service

When comparing Cloetta Fazer with the success variables set up, the company reaches economic synergies as well as use resources more efficiently. There has been an increased overall profit due to economies of scale. Cloetta Fazer has delivered as promised, the economic synergy effects of SEK 75 million, the second year after the merger. Cloetta Fazer has also achieved strategic synergies in production. Operational margin in core operations was estimated to 10% and has been 12% which is higher than expected.

Regarding the retention of key personnel Cloetta Fazer have intended to keep talented personnel by bringing them into the project organization that was set up, in charge of the integration process. There were key personnel disappointed with their new roles who left. But the number of cases was according to the respondent low.

Customer satisfaction is regularly being measured and has been satisfying and steadily improving.

5.2 Within-case analysis: Stora Enso
This section presents a within-case analysis of Stora Enso, in which the data collected from the company will be compared to the theories presented in our conceptual framework.

5.2.1 Motives for Merger
Our empirical data on merger motives will in this section be analyzed against the theory developed by Ali-Yrkkö (2002).

The macroeconomic factors that according to theory, serves as a driver for companies to undertake mergers, are compared to our data collected from Stora Enso in Table 5.6.
Analysis

Table 5. 6 Macroeconomic factors creating merger motives – Stora Enso

<table>
<thead>
<tr>
<th>Theory</th>
<th>Empirical data verifies/ falsifies theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger waves</td>
<td>+</td>
</tr>
<tr>
<td>Political decisions</td>
<td>+</td>
</tr>
<tr>
<td>Changes in economic environment</td>
<td>-</td>
</tr>
</tbody>
</table>

Note:
Codes: + Data fits/ agrees with / supports theory
       + - Data somewhat fits/ agrees with/ supports theory
       - Data does not fit/ agree with/ support theory

When comparing our empirical data to the theory on macroeconomic factors stressing companies to merge, we find that consolidation activity among customers and competitors as well as the development of the European Union were factors that motivated Stora and Enso to merge. The customer consolidation was the predominant macroeconomic factor leading to the merger-decision. Changes in economic environment are nothing that influenced the decision to merge Stora and Enso. Hence, our data verifies theory in two aspects, namely that merger waves and political decisions can affect companies’ merger-decisions, and falsifies theory’s predicted importance of changes in economic environment in the merger-decision process.

The main motive behind the merger between Stora and Enso was to create synergies and improve the financial performance of the companies. The data collected from Stora Enso is compared to theory in Table 5.7.

Table 5. 7 Motives for merger - Stora Enso

<table>
<thead>
<tr>
<th>Theory</th>
<th>Empirical data verifies/ falsifies theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reductions</td>
<td>+</td>
</tr>
<tr>
<td>Market power</td>
<td>+</td>
</tr>
<tr>
<td>Acquiring resources</td>
<td>+ -</td>
</tr>
<tr>
<td>Managerial motives</td>
<td>+</td>
</tr>
</tbody>
</table>

Note:  
Codes: + Data fits/ agrees with / supports theory
       + - Data somewhat fits/ agrees with/ supports theory
       - Data does not fit/ agree with/ support theory

Creating synergies and improving the financial results of the companies sort under the cost reduction category of merger motives according to theory. The combining of the two highly similar companies Stora and Enso allowed for rationalization and the reaching of economies of scale. To take advantage of differences in availability of investment capital and investment opportunities was not a merger-motive for Stora and Enso. Neither was the tax advantage motive considered in the merger. Achieving market power is referred to as a secondary motive by Stora Enso, nevertheless it is not considered unimportant since both companies saw a value in becoming the largest European forest company by merging. One motive for merging considered by our sample-company was to combine the resources of the two companies, not to acquire each others resources as described in theory. Therefore, we argue that our data somewhat supports theory in that it supports the
Analysis

resource-motive, but in contradiction to theory emphasizes the combination rather than the acquisition of resources. Managerial motives might, according to our respondent, have played a secondary role in the merger-decision. However, the influence of managerial motives on the merger-decision was, according to Mr. Hägglund, minimal. Hence, we can conclude that our empirical data to a large extent supports the theory on merger motives.

5.2.2 Impact of Culture

Our empirical data on the impact of culture will in this section be analyzed against the Cultural Compatibility Index developed by Veiga et al (2000) as well as against Kanter and Corn’s (1994) theory of contextual factors determining whether or not cultural differences will become problematic and whether or not the relationship will succeed.

When analyzing and comparing our empirical data of Stora Enso against the Cultural Compatibility theory we will rely on the values given by our respondent Björn Hägglund in Table 4.2. In the analysis, the perspective will be from Stora’s point of view, i.e. how attractive the corporate culture of Enso was to Stora and how desirable the impact of Enso was on the corporate culture of the merged entity.

The Perceived Cultural Compatibility (PCC) score of Stora Enso proved to be -7 (calculations given in appendix 4), indicating that Stora perceived Enso’s corporate culture to be moderately unattractive and as having had a moderately negative effect on the common corporate culture.

When looking at the values given in the Cultural Compatibility Index in Table 4.2 there are some variables that receive a lower score for the united Stora Enso than for Stora before the merger, indicating that “things were better” in Stora before the merger (compared to what the respondent finds important). Examples of such variables are; is receptive to new ways of doing things, gives high responsibility to managers, is always ready to take risks and delegates decision-making to the lowest possible level. Other variables however, show a higher value for the united company than for Stora alone, indicating that in some aspects things have changed to the better after the merger. Examples of such variables are; stresses team work among all departments, measures individual performance in a clear and understandable manner, acts in a responsible manner towards environment, discrimination etc. and encourages cooperation more than competition. Furthermore, several variables receive the same value for Stora as for the merged Stora Enso, suggesting that in some aspects the merger has not changed things.

In Table 5.8 our empirical data from Stora Enso is compared to the theory of contextual factors affecting the smoothness of the integration, the success of the relationship and whether or not cultural differences will be problematic.
Table 5.8 Contextual factors – Stora Enso

<table>
<thead>
<tr>
<th>Theory</th>
<th>Empirical data Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desirability of the relationship</td>
<td>+/-</td>
</tr>
<tr>
<td>Business compatibility</td>
<td>+/-</td>
</tr>
<tr>
<td>Mutual respect and communication based on that respect</td>
<td>+/-</td>
</tr>
<tr>
<td>Business success</td>
<td>+/-</td>
</tr>
<tr>
<td>The passage of time</td>
<td>+/-</td>
</tr>
</tbody>
</table>

Note:
Codes:  
+/- + Is believed to be important and has impacted the merger  
+/- - Is believed to be important but has not impacted the merger  
-/- + Is believed to be unimportant but has impacted the merger  
-/- - Is believed to be unimportant and has not impacted the merger

The empirical data of Stora Enso to a large extent verifies the important role of contextual factors in mergers. Desirability of the relationship, business compatibility, mutual respect and business success are all considered to be important. The importance of the passage of time is partly supported in that our respondent emphasizes that the time factor can either make companies grow together or grow apart. Hence, the passage of time is not always a factor impacting merger success positively. Our respondent further claims that if there will be a crisis in the relationship, it will most probably arise rather soon after the merger deal. Each of the contextual factors presented by theory are claimed to have played a role in easing the merger process and contributed to success in the Stora Enso merger.

