

Graduate Business School

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Master Thesis:

M&As and Their Impact on the
Organization

- Three Case Studies

Authors: Andreas Andersson and Birgitta Karlsson

Advisor: Björn Alarik

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Abstract

This paper deals with the M&A process. Since it is a broad area we have decided to concentrate on the organizational change that occurs in an M&A, the integration phase, and what this means to people in the organization. To understand the underlying reasons behind the M&A and their impact on the process, we have also discussed the motives.

The theory we have used is based upon M&A research as well as on organizational change theory. The reason why we decided to take this approach in our paper is that this is something that has not been extensively discussed in previous literature and research on M&As. The empirical part of our study is conducted on three companies, which are all in different industries, of different sizes, and with different situations for the M&A.

Our first firm was a medical engineering firm based in Gothenburg. They represent a medium sized firm, and they bought a competitor in the US. Then we used a small firm based in Gothenburg that produces masts for yachts. We have looked at their acquisition of a competitor in the UK. The third firm that we have used is a large Swedish pharmaceutical company that has merged with a UK-based pharmaceutical company, however, for our research we have

concentrated on the R&D function.

Material has been gathered from these companies through interviews, which we have later analyzed with the help from the theories. We conclude in the end of the paper that it is difficult to make a general model on how to carry out and to succeed with an M&A, but there are some areas that need special attention during the integration process to make it as smooth as possible. Here, we have detected some specific areas. The first deals with the handling of the change process, which occurs in an M&A. This is a difficult process to master since we have understood that people tend to resent change. Therefore, it is important to have a strategy with a clear goal for the integration and the change process. A second concern is that the firms to be acquired or merged, should be complementary in products, and in the organizational culture, so that management is somewhat similar. This seems to make the integration proceed with fewer problems.

Our final reflection on the topic is that a general model for success of an M&A is not possible to make. The plan for the integration and change process has to be drawn from the specific situation that the two firms are facing.

1. Introductory Parts

We will start by mentioning some general thoughts about the topic. First, we will explain the importance of the topic and why it has caught our interest. The next part is a clarification of the topic to tell the reader about the different kinds of M&As that exist. After that, there is a problem analysis, which starts out broadly and then eventually leads to the problem formulation and an explanation of the research method we have used.

1.1 Background

During the last years, we have been able to clearly detect a wave of mergers and acquisition in most industries. The trend seems to be heading towards large multinational firm, were economies of scale, i.e. lowering costs as the firm increases, is the strongest incentive for the quest of being a large firm. This trend has its origin in the structural change in the financial market that started in the in the late eighties. With this, we mean the international deregulation of the financial markets, the expansion of the European Union, and the IT-boom that has made it possible for firms to operate more easily in different markets. Most firms, and their stakeholders, require a fast growth rate, an expansion rate that most firms, through organic growth, are not able to satisfy. The remaining alternative is to grow through M&As.

We have seen banks merge, such as when Föreningsbanken and Sparbanken became FöreningsSparbanken and the Finnish bank Merita that merged with the Swedish bank Nordbanken and became MeritaNordbanken, the largest Scandinavian bank. The reason for both these mergers was to increase market share and to cut costs, to realize synergy effects that stakeholders wanted. Other recent large events that have had a major impact on the people in Sweden was the sale of Volvo Cars, to the Ford Group. This was the sale of one of our national treasures and again people talked about the financial gain that could be realized, with cutting costs. The main focus when it comes to M&As has been the financial aspects, maybe because these are the most widely used means of controlling firms the today.

Through the inspiring lectures at Handelshögskolan our interest started to grow to find out more about M&As, but we wanted to take another approach to the M&A discussion. We are of the opinion that the expected financial synergies are the grounds of most M&As, and these are impossible to realize if the integration process is not handled in a manner where great concern and attention is placed on the people in the organization. The integration is the source of value creation, where the synergies are created, and this means that in most M&As a substantial change process takes place, which has caught our attention and is the main focus in this paper.

1.2 Clarification of Topic

Mergers could be thought of as any other investment opportunity. If it creates a net contribution to the owners, or shareholders, it could be a beneficial undertaking. The problem here is that it is troublesome to correctly determine an estimated net gain when initiating the merger.

Ross, Westerfield and Jaffe (1996), in their book "Corporate Finance", name three different forms of acquiring a firm.

1. Merger

A *merger* is when a totally new firm is created. There is no distinction of which firm is the acquiring and which is the acquired one. They now take a new name and create a new business entity of the two firms' assets and liabilities.

2. Acquisition of stock

This can be done in different ways, in buying the voting stocks in exchange for shares, securities, or cash. It is often done with a tender offer, which is really a public offer to buy shares of the firm targeted for the acquisition. Some factors are critical when choosing whether to merge or to make a tender offer:

- A. The board of the target firm can be bypassed if the shareholders are contacted directly.
- B. If the shareholders do not accept the tender offer, they do not trade their shares; no shareholder meeting or vote is necessary.