5.2.3 Pre- and post-merger Measures

Pre-merger phase  
In the following section our empirical data on pre-merger measures will be analyzed against the theory of Marks and Mirvis (2001) and Marks (1999). Theory and empirical data is displayed in Table 5.9
### Table 5.9 Pre-merger phase – Stora Enso

<table>
<thead>
<tr>
<th>Pre-merger phase</th>
<th>Theory</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Definition of direction for increased growth, profitability or market penetration in existing businesses, for diversification into new areas or for cash investment</td>
<td>Create synergies and achieve a profit growth of special interest in this capital intensive industry</td>
</tr>
<tr>
<td>• Clarify strategy</td>
<td>Standard metrics for evaluating the candidate and objectives about the impact of a combination on profitability</td>
<td>A clear merger strategy existed in both companies before the merger.</td>
</tr>
<tr>
<td>• Clear search criteria</td>
<td>Consideration of synergies sought and what it takes to realize them but also what it means for people involved</td>
<td>Aware about the synergies sought. The integration strategy was initiated as soon as the merger partner was appointed</td>
</tr>
<tr>
<td>Partner</td>
<td>Understanding precisely the synergies sought. Generic and specific search criteria.</td>
<td>Rather specific from a competitive point of view strategic fit required</td>
</tr>
<tr>
<td>• Thorough screening and due diligence including Cultural due diligence</td>
<td>Covers strategic and financial criteria but also human and cultural elements. The due diligence team should include staff professionals from finance, HR and IT as well as operational managers</td>
<td>In the screening and due diligence performed, cultural due diligence was regarded as especially important. All departments were represented.</td>
</tr>
<tr>
<td>Parameters</td>
<td>A clear and understood cultural desired end state which guides combination planning and implementation</td>
<td>Create the best of both companies</td>
</tr>
<tr>
<td>• Defining the end state</td>
<td></td>
<td></td>
</tr>
<tr>
<td>People</td>
<td>Psychological preparation can include sensitization seminars, education through readings, presentations or discussions of human realities of a combination</td>
<td>Survey on employee attitudes performed</td>
</tr>
<tr>
<td>• Prepare People psychologically</td>
<td>Survey on employee attitudes performed</td>
<td>Several integration seminars</td>
</tr>
</tbody>
</table>

According to theory’s first aspect of the pre-combination phase, *purpose; clarify strategy;* the data collected correspond to theory. The main purpose of the Stora Enso merger was to create synergy effects as well as achieve profit growth. Our respondent explained being a large company as an advantage when the customers also are large. Both companies were clear on the merger strategy and very early in the pre-combination process the integration planning of the two companies was initiated. Considering the sub-issue *clear search criteria,* our empirical data corresponds to theory. The search criteria were specific and of special importance were that the companies fit together strategically.

Regarding the second aspect, *partner,* empirical data corresponds to theory, *screening due diligence and cultural due diligence* were adopted, especially cultural due diligence was considered to be of great significance. All departments were represented in the integration team were human resources was regarded as especially important. Marks
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(1999) states that there are four general categories of conducting a cultural due diligence, making an survey on employee attitudes can be judged as a way of adding cultural criteria to due diligence data collection.

Considering the third aspect parameters, defining the end state, there is also a correspondence with empirical data to theory. According to theory, a well defined integration end state help to direct combination planning and implementation, it also communicates to the work force that their leadership has a solid sense of where it wants to take the combination. Stora Enso decided to make the best of both cultures, referring to the grid developed by Marks (1992) in Table 2.2.

Finally, the fourth aspect of the pre-combination phase; people, and the subissue prepare people psychologically, Stora Enso also match theory, people were informed very early in the process, besides surveys made on employee attitudes, there were also a number of integration seminars taking place in the pre-combination phase.

Post-merger phase

In the following section our empirical data on post-merger measures will be analyzed against the five drivers of success developed by Epstein (2004). According to Epstein failure on any one of the five drivers can impede the achievement of merger goals. Theory and empirical data is displayed in Table 5.10.
### Table 5.10 Five drivers of success – Stora Enso

<table>
<thead>
<tr>
<th>Post-merger phase</th>
<th>Theory</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coherent integration strategy</td>
<td>Promote merger of equals</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Meritocrat decisions</td>
<td>Headhunters was used when selecting top managers</td>
</tr>
<tr>
<td></td>
<td>Clean schedule with respect to structure,</td>
<td>Unfair treatment by managers was corrected</td>
</tr>
<tr>
<td></td>
<td>practices chosen without respect to previous companies practices</td>
<td>Mc Kinsey sat up the organizational structure for Stora Enso</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Used existing practices from both sides – further developed to better suit the company</td>
</tr>
<tr>
<td>Strong integration team</td>
<td>Full-time- discrete team with ample resource and contributions from senior management</td>
<td>Part-time Consisted of top managers from different departments. Human resources especially important</td>
</tr>
<tr>
<td></td>
<td>Equal contributions from both companies</td>
<td>Both nationalities represented</td>
</tr>
<tr>
<td></td>
<td>Integration team must work to eliminate any cultural clash</td>
<td>Several integration seminars</td>
</tr>
<tr>
<td>Communication</td>
<td>Customers of both companies must understand changes in business</td>
<td>Early customer information</td>
</tr>
<tr>
<td></td>
<td>Employees of both companies must understand new roles and opportunities</td>
<td>Early employee information Good retention of key personnel Employees understood new roles</td>
</tr>
<tr>
<td></td>
<td>Focus on how companies fit together</td>
<td>Focus on future</td>
</tr>
<tr>
<td>Speed in implementation</td>
<td>Fast decisions are key for both strategic goals</td>
<td>Time schedule Speed important Integration process completed in a couple of months</td>
</tr>
<tr>
<td></td>
<td>and promoting stability and reducing uncertainty in organization</td>
<td></td>
</tr>
<tr>
<td>Aligned measurements</td>
<td>Balance between financial and non financial measures</td>
<td>Yes, both financial and non financial measures are regularly being checked Evaluation of employee attitudes and customer satisfaction both made by Stora Enso and objectively Clear measures exist</td>
</tr>
<tr>
<td></td>
<td>Tracking of revenue and cost synergies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Both process and result measures</td>
<td></td>
</tr>
</tbody>
</table>

Regarding the first of the five drivers, coherent integration strategy, empirical data corresponds almost completely to theory. The new organization should according to theory have a well articulated integration strategy that reinforces that this is a “merger of equals” rather than an acquisition. The integration strategy of Stora Enso corresponds to theory in their intentions made to treat the merger as fair open minded and objectively as possible. Their international office for example is located in London.
A very important component of the integration process was the new vision set up of Stora Enso which expressed that the merged company would be a world leader on the forest industry market. Almost every employee was involved in the process of developing new values in accordance with this vision. According to theory, an integration strategy must be carefully developed to implement the strategy for the merger itself and execute on the strategic vision and strategic fit that led to the merger decision. By creating a new vision for Stora Enso and value system, the company corresponds to theory. Moreover, according to theory, an integration strategy fails if the employees in the merged entity are not prepared to implement it. The employees of Stora Enso were participating in the implementation of the new identity of the company; and hence, Stora Enso demonstrates that they are acting in correspondence with theory.

Stora Enso worked very hard in trying to make a fair selection process when appointing employees to new positions. Top managers were selected by two head hunters. If there were any cases of unfair treatment in the selection processes by managers on lower levels, these were corrected. This neutral and objective way of handling the selection process corresponds well with theory.

The new organizational structure was set up by McKinsey & co, an international management consulting firm. The new structure resembled the former structure of both companies, which were almost mirror copies of each other. The new organizational structure had the same divisions, but was twice as big. Furthermore, an open mind when designing the structure is according to theory preferable, by having a consultant to set up the new organizational structure, Stora Enso acted in accordance with theory. However, there is discrepancy with theory regarding processes, systems and practical work. Theory states that decisions should not be made on the basis of imitating the status quo from one organization or the other, in the case of Stora Enso they have used processes and systems as well as practical work from both sides and tried to manage it that way, but also developed procedures to better suit the new organization. Stora Enso was to a great deal influenced by Enso in this respect since there was a stronger management influence from that side, especially at the top.

Concerning the second driver, strong integration team, empirical data partly correspond to theory. According to theory it is preferable with a full-time membership in the integration team. In Stora Enso the team consisted of the top managers themselves from almost all departments. However, they worked only part-time with the subject of integrating the merging entities. Theory also states the importance of having a balance between members of both companies. At Stora Enso both nationalities were represented in the top management team. There was equal balance between them. The chairman of the top management team was the respondent, Björn Hägglund. Regarding resources and contributions this was in the hand of the top managers themselves. The use of external consultants such as Mc Kinsey was one way of providing themselves with appropriate support.

According to theory the integration team must work to eliminate any culture clash in the organization. There have been cultural clashes at Stora Enso during the integration
process regarding for example working practices, however integration seminars have helped the employees to handle the cultural differences as something absolutely natural and normal.

The third driver, communication, is according to theory of vital importance, especially at the beginning of the post-merger integration process. The communication from senior management must be significant, constant and consistent; it must build confidence in the merger and the integration process. Stora Enso corresponds to theory regarding the adequacy of the communication; both customers as well as employees were informed about how the merger would affect them. Customers were especially worried due to the fact that there was only one supplier left, where there previously had been two competitors. Employees overall have understood their new roles. The level of anxiety was high, especially at the headquarters where employees initially worried about their future roles and where the new headquarter would be located. Over-communication does not exist according to the respondent. Most stakeholders would have appreciated to receive information earlier; however legal aspects made this impossible.

The fourth driver, speed in implementation, is essential in post-merger integration processes. Immediate planning and design following the agreement is essential for a rapid post-merger integration. The majority of planning should be completed before the merger is announced to the public. Following the announcement, the timeline should be highly compressed, with the goal of integrating front-office operations in the shortest possible time. Stora Enso corresponds to theory in every respect. Planning was initiated as soon as it stood clear who they were going to merge with. The day after the merger everything had to be functioning as a new merged entity. The customers knew that the company they had bought their products from was Stora Enso and neither Stora nor Enso. In a couple of months after the approval by the authorities on competition of the EU, Stora Enso had completed their integration process.

Concerning the fifth driver; aligned measurements, theory describes that in order to achieve merger success, mergers need a clear definition and articulation of the drivers of success, how it will be achieved, and the appropriate measures of success. Measures should be created that are well aligned with the merger strategy and vision. There should be financial as well as non-financial information. Included among the non-financial information are measures of customer satisfaction and retention, cultural integration, employee satisfaction and retention, operational reliability, and risk management. Stora Enso corresponds to theory in almost every respect. There exist several clear measures which are also openly declared in the annual reports of Stora Enso. Stora Enso still perform surveys on employee attitudes, this has been enlarged by an internal customer survey on how the staff units deliver to the divisions, how the internal units work, but also the customers view of the merged entity. These studies are made by Stora Enso but also objectively held external studies.
5.2.4 Success Variables

In the following section data of Stora Enso will be compared to the success variables described by Birkinshaw et.al (2000) and Horwitz et. al (2002).

- Economic value added
- More efficient use of resources
- Retention of key personnel
- Maintain customer service

When comparing Stora Enso with the success variables, the economic value added of the merger totaled EUR 240 million during the year 2000, which was better than the EUR 170 million which had previously been estimated for the year of 2000. More efficient use of resources has also been achieved with 23% in purchasing and logistics, 21% in sales and administration, and 46% in production streamlining. Synergies were greatest in Fine paper, packaging boards and Magazine paper.

The company has achieved to retain 98% of their key personnel.

Very few drop of customers. Customer satisfaction is regularly being measured and with satisfactorily results.

5.3 Cross-case analysis Cloetta Fazer and Stora Enso

This section presents a cross-case analysis in which the data collected from our two sample-companies Cloetta Fazer and Stora Enso will be compared.

5.3.1 Motives for Merger

Our empirical data on merger motives collected from our two cases; Cloetta Fazer and Stora Enso will in this section be compared and analyzed against each other, relying on ali-Yrkö’s (2002) theory of merger motives and macroeconomic factors creating merger motives.

A comparison of our two sample-companies in terms of the macroeconomic factors claimed by theory to create merger motives is displayed in Table 5.11.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Cloetta Fazer</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger waves</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Political decisions</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Changes in economic environment</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note:
Codes:  
+   Considered to create merger motives  
+ - Somewhat considered to create merger motives  
-   Not considered to create merger motives
When comparing Cloetta Fazer’s and Stora Enso’s data on macroeconomic factors creating merger motives, we find that the companies correspond in every aspect of theory. Merger waves, especially among customers but also among competitors, have significantly contributed to the merger decision in both companies. Further, political decisions, especially the creation and development of the European Union, have encouraged both companies to undertake a merger. Finally, both Cloetta Fazer and Stora Enso deny that changes in economic environment have influenced their respective merger decisions.

Table 5.12 displays a comparison of our sample-companies with regards to their motives for merging.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Cloetta Fazer</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reductions</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Market power</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Acquiring resources</td>
<td>+ -</td>
<td>+ -</td>
</tr>
<tr>
<td>Managerial motives</td>
<td>+ -</td>
<td>+</td>
</tr>
<tr>
<td>A motive identified in our empirical data, not included in the theory</td>
<td>An overcapacity in the industry</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: 
Codes:  
+   Considered to be a motive for merger  
+ - Somewhat considered to be a motive for merger  
-   Not considered to be a motive for merger

When comparing Cloetta Fazer and Stora Enso we find many similarities in terms of motives for merging. Regarding cost reductions, both companies highly emphasize the finding of synergies and the reduction of costs as important motives behind their respective mergers. The same holds true for the market power motive since both Cloetta Fazer and Stora Enso through merging wished to increase their size and hence also their market power. Theory’s motive of acquiring resources through merging is partly supported by both our sample-companies in that both highlight the combining, not the acquiring, of resources. Considering managerial motives, our sample-companies differs slightly in that Stora Enso claims that managerial motives did play a minor role in their merger, while the data from Cloetta Fazer generally supports the thought of managerial merger-motives without specifically touching upon the specific circumstances of that merger. Furthermore, the companies differ with regards to the motive of merging because of an overcapacity in the industry. This was a motive identified by Cloetta Fazer, neither included in theory, nor supported by Stora Enso.
5.3.2 Impact of Culture

Our empirical data on the impact of culture collected from our two cases; Cloetta Fazer and Stora Enso will in this section be compared and analyzed against each other, relying on the Cultural Compatibility Index developed by Veiga et al. (2000) and Kanter and Corn’s contextual factors determining whether or not cultural differences will become problematic and whether or not the relationship will succeed.

The comparison of our two sample-companies’ Perceived Cultural Compatibility scores displays a modest difference in that Cloetta Fazer received a score of positive 1.39 while Stora Enso received a score of negative 7. When analyzing the scores against the Cultural Compatibility theory, the positive score suggests that Fazer’s culture and the impact it has had on the merged Cloetta Fazer is regarded as attractive by Cloetta, while the negative score suggests that Enso’s culture and the impact it has had on the merged Stora Enso is regarded as unattractive by Stora. The companies show similar results in that both declare that some issues were better before the merger, however they diverge on which issues. Further similarities are that both companies declare some issues to be better in the merged entity then before the merger took place. In addition, our sample-companies converge in that the variables; stresses team work among all departments, acts in a responsible manner towards environment, discrimination etc. and encourages cooperation more than competition receives a higher score for the merged entities than for Cloetta and Stora alone.

Table 5.13 displays a comparison of Cloetta Fazer and Stora Enso with regards to the theory of contextual factors.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Cloetta Fazer</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desirability of the relationship</td>
<td>+/- -</td>
<td>+/+</td>
</tr>
<tr>
<td>Business compatibility</td>
<td>+/- -</td>
<td>+/+</td>
</tr>
<tr>
<td>Mutual respect and communication based on that respect</td>
<td>+/-</td>
<td>+/+</td>
</tr>
<tr>
<td>Business success</td>
<td>+/-</td>
<td>+/+</td>
</tr>
<tr>
<td>The passage of time</td>
<td>+/-</td>
<td>+/- +</td>
</tr>
</tbody>
</table>

Note: Codes: 
- +/- Is believed to be important and has impacted the merger
- +/- Is believed to be important but has not impacted the merger
- +/- Is believed to be unimportant but has impacted the merger
- +/- Is believed to be unimportant and has not impacted the merger

Cloetta Fazer and Stora Enso show similar results in that both find all of theory’s contextual factors to be important influential factors in merger decisions, with an exception of the passage of time where the data of Stora Enso highlights that time is an important factor influencing merger decisions but also that time does not necessarily make companies grow together. When comparing the impact of the contextual factors on the mergers of our sample-companies, we find that mutual respect, business success and
the passage of time are factors that have impacted the merger-decision in both companies. Cloetta Fazer and Stora Enso partly corresponds on the variables; desirability of the relationship and business compatibility. Regarding the first, the empirical data of Cloetta Fazer shows that the desirability of the relationship was highly individual and connected to the individual’s loss of or gaining of power due to the merger. The empirical data of Stora Enso shows that the relationship was desired and does not identify the desirability as differing between individuals. Regarding the second variable on which our sample-companies diverge; business compatibility, the data from Cloetta Fazer illustrates that being too similar may serve as a disadvantage in a merger rather than an advantage. The empirical data of Stora Enso on the other hand identifies business compatibility as an important source for synergy gains when two companies merge.

5.3.3 Pre- and post-merger Measures

Pre-merger phase

Our empirical data on the pre-merger phase collected from our two cases; Cloetta Fazer and Stora Enso will in this section be compared and analyzed against each other, relying on the theory of Marks and Mirvis (2001) and Marks (1999).

In Table 5.14 a cross-case comparison of the measures adopted in the pre-merger phase impacting success will be presented. The two sample companies will be compared to each other in order to reveal existing similarities and differences.