- C. When the bidder has purchased enough shares, it often leads to an acquisition of the target firm. (In Sweden the bidder can force a take-over when they hold 90% of the shares).
- D. Resistance by management of the target firm can make the acquisition very costly. Acquisitions of this type are often viewed by the target firm as an unfriendly move.

3. Acquisition of assets

The bidder can acquire the target by buying all of its assets. A vote by the shareholder of the target is needed. This can also be a costly process since there is a great deal of red tape to go through.

The above is a clarification of the different kinds of actions that are commonly referred to as M&As. In the following, we are going to use the generally accepted term M&A in our descriptions and discussions.

1.3 Purpose

The purpose of this paper is to find out how firms handle the integration process in M&As and what they see as success factors in the change process. In order to do this, we will use three case companies from different industries and of different sizes. This will allow us to compare how they have handled their M&A, which will broaden the perspective of our survey since we get input from companies

from different conditions. What do they find to be key in order to get the employees to accept changes? Where have they found the most resistance and how have they handled it? We want to look into a few different firms and their situations to find out if there is one recipe for success or if it is different for every firm.

1.4 Limitations

We have decided to focus on the integration process and the changes that are imposed in the process. By necessity we are also looking into the motives for the M&As that we have examined because they are, to a great extent, the driving forces in the integration and the reason for changes. However, we do not intend to look at the purely financial results of the M&A, meaning if it was a profitable undertaking in economic terms.

1.5 Problem Analysis

We will, in the initial part of the problem analysis, present a broad discussion of M&As. Later on, we will go more deeply into the areas and problems that will be highlighted in this paper. The discussion will be done from three different perspectives; first the motives and synergies that are the underlying reasons for the M&A, secondly we will discuss the integration phase and factors affecting it, and

thirdly we will focus on the organizational change process occurring during the integration. The problem analysis will in the end lead to our problem formulation.

1.5.1 Motives for M&A:s

The most widely used root for the discussion of merger motives is the economic rationality assumption; “man will do what seems to him to be appropriate in order to further his own (economic) interests” (Goldberg, 1983). The most common variables of the motives are:

- size and growth
- economies of scale
- profitability, return on shares, profit variability
- market share, market power

There are, of course, many other motives, which may go more into depth for the specific situation, but those mentioned above seem to be the root to most M&A decisions.

In addition to the motives mentioned above, there are usually some hidden motives, sometimes called “hidden agendas”, that can be very determining for how the M&A proceeds. These motives can be used as fake motives to substitute for those the players do not wish to expose (Goldberg, 1983).

The motives are also determined by what kind of M&A it is. According to

Ross, Westerfield, and Jaffe (1996), there are three distinct types of M&A:s;

the Horizontal M&A in which the bidder and the target are in the same industry, the Vertical M&A where the bidder and target are positioned at different steps of the production process. The third kind is the Conglomerate M&A meaning that the bidder and the target are not related to each other, they operate in totally different industries.

1.5.2 The Planning Phase of an M&A

The Acquisition Decision Process can be described as an analytical process, starting with the objectives, and then passing through several phases including screening, strategic evaluation, financial evaluation, and negotiation. In the end, this analysis should result in a good justification of the acquisition at a reasonable price. In reality, this process is very complicated, incorporating many dimensions and people of different functions and at different levels of the organization. According to Haspeslagh and Jemison (1991), in their book, "Managing Acquisitions", the quality of the acquisition justification is closely related to acquisition performance.

Many of the problems experienced in the integration process stem from the analysis made in the decision-making process. Although managers feel that they have followed all the prescribed success factors, sometimes the justifications lack the depth and understanding of how the acquisition can create value. Some aspects that may create problems at this stage are:

1. *Fragmented Perspectives* of many specialists during analysis and decision making.
2. *Increasing Momentum* to consummate the transaction.
3. *Ambiguous expectations* about key aspects of the acquisition between both sides in the negotiation.
4. *Multiple Motives* among acquiring managers (Haspeslagh and Jemison, 1991).

We will not focus very deeply on this part of the M&A area for the purpose of this research. In the theory and analysis parts of the paper, we will discuss the motives and decision making process briefly to be able to make conclusions about how well the M&A lived up to the expectations.

1.5.3 What Determines Value in an M&A?

Haspeslagh and Jemison (1991), present three different commonly accepted perspectives to value creation; that of the capital markets, that of other stakeholders, and that of management. The view of the capital markets has its origin in the market economy system and the efficient markets hypothesis. It judges the acquisition's value in terms of immediate financial wins for the shareholders. Other groups in society judge the value of an acquisition in terms of how well it serves their particular interests. For example, employees value pride of workplace, possibilities for career advancement, or other personal development. The community values taxes that are paid by firms operating within their boundaries. The managerial

perspective maintains that value is created through managerial action over time and appears first after the acquisition and integration are completed.