Table 5.14 Pre-merger phase – cross-case analysis

<table>
<thead>
<tr>
<th>Pre-merger phase</th>
<th>Cloetta Fazer</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Clarify strategy</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>• Clear search criteria</td>
<td>+ -</td>
<td>+</td>
</tr>
<tr>
<td>Partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Thorough screening and due diligence</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>• Cultural due diligence</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>Parameters</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>• Defining the end state</td>
<td></td>
<td></td>
</tr>
<tr>
<td>People</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>• Prepare people psychologically</td>
<td>-</td>
<td>+</td>
</tr>
</tbody>
</table>

Note:
Codes: + Measure used
       + - Measure used to some extent
       - Measure not used

There are interesting discrepancies but also similarities between the two sample-companies in the pre-merger phase. Both companies regard the overall purpose and the meaning of a clarified strategy as important and use it in their pre-merger planning. There
exist differences however, between the sample-companies in the respect of clear search criteria, Cloetta Fazer knew without having to go through specific criteria that there was just one existing merger partner for them. Stora Enso on the other hand adopted and practiced these criteria. Considering the next objective, partner, the companies went through the same screening and due diligence process, however Cloetta Fazer did not judge a cultural due diligence to be of great significance in the pre-merger planning. Stora Enso on the other hand regarded this to be of great importance. Stora Enso also proceeded with a clear integration end state where they wanted to make the best of both company cultures. The latter was not a measure adopted by Cloetta Fazer. The final objective concerns the psychological training of the people prior to the merger. Stora Enso prepared the employees by the use of early information and integration seminars. Cloetta Fazer on the other hand did not inform the employees nor train them until the merger was a reality.

Post-merger phase

Our empirical data on the post-merger phase collected from our two cases; Cloetta Fazer and Stora Enso will in this section be compared and analyzed against each other, relying on the theory of Epstein (2004).

In Table 5.15 the measures adopted in the post-merger phase impacting success will be displayed. There will be attention drawn to the differences and similarities between the two sample companies.

<table>
<thead>
<tr>
<th>Post-merger phase</th>
<th>Cloetta Fazer</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coherent integration strategy</td>
<td>+ -</td>
<td>+ -</td>
</tr>
<tr>
<td>Strong integration team</td>
<td>+</td>
<td>+ -</td>
</tr>
<tr>
<td>Communication</td>
<td>+ -</td>
<td>+</td>
</tr>
<tr>
<td>Speed in implementation</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Aligned measurements</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Note:

Codes: + Measure used
       + - Measure used to some extent
       - Measure not used

The integration strategy adopted in Cloetta Fazer consisted of several integration strategies and not one that embraced all units at the same time. Instead the integration strategies used were synchronized in the steering meetings held were all project leaders participated. In Stora Enso there was only one existing integration strategy. The new organizational structure of Cloetta Fazer was a matrix organization that was “new/semi-new”, in Stora Enso on the other hand the new organizational structure set up was the
result of Mc Kinsey, a management consulting group. Stora Enso used already existing processes and practices from both merger partners and developed them further, so they could be better applicable to the new organization. Best practices with input from both companies were adopted and used in Cloetta Fazer. There has been a fair selection process of employees in Stora Enso. Cloetta Fazer has also tried to solve the selection of personnel as objectively as possible.

The integration team worked full time with the project of merging Cloetta and Fazer. The integration team of Stora Enso on the other hand worked part time with this integration process. There was ample resources and support of management in both Cloetta Fazer and Stora Enso. Stora Enso’s integration team which consisted of top managers, supported themselves by using external consultants.

Both Cloetta Fazer and Stora Enso have communicated in a clear and obvious manner to their customers. Stora Enso has also applied the same approach when communicating to its employees. Cloetta Fazer on the other hand believes that they could have handled the communication towards their employees more rapidly and in a less abstract manner.

Speed in implementation, has been of great importance in both Stora Enso and Cloetta Fazer, however the process has been executed more rapidly in Stora Enso, when comparing the two companies.

Aligned measurements have been strictly adopted by both companies. However, Stora Enso is tracking synergy effects as well as effects in the organization in a more systematic way than Cloetta Fazer.

5.3.4 Success Variables
Our empirical data on the success variables collected from our two cases; Cloetta Fazer and Stora Enso will in this section be compared and analyzed against each other, relying on the success variables described by Birkinshaw et.al (2000) and Horwitz et. al (2002).

A cross-case comparison of the success variables of our two sample-companies is presented in Table 5.16.

<table>
<thead>
<tr>
<th>Success</th>
<th>Cloetta Fazer</th>
<th>Stora Enso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic value added</td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td>More efficient use of resources</td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td>Retention of key personnel</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td>Maintain customer service</td>
<td>++</td>
<td>++</td>
</tr>
</tbody>
</table>

Note:
Codes:  
++ = very positive outcome  
+  = positive outcome  
0   = no difference  
-   = negative outcome  
--  = very negative outcome
Both companies have been performing exceptionally well after the merger, and have delivered the economic synergies that were expected before the merger. Regarding more efficient use of resources, both companies have achieved the strategic synergies set up. Retention of key personnel, the third variable of success, is also positive for both companies. Stora Enso has lost only 2% of talented personnel, Cloetta Fazer has also managed to retain key personnel. However on the latter an exact figure cannot be presented, therefore and due to the fact that there have been role conflicts, the judgment is set to a positive outcome and not the highest score. There have been very few customers that have left Stora Enso. Cloetta Fazer has also managed to deal with the customer in a clear and consistent way, both companies have satisfied customers.
6. Findings and Conclusions

The purpose of this thesis has been to gain a deeper understanding of the factors contributing to success in international mergers. In this final chapter of our thesis, we will provide a review and discussion of the contents and aroused issues of this thesis. Thereafter we will answer the research questions stated in chapter one and draw conclusions from the analysis in chapter five. The research questions will be answered in separate sections. In the end of this chapter implications for management and implications for theory will be given as well as implications for future research.

The fact that mergers are an increasing phenomenon in the ever more globalized business world of today, combined with an extensive number of reports on merger failures, encouraged us to further investigate what actually makes an international merger succeed. Hence, the purpose of this study has been to gain a deeper understanding of the factors contributing to success in international mergers. In reviewing literature connected to our area of research, we found several different definitions of merger success, however for the sake of this study we chose to define success in international mergers as economic value added, more efficient use of resources, retention of key personnel and maintained customer service. The success variables have been measured two years after the merger deal in Cloetta Fazer, using the annual report of 2001. The merger of Stora and Enso took place in August 1998. Since we have chosen to rely on the annual report of 2000, more than two years have passed since the merger became legally accepted.

The fact that there have been several and seemingly successful mergers across the Swedish-Finnish border encouraged us to find out what has made these mergers successful and hence we chose to investigate success in international mergers by looking at two mergers between Swedish and Finnish companies, namely Cloetta Fazer and Stora Enso. The research questions of this thesis have concerned merger motives, the role of culture as a factor impacting merger success, and finally measures adopted in the pre- and post-merger phases, impacting success.

In conducting this study we have used a qualitative research approach and conducted case studies of our sample-companies. Our empirical data has been collected through telephone interviews with Curt Petri, Vice President and Head of Group Finance and IT at Cloetta Fazer and Björn Hägglund, Vice President of Stora Enso.

The empirical data shows that economic motives combined with external factors such as an increasing number of consolidations among customers and competitors, led our sample-companies to merge with their respective partners. Regarding culture as a factor impacting merger success, we have used the Cultural Compatibility Index developed by Veiga et al (2000) to determine the level of compatibility between the cultures of Cloetta and Fazer as well as Stora and Enso. The results show a value of 1.39 for Cloetta Fazer, indicating that Fazer’s culture was regarded as slightly attractive from Cloetta’s point of view. The cultural compatibility value of Stora Enso was -7, indicating that Enso’s culture was regarded as moderately unattractive from Stora’s point of view. In addition, this study found that several contextual factors play an important role in determining whether or not cultural issues will become problematic and whether or not the
relationship will succeed. Regarding measures adopted in the pre- and post-merger phases, our empirical data shows that Stora Enso corresponds to theory in almost every respect, meaning that the company has adopted all of the pre-merger measures suggested by theory and almost all of theory’s post-merger measures. This has not been the case in Cloetta Fazer, especially not in the pre-merger phase where the company ignored several measures, for instance conducting a cultural due diligence.

When analyzing the data from our sample-companies against the variables used to define success, this study finds that both the Cloetta Fazer merger and the Stora Enso merger have been successful even though their respective roads to success have looked different. After conducting this study we have come to realize that the area of success in international mergers is highly complex and therefore needs further investigation. In the following of this chapter we will provide the conclusions and implications of this study.

6.1 How can the role of merger motivating factors in successful merger outcomes be described?

After studying the motives behind the Cloetta Fazer and Stora Enso mergers we find that several closely intertwined motives contributed to the final merger decision in both companies. However the most prominent motive for merging in the two sample-companies was economic. Moreover, we find the economic motive to be multifaceted including aspects such as creating synergies through the sharing of costs in different areas, strengthening the balance sheet, improving financial performance and combining financial resources. Both our sample-companies emphasizes that it was the combination of resources, as opposed to the acquiring of resources suggested by Ali-Yrkkö (2002), that served as a motive for their mergers. Considering that Cloetta Fazer and Stora Enso can be defined as mergers of equals, our conclusion is that in mergers were both parties have an equally strong position and an intention to merge as equals the combining of resources is the one and only alternative. If the motive is to acquire resources, the merger is not a merger of equals. We find this emphasis on combination of resources as evidence that the mergers of our two sample-companies were true mergers of equals.

Another motive referred to by both Cloetta Fazer and Stora Enso, was to achieve a stronger market position through the merger. We would argue that this motive is closely intertwined with the economic motive of strengthening the balance sheet. With regards to this, Stora Enso explicitly stated that becoming the largest European forest company was a clear motive underlying their merger. This study’s findings on whether or not there are managerial motives that affect the merger decision, is of general kind. This due to the fact that our respondents gave general answers stating that managers most probably have personal motives for undertaking a merger and that in Stora Enso managerial motives did play a role in the merger decision, however which role and which influence it had on the final merger decision is unclear. After conducting this study we find that managerial merger motives do exist and do affect companies’ merger decisions, however we have found this area to be of confidential nature and highly invisible to researchers and other interested parties.
Another finding is that external factors play an important role in creating and/or reinforcing merger motives. Consolidation among customers and competitors is an external factor that to a large extent influenced the Cloetta Fazer and Stora Enso mergers. The consolidation among customers is referred to by both our sample-companies as an external factor influencing the decision to merge somewhat more than the consolidation among competitors. We further find the development of the European Union as an external factor that has influenced the decision to merge in both our sample-companies. Finally, this study finds that yet another external factor that can reinforce companies’ motives for merging is an overcapacity in the industry, as in the case of Cloetta Fazer. This is an external factor not considered in Ali-Yrkkö’s (2002) theory of macroeconomic factors creating merger motives.

After discussing the first research question; how can the role of merger motivating factors in successful merger outcomes be described, the following specific conclusions emerge:

- Even though the motives for merging two companies are many and closely intertwined, the economic motive stands out as the most prominent.
- A motive behind mergers of equals is the combining of resources rather than the acquiring of resources.
- Consolidations among competitors and especially among customers serve as a strong driver for international mergers.
- The development of the European Union serves as a driving force for mergers across the Swedish-Finnish border.

6.2 How can the role of culture as a factor impacting merger success be described?

When applying the cultural compatibility theory of Veiga et al (2000) to our two sample-companies we find that Fazer’s culture was considered to be slightly attractive to Cloetta while Enso’s culture was considered as moderately unattractive from Stora’s point of view. Despite this difference both mergers have been successful in terms of the variables that we have used to measure merger success in this study, namely; reaching economic synergies, more efficient use of resources, retaining key personnel and maintaining customer service. One possible reason behind the differing perceived attractiveness of Enso’s and Fazer’s culture is that Fazer was a Swedish-Finnish company described by our respondent as fairly Swedish-oriented while Enso was a pure Finnish company with no specific orientation towards Sweden. Hence, we would assume that Fazer’s higher attractiveness score derives from the fact that its culture was quite similar to Cloetta. With this as a basis we find that both national and organizational culture play an important role in the success of international mergers. Moreover, we find that companies with cultures that are more similar to one’s own culture are regarded as a more attractive merger partner. However, success can be reached even though a merger partner’s culture is different and regarded as not very attractive by the other party, which Stora Enso is a clear example of. With regards to this, we would like to point out that since there are
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Several definitions of merger success, our sample-companies could have shown varying degrees of success had we used other measurement variables. Important to highlight is that these findings are based on data mirroring two respondents opinions, one from Cloetta Fazer and one from Stora Enso, and hence might differ from the overall company opinion.

Another finding is that some issues such as stressing team work among all departments, acting in a responsible manner towards environment, discrimination etc. and encouraging cooperation more than competition are better handled in the sample-companies after the merger. The likely reason behind this fact is that the turbulent circumstances around a merger demand that team work and cooperation are stressed if the merger is to succeed.

Furthermore, we find that whether or not cultural differences become problematic and whether or not the relationship will succeed, also depends on contextual factors. Regarding the desirability of the relationship, we find that if the merger is desired by the parties the probability of merger success is higher. Additionally, if the parties respect each other and communicate based on that respect, the merger is more likely to succeed. Another factor that raises the probability of merger success is business success, meaning a positive result for the merged company. Regarding business compatibility, i.e. being similar in terms of industry and organization, the empirical data from our two cases is conflicting in that the organizational compatibility of Stora and Enso has contributed to the success of the merger, whereas Cloetta Fazer shows that being too organizationally similar can impede success rather than enhance it. Considering the amount of time that has passed since the merger deal, we find that the longer the relationship has survived, the more likely the company is to be able to handle cultural differences and reach merger success.

After discussing the second research question; how can the role of culture as a factor impacting merger success be described, the following specific conclusions emerge:

- Companies with cultures that are more similar to one’s own culture are regarded as more attractive merger partners. However, success can be reached even though a merger partner’s culture is different and regarded as not very attractive by the other party.

- The stressing of team work and cooperation is an important factor contributing to success in international mergers.

- If the merger is desired by the parties, the parties respect each other and communicate based on that respect and if the company show a positive result the probability of merger success is higher.

6.3 How can measures adopted in the pre- and post-merger phases, impacting merger success, be described?

There have not been identical measures adopted between the two sample-companies, even though both of them have reached success in the end. Maybe the fact that Stora
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Enso has mergers and acquisitions as a strategy for growth, played an active role when they themselves merged in the late 1990’s. Stora Enso have been successful in every respect, and paid attention to all key factors in the pre-merger phase. The merger strategy as well as search criteria were clear. Integration planning started as soon as the merger partner had been selected. Special focus was placed upon the cultural components of the merger in the planning phase. A cultural due diligence was performed, and this guided the integration team of top managers to set up a desired integration end state, which was declared as making the best of both. Employees were also early informed about the upcoming merger and they were prepared psychologically through integration seminars.

Cloetta Fazer on the other hand, has reached success even though they have not adopted all measures suggested by theory in the pre-merger phase. The two companies, Cloetta and Fazer, had an alliance together before the merger, dating back to 1990. Cloetta Fazer also had a clear merger strategy. A finding is that specific search criteria were not used by Cloetta and Fazer since there existed no other partner for neither of them. The fact that Cloetta Fazer did not perform a cultural due diligence is another rather interesting finding. They regarded this to be unnecessary since “they knew each other so well”. The fact that Fazer has a Swedish origin, and is a Swedish-oriented Finnish company, could possibly make a merger process easier to go through, nevertheless according to our opinion, Cloetta Fazer overlooked important “soft-issues” that should have been added to the ordinary due diligence that was performed. Great many variables of the organizations can surprise the merger partners’ when proceeding with the merger process if there is a lack of profound knowledge of the merger partners’ culture. By performing a cultural due diligence eventual obstacles created by cultural components, can be foreseen and planned for. In the case of Cloetta Fazer it was not possible to effectively plan the integration end state of the merged cultures either, due to the fact that a cultural due diligence had not been performed. Another interesting finding is that the employees were kept outside and not informed about the merger until this was officially declared. Cloetta Fazer could therefore not prepare the employees psychologically for the integration process that was coming up. Looking at just the pre-merger phase Cloetta Fazer is not performing successfully.

After discussing the first part of the third research question; how can measures adopted in the pre-merger phase, impacting merger success, be described, the following specific conclusions emerge:

- Neither specific search criteria nor cultural due diligence is paid attention to, when the partner of a merger is a former alliance partner, this is a risk that can impact negatively on the merger outcome.