In this research, the focus will be on the stakeholder and management perspectives as we intend to look into the effects on the organization and the people who work in it.

1.5.4 Capabilities – the Cornerstones of the Organization

A company possesses a range of capabilities and they need to understand what their particular capabilities are and how they should be applied in order to be competitive in the market. The capabilities create the competitive advantage that the company needs to create value in the long run.

According to the capabilities perspective, not one, but a combination of all the capabilities and especially a few core capabilities is what makes up the competitive advantage of each individual firm.

According to Haspeslagh and Jemison (1991), a firm has to be seen as a set of capabilities within the organizational framework. A company competing in various areas, demanding different traits, should be seen as a portfolio of capabilities. In order for a firm to be able to gain competitive strength, it is necessary to have a clear picture of what its capabilities are so that a

corporate strategy can be built around them. This way, they can also identify the options that are open to the firm. When these capabilities are applied to the marketplace, they create uniqueness and competitive advantage for the firm. Competitive advantage leads to operating results for the firm, which in turn leads to value creation. In a way, one could say that Haspeslagh and Jemison (1991), mean that the perspectives of value creation are connected. There has to be a sort of chain reaction in which all the stakeholders take part in order to make a profit in the long run.

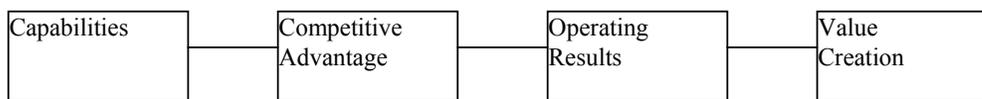


Figure 1.1: From Haspeslagh and Jemison, 1991

The capabilities-based perspective of value creation, maintains that it is not possible that one dimension creates sustainable competitive advantage. Instead, competitive advantage stems from the application of several capabilities, especially a few core capabilities. The core capabilities are those that:

1. incorporate an integrated set of managerial and technological skills
2. are hard to acquire other than through experience
3. contribute significantly to perceived customer benefits
4. can be widely applied within the company's business domain (Haspeslagh and Jemison, 1991). Thus, it could be said that the combination of capabilities applied to the market is what makes each firm unique.

The capabilities and their role in the M&A is one of the main focuses for

this paper. They will be examined as an important part of the Acquisition Decision-Making.

1.5.5 Sources of Synergies in M&A:s

1.5.5.1 Financial Synergies

According to Ross, Westerfield, and Jaffe (1996), there are four synergy sources in M&A:s:

1. Lower taxes

This can stem from the use of *unused debt capacity*, meaning when the target firm has a low debt/equity ratio. The acquiring firm, in this situation, can increase their debt, creating additional tax benefits, thus additional value to the shareholders. Another tax advantage comes from the use of *tax losses from net operating losses*. In this case, the losses from the target firm allow offsetting the taxable profits of the acquiring firm and vice versa. The last tax advantage is the *use of surplus funds* and refers to a firm that has used all the *positive net present value projects* and still has excess capital. A firm in this situation has three options; pay out the excess cash as dividends to the shareholders, buy back their own stock or purchase shares in another firm. From a tax point of view, the most favorable option is the last one.

2. Cost reduction

This builds on the assumption that the combined firm operates more

efficiently than the two separately - refers to economies of scale and economies of scope. In some cases, the acquisition can lead to better use of existing resources or to gain access to a critical success factor possessed by the target firm, that is, the core capabilities that the acquiring firm is after. The reason could also be a need for new management ideas and competencies to make it possible to get rid of inefficient and costly management.

3. Revenue enhancement

One of the main reasons for an M&A is to enhance revenues or profits. By the M&A, competition is reduced and monopoly prices can be obtained. *Marketing gains* can be won if one of the firms in the M&A possesses superior distribution networks, product mix, or media programming and advertising efforts. *Strategic benefits* can be realized if the two firms' products can be combined in such a way that the end product is superior to those of the competitors.

4. The cost of capital

A larger company has greater chances of being granted loans at beneficial interest rates than the separate firms would have had.

1.5.5.2 Human Capital Synergies

In addition to the purely financial synergies that we have discussed previously, there could also be what we call human capital synergies. This is when the two firms can take advantage of the knowledge, the so-called intellectual capital, possessed by the employees in both firms. This

intellectual capital could be expert knowledge in a particular area, as well as technological superiority and a range of other specific skills. The end goal of an M&A is almost always to become more successful in terms of earning money. The synergies gained through human capital should, in the long run, lead to increased efficiency and profitability.

There are, however, many problems associated with the human capital. Human beings are not like machines, their actions can not be predicted