- Following each of the pre-merger steps; having a clear strategy, clear search criteria, making a thorough screening and due diligence in addition with a cultural due diligence and finally preparing people psychologically increases the possibilities of merger success.
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- Making a cultural due diligence and defining a cultural integration end state is crucial since it improves the early information and psychological preparation of employees and facilitates merger success.

Regarding the post-merger phase, theory states that failure on anyone of the five drivers of success; coherent integration strategy, strong integration team, communication, speed in implementation, aligned measures, can impede the achievement of merger goals. An overall finding is that both sample-companies to a great extent have accomplished the objectives set by each of the five drivers. Even though both companies have managed to reach success, there exist differences between the companies, with respect to theory. Stora Enso resembles once again theory regarding their integration strategy. There were just one clear strategy set up, all employees knew the direction and were busily involved working with a new corporate identity and vision of Stora Enso. Findings from the analysis reveals that Cloetta Fazer did not have one integration strategy, instead there existed several, which in turn were synchronised at the steering meetings, before the integration process moved forward. Instead of having all employees work on a new corporate identity, this was mainly a work of the project group at Cloetta Fazer.

A finding supported by both companies is that the organizational charts of the new companies, to a great extent resembled the old organizational structures. This in spite of the efforts of Stora Enso to let an external consultant design a new organizational structure. Stora Enso did this in order to not be trapped with old structures and act with an open mind. The matrix organization of Cloetta Fazer was new/semi-new, also here it seems like there has been difficulties in letting go of old structures, and to start with an open mind. A finding of the matrix organization is that conflicts are easily built in within vertical and horizontal levels and can create a boomerang effect of conflicts, if not dealt with properly. Another finding emerges regarding processes, systems and practical work. Both sample-companies have adopted best practices, Stora Enso though have further developed them to better suit the new organization. An interesting finding is that the partner of a merged entity that are stronger provided with managers at the top level, also have a greater influence in the process of selecting which practices, systems and work practices to use, as in the case of Stora Enso where Enso was stronger at the top. Stora Enso stresses the importance of a fair selection process based on merits. They follow up by using employee surveys investigating whether or not management treat employees fairly, if there has been any signs of unfairness these are immediately corrected. The intentions of Cloetta Fazer have been the same even though not so clearly outspoken.

Cloetta Fazer worked full time with the integration process during a year, while Stora Enso only dedicated part time to this work which lasted in total “a couple of months”. Another finding is that integration teams can have various aspects compared to theory, in the case of Cloetta it consisted of a project team of 45 members, where the project leader of each business unit contributed heavily with a personal colored touch on the decisions made during the project year. At Stora Enso the integration team consisted of the top managers of the divisions, with the former CEO of Stora leading the integration team. Both companies received the resources and support needed in order to be able to proceed
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with the integration process. At both companies the retention of key personnel has been important.

Communication has been well executed by both companies regarding their respective customers; a finding concerns the communication towards employees at Cloetta Fazer. This communication has been a bit slow, and abstractly declared especially when expressing the integration of the two companies and the matrix structure adopted. According to our opinion, there is a possibility that this can be traced all the way back to the planning in the pre-merger phase, where it would have been appropriate to better inform the employees about the upcoming merger. Regarding speed, Stora Enso proceeded with a great velocity and efficiency as the merger was completed in a couple of months, while Cloetta Fazer have worked longer on the integration process. It was completed after one year; however our interpretation is that the integration of culture in the company has not been completed yet. The fifth driver; aligned measurements are strictly adopted by both companies. One finding is that Stora Enso is more clear and specific on measurements; they are also tracking the effects in the organization in a more specific manner than Cloetta Fazer.

After discussing the second part of the third research question: how can measures adopted in the post-merger phase, impacting success, be described, the following specific conclusions emerge:

- Successful companies adopt the objectives of each of the five drivers; coherent integration strategy, strong integration team, communication, speed in implementation, aligned measurements, to a high degree and therefore reach success.

- Successful companies regard speed in implementation as important. However, a company which has a merger and acquisition strategy as a growth strategy merge the company within a shorter time frame even though the integration team is working only part-time as opposed to a company without a merger and acquisition strategy adopted as a growth strategy.

- Creating a new corporate identity, involving as many employees as possible in the process increases the acceptance of the new corporate identity in a better way thus facilitating merger success. This in comparison to working with the new corporate identity involving only management of a project team.

- Successful mergers do not invent processes, systems, and working practices from scratch they rather use best practices from the previous companies and adopt them to fit the new situation

- A company who perform all the pre-merger steps; a clear strategy, clear search criteria, a thorough screening and due diligence, a cultural due diligence, preparing people psychologically, are more likely to communicate effectively
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towards their employees, in the post-merger phase, thus augmenting merger success.

6.4 Implications
6.4.1 Implications for Management
In a merger of equals, it is important that management strives to combine the resources of the two companies as opposed to having one company acquiring the resources of the other company. Management should further be aware of the significance of an early start of integration planning, which should begin immediately after the merger partner has been selected. Making a cultural due diligence in the pre-merger phase is also of importance as well as defining an integration end state. Both measures facilitate the post-integration process, and gives employees a clear picture of where management wants to take the merged entity. Furthermore management should pay attention to informing and preparing employees early, already in the pre-merger phase, because this save time, reduce stress and the possibility of role conflicts among employees. There is a possibility to reach success without practising cultural due diligence nor expressing integration end state or explaining the intentions with the merger early to the employees, however there is a risk of carrying unsolved cultural conflicts into the merged entity where it can create problems for a long time if not dealt with properly. There are some key words that managers should express and make use of; respect the merger partner, be open-minded and not reluctant to change, built trust in the merged entity through early and active involvement of the employees in mutual projects and stress team work and cooperation among all departments. In addition, communicating the implications of the merger to customers is crucial if the merger is to succeed.

6.4.2 Implications for Theory
In reviewing literature in the early stages of this study we have come to notice that the concepts of merger and acquisition very often are used as if they where synonymous, as authors and researchers mix them and treat them as if they where the same. After conducting this study we have come to realize the huge differences that exist between a merger and an acquisition, and we would therefore like to highlight that these concepts must not be mixed and used interchangeable.

The theory on merger motives developed by Ali-Yrkkö (2002) suggests the acquiring of resources as a motive for merging two companies. While we agree that this is an appropriate motive in acquisitions, we have in this study found that the combination rather than the acquiring, of resources serves as a motive when it comes to mergers of two equal parties.

Kanter and Corn’s (1994) theory of contextual factors determining whether or not cultural differences will become problematic and whether or not the relationship will succeed, suggests that business compatibility, i.e. being similar in terms of industry and organization helps overcoming cultural differences. After conducting this study, we would like to partly question this statement. We find that business compatibility is important to a certain extent, but that being too similar can impede merger success rather than enhance it.
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The theory on measures adopted in the pre-merger phase describes the convenience of having an open mind and not be constrained by the structure of either previous company, when designing the processes, systems and working practices for the merged entity. However, in this study we have found that even companies that use best practices from the previous companies and further develop them can succeed, hence we believe that relying on old structures that have worked well, is not completely negative.

6.4.3 Implications for Future Research
This study has given us an idea of the extensiveness and depths of the area of success in international mergers. This is a vast and interesting field to make further research on. The following are some recommendations:

- Since the concepts of acquiring and merging often are used as if they where synonymous in literature, an interesting aspect to investigate further is how motives for mergers differs from motives for acquisitions. Further, we find it interesting to explore whether two merging partners have the same motives for merging and if not, how this affects the future cooperation and integration.

- We have based the cultural compatibility investigation on the values given by our two respondents, one from each sample-company and both of them from the Swedish merger-partner. We would suggest future researchers to conduct a cultural compatibility study using the index on a broader sample, preferable with respondents from both the Swedish and the Finnish merger-partners.

- Since both our sample-companies are producing companies, we would find it interesting to investigate whether or not the findings of this study holds true for service companies as well.

- Further research could be made on whether there is a tendency to neglect cultural due diligences in mergers where there has previously been a history of partnership, long-term relationship or strategic alliances.

- Is there a stronger influence by a merger partner having more managers at second level compared to a company with more managers on third level, when it comes to decisions regarding, systems, processes and work practices to be adopted for the new entity. Can this influence tilt the balance of a merger in favour of the company who were stronger at the top?

- The success variables used in this study is just one way of assessing performance over time and further research could examine other success indicators, such as level of cultural integration, elapsed time and overall success.
List of References


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Available: 20 dec, 2004


List of References


List of References


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www.storaenso.se  Organizational chart of Stora Enso
Available: December 10, 2004


Interview with Curt Petri Vice President and Head of Group Finance and IT at Cloetta Fazer, Nov. 26, 2004

Interview with Björn Hägglund, Vice President at Stora Enso, Dec. 10, 2004
Appendix 1

Appendix 1: Interview guide – Swedish version

Forskningsfråga 1: Faktorer som motiverar företag att ingå fusioner

1) Vilka var de främsta motiven bakom Ert sammangående?

2) Beaktades några av följande motiv inför sammangåendet?
   • Kostnadsbesparingar
   • Marknadsposition
   • Ökad tillgång på resurser
   • Ledarmotiv

3) Påverkade följande makroekonomiska faktorer Era motiv att gå samman?
   • Det faktum att det de senaste åren har skett många företagsfusioner
   • Utvecklandet av ny kommunikations- och informationsteknologi
   • Politiska beslut, t.ex. bildandet av EU, avreglering av finansiella marknader, restriktioner vad gäller utlandsägda företag
   • Ekonomiska förändringar i samhället, t.ex. kriser inom vissa industrier

Forskningsfråga 2: Kulturens inverkan på resultatet av företagsfusionen

4) Värdera följande variabler genom att använda en 1-5 skala, där
   1 = inte viktigt
   5 = väldigt viktigt

<table>
<thead>
<tr>
<th>Värden</th>
<th>Vilka värden anser du ska betonas i ett företag?</th>
<th>Hur betonades dessa värden i ditt företag före sammanslagningen?</th>
<th>Hur betonas dessa värden i företaget efter sammanslagningen?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Uppmuntrar kreativitet och innovation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Värnar anställdas hälsa och välstånd</td>
<td></td>
<td></td>
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<tr>
<td>3. Är receptiv till nya sätt att göra saker</td>
<td></td>
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<tr>
<td>4. Är en organisation som människor kan identifiera sig med</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>5. Uppmuntrar samarbete och team work mellan alla avdelningar</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Mäter individers prestationer på ett klart och lättförståeligt sätt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Baserar befordringar främst på prestationer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Ger ledare/chefer stort ansvar</td>
<td></td>
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</tr>
</tbody>
</table>
9. Handlar ansvarsfullt i frågor som rör miljö, diskriminering etc.

10. Förklarar anledningen bakom beslut för anställda

11. Har ledare som uppmärksammar individers ev. personliga problem

12. Tillåter individer arbeta på sitt eget sätt

13. Är alltid redo att ta risker

14. Försöker förbättra kommunikationen mellan avdelningar

15. Delegerar beslutsfattande till lägsta möjliga nivå

16. Uppmuntrar tävlande mellan anställda som en väg att avancera

17. Ger uppmärksamhet när individer förtjänar det

18. Uppmuntrar samarbete mer än tävlan

19. Har ett långsiktigt perspektiv även om det kan ske på bekostnad av kortsiktigt resultat

20. Utmanar individer att nå sin högsta prestationavnivå

21. Kommunicerar hur varje persons arbete bidrar till företagets helhet

22. Värdesätter effektivitet mer än att följa regler och procedurer

23. Erbjuder livslång anställningstrygghet

5) Vilken roll har följande faktorer spelat i arbetet med att överkomma kulturella skillnader och integrera företagen?
   - Hur önskvärd sammanslagningen var
Appendix 1

- Verksamhetskompabilitet mellan de två företagen (industri och organisation)
- Ömsesidig respekt och kommunikation baserad på den respekten
- Företagets resultat efter sammanslagningen
- Hur länge företagen har varit sammanslagna

6) På vilket sätt har ovanstående faktorer bidragit till att sammanslagningen lyckats/misslyckats?

Forskningsfråga 3: Åtgärder vidtagna före och efter sammanslagningen, som påverkat utgången av fusionen

Planering innan fusionen

7) När sammangåendet var på planeringsstadiet, fanns det då någon klar strategi för vad ni önskade få ut av en fusion? Synergieffekter?

8) Vilka var sökkriterierna av tänkbara fusionspartners? Fanns några allmänna sökkriterier? Mer specifika sökkriterier?

9) Fanns en klar integrationsstrategi innan sammanslagningen?

10) Fanns ett integrationsteam? Vilka personer, från vilka enheter deltog i planeringen innan sammanslagningen? Vad utvärderades hos fusionspartnern?

11) Förbereddes de anställda om att det skulle bli en finsk-svensk sammanslagning? På vilket sätt? Vad diskuterades?

12) Gjordes någon undersökning innan sammangåendet för att avgöra hur väl nations- och organisationskulturerna skulle passa ihop?

13) Var det en ´merger of equals´?

1. Integrationsstrategi

14) Hur gick ni till väga vid integrationen?
   - Organisationsstruktur
   - Val av system och processer, praktiskt arbete (tekniska beslut, marknadsföringsstrategier etc.)
   - Tillsättning av personal på nya tjänster
   - Behålla nyckelpersoner
   - Åtgärder för anställda som förlorar sina arbeten

15) Fanns ett öppet sinne eller påverkades ni av något av de två tidigare företagens struktur?
16) Vidtogs några extra insatser för att:
   • Kommunicera ut den nya företagsidentiteten till företagets kunder
   • Kommunicera ut den nya företagsidentiteten till företagets anställda
   • Behålla kunder

17) Finns något annat som Ni skulle vilja nämna beträffande integrationsstrategin?

2. Integrationsteam

18) Har båda nationaliteter varit representerade i det arbetslag/team som arbetade med integrationsprocessen?

19) Har teamet arbetat på heltid med integrationen?

20) Har arbetslaget/teamet fått tillräckligt med resurser och stöd från ledningen?

21) Har ledarskapet i arbetslaget/teamet fungerat tillfredsställande?

22) Har det förekommit kulturkrockar som berott på skillnader i nationskultur?

23) Har det förekommit kulturkrockar som berott på skillnader i företagskultur? (kompensationssystem, beslutsprocesser etc.)

24) Hur har arbetslaget/teamet som lett integrationsprocessen hanterat /förebyggt detta?

3. Kommunikation

25) Hur har kommunikationen från ledningen ut till företagets intressenter fungerat under integrationsprocessen?

26) Kommunikationens omfattning – har den varit till räcklig, adekvat? Vid rätt tidpunkt?

27) Har det fokuserats på hur de båda företagen passar ihop?

28) Har kunder förstått förändringar som genomförts i samband med sammangåendet?

29) Har anställda i de båda sammangående företagen förstått nya roller och möjligheter?

4. Hastighet

30) Har det funnits någon specifik tidsplan hos företaget för när integrationen ska vara genomförd?
5. Mätvariabler för att avgöra om företaget följer uppsatta strategier

31) Finns några tydliga mål / mätmetoder som visar hur väl ni lyckats uppnå Er vision och företagssammanslagning?

32) Om ni hade stått inför en företagssammanslagning idag, hade ni följt samma koncept? Om något hade gjorts annorlunda, vad och hur?
Appendix 2: Interview guide – English version

Research Question nr. 1: Factors motivating companies to merge

1) What were the first and foremost motives behind your merger?

2) Where any of the following motives considered before the merger?
   - Cost reductions
   - Market power
   - Acquiring resources
   - Managerial motives

3) Did the following macroeconomic factors affect your motives to merge?
   - The fact that there currently has been a merger wave
   - Development of communications and data processing technology
   - Political decisions such as the forming of the EU, deregulation of financial markets and liberalization of foreign ownership restrictions.
   - Changes in economic environment, such as industry-level shocks.

Research Question nr. 2: The role of culture as a factor impacting merger success

4) Value the following variables by using a scale of 1-5 where
   1 = not important
   5 = very important

<table>
<thead>
<tr>
<th>Values</th>
<th>What values do you feel should be emphasized at a company, whether or not they appear at your present company?</th>
<th>How were things at your firm before the merger?</th>
<th>How do things appear now, after the merger?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Encourages creativity and innovation.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Cares about health and welfare of employees.</td>
<td></td>
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<tr>
<td>3. Is receptive to new ways of doing things.</td>
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</tr>
<tr>
<td>4. Is an organization people can identify with.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Stresses team work among all departments</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 2

<table>
<thead>
<tr>
<th>Values</th>
<th>What values do you feel should be emphasized at a company, whether or not they appear at your present company?</th>
<th>How were things at your firm before the merger?</th>
<th>How do things appear now, after the merger?</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Measures individual performance in a clear, understandable manner.</td>
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<tr>
<td>8. Gives high responsibilities to managers.</td>
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<td></td>
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</tr>
<tr>
<td>9. Acts in responsible manner towards environment, discrimination etc.</td>
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<td></td>
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<tr>
<td>10. Explains reasons for decisions to subordinates.</td>
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<tr>
<td>11. Has managers who give attention to individual’s personal problems.</td>
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<td></td>
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</tr>
<tr>
<td>12. Allows individuals to adopt their own approach to job.</td>
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</tr>
<tr>
<td>13. Is always ready to take risks.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>14. Tries to improve communication between departments.</td>
<td></td>
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<tr>
<td>15. Delegates decision-making to lowest possible level.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Encourages competition among members as a way to advance.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Gives recognition when deserved.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Encourages cooperation more than competition.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2

<table>
<thead>
<tr>
<th>Values</th>
<th>What values do you feel should be emphasized at a company, whether or not they appear at your present company?</th>
<th>How were things at your firm before the merger?</th>
<th>How do things appear now, after the merger?</th>
</tr>
</thead>
<tbody>
<tr>
<td>20. Challenges persons to give their best effort.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Communicates how each person’s work contributes to firm’s “big picture”.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22. Values effectiveness more than adherence to rules and procedures.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. Provides life-time job security.</td>
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</tr>
</tbody>
</table>

5) Which roles have the following factors played in overcoming cultural differences and integrate the companies?
   - The desirability of the relationship
   - Business compatibility of the two companies
   - Mutual respect and communication based on that respect
   - Business success
   - The passage of time

6) In what way have the factors above contributed to the success/failure of the merger?

Research Question nr. 3: Measures adopted in the pre- and post-merger phases, impacting success.

Pre-merger phase

8) Was there a clear merger strategy set up on what you expected to achieve in the pre-merger planning phase? Synergy effects?

9) Describe the search criteria of possible merger candidates; was there any general search criteria, more specific search criteria?

10) Was there a clear integration strategy before the merger?

11) Was there an integration team? If so, who participated in the integration team, which departments were represented? Describe the assessment that was made of the merger partner? Was there a cultural due diligence made?
Appendix 2

12) Was the employees prepared beforehand that a Swedish – Finnish merger was about to take place? In what way? What was brought up in this preparation?

13) Were there any surveys made before the merger to assess how well the national and organizational cultures would fit together?

14) Was the merger a merger of equals?

1. Integration strategy

15) How was the integration performed regarding:
   - Selection of organizational structure
   - Selection of systems, processes, working practices (technical decisions, marketing strategies etcetera)
   - Selection of employees on new positions
   - Retention of key personnel

16) Was there an open mind or were you influenced by one of the parent company’s structure, or systems?

17) Was there any added measures adopted to:
   - Communicate the new corporate identity to the customers of the companies?
   - Communicate the new corporate identity to the employees of the merged entity?
   - Retain customers and employees?

18) Is there anything else of importance you would like to mention which concerns the integration strategy?

2. Integration team

19) Have both nationalities been represented in the integration team that worked with the integration process?

20) Have the integration team worked full time with the integration process?

21) Have the integration team received sufficient resources and support from top management?

22) Describe the leadership within the integration team!

23) Have there been any cultural clashes due to differences in national or organizational culture? (ways of compensation, decision processes etcetera)

24) How have the integration team prevented or managed these conflicts?
3. Communication

25) How has the quality of communication from management to company stakeholders been during the integration process?

26) Regarding the extent of the communication – has it been sufficient, adequate, at the right time?

27) Has there been a focus on how the companies fit together?

28) Have the customers understood changes that have been performed due to the merger?

29) Have the employees in the merged entity understood their new roles and possibilities?

4. Speed

30) Has there been a specific time schedule stating when the integration process should be completed.

5. Measures in order to assess whether or not the company achieve their objectives

31) Are there any clear objectives / measures (financial / non-financial) showing how well you are succeeding in achieving your merger objectives.

32) If you have had to make the merger over again – would you have decided to follow the same concept? If there had been any changes? What would have been done differently?
Appendix 3: Perceived Cultural Compatibility score – Calculations
Cloetta Fazer

The Perceived Cultural Compatibility score is calculated through the following equation using the values given by our respondent Curt Petri in Table 4.1:

\[
PCC = \frac{\sum_{i=1}^{23} OTBi ((OTBi - WASi) – (OTBi - ISi))}{23}
\]

**PCC =** Perceived Cultural Compatibility

**OTB =** Ought To Be response – How things ought to be in a company.

**WAS =** WAS response – How things were in the company before the merger.

**IS =** IS response – How things are in the united company after the merger.

Variable 1: 5 ((5-3)-(5-4)) = 5
Variable 2: 5 ((5-3)-(5-3)) = 0
Variable 3: 5 ((5-3)-(5-4)) = 5
Variable 4: 5 ((5-5)-(5-3)) = -10
Variable 5: 5 ((5-3)-(5-4)) = 5
Variable 6: 4 ((4-4)-(4-3)) = -4
Variable 7: 4 ((4-5)-(4-4)) = -4
Variable 8: 3 ((3-4)-(3-3)) = -3
Variable 9: 5 ((5-3)-(5-4)) = 5
Variable 10: 5 ((5-5)-(5-5)) = 0
Variable 11: 4 ((4-4)-(4-4)) = 0
Variable 12: 3 ((3-4)-(3-4)) = 0
Variable 13: 3 ((3-3)-(3-4)) = 3
Variable 14: 5 ((5-3)-(5-4)) = 5
Variable 15: 4 ((4-3)-(4-4)) = 4
Variable 16: 2 ((2-3)-(2-3)) = 0
Variable 17: 5 ((5-3)-(5-4)) = 5
Variable 18: 5 ((5-3)-(5-4)) = 5
Variable 19: 4 ((4-3)-(4-4)) = 4
Variable 20: 4 ((4-4)-(4-4)) = 0
Variable 21: 5 ((5-3)-(5-4)) = 5
Variable 22: 4 ((4-2)-(4-4)) = 8
Variable 23: 3 ((3-4)-(3-2)) = -6

\[
(\sum \text{Variables 1-23})/ 23 = 1.39
\]

Cloetta Fazer’s Perceived Cultural Compatibility (PCC) score is 1.39
Appendix 4: Perceived Cultural Compatibility score – Calculations
Stora Enso

The Perceived Cultural Compatibility score is calculated through the following equation using the values given by our respondent Björn Hägglund in Table 4.2:

\[
PCC = \frac{1}{23} \sum_{i=1}^{23} \text{OTBi} \left( (\text{OTBi} - \text{WASi}) - (\text{OTBi} - \text{ISi}) \right)
\]

\[
PCC = \text{Perceived Cultural Compatibility}
\]
\[
\text{OTB} = \text{Ought To Be response – How things ought to be in a company.}
\]
\[
\text{WAS} = \text{WAS response – How things where in the company before the merger.}
\]
\[
\text{IS} = \text{IS response – How things are in the united company after the merger.}
\]

<table>
<thead>
<tr>
<th>Variable</th>
<th>Calculation</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>((4-(3)-(4-3)))</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>((3-(3)-(3-4)))</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>((4-(4)-(4-3)))</td>
<td>-4</td>
</tr>
<tr>
<td>4</td>
<td>((4-(4)-(4-4)))</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>((4-(4)-(4-3)))</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>((4-(4)-(4-3)))</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>((3-(3)-(3-3)))</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>((4-(5)-(4-3)))</td>
<td>-8</td>
</tr>
<tr>
<td>9</td>
<td>((5-(5)-(5-4)))</td>
<td>5</td>
</tr>
<tr>
<td>10</td>
<td>((3-(3)-(3-3)))</td>
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<td>11</td>
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<tr>
<td>12</td>
<td>((3-(3)-(3-3)))</td>
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<td>13</td>
<td>((3-(3)-(4-3)))</td>
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<tr>
<td>15</td>
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<td>-8</td>
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<tr>
<td>16</td>
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<td>18</td>
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<td>20</td>
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</tr>
<tr>
<td>23</td>
<td>((1-(1)-(1-1)))</td>
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</tr>
</tbody>
</table>

\[
\left( \sum \text{Variables 1-23} \right) / 23 = -7
\]

Stora Enso’s Perceived Cultural Compatibility (PCC) score is -7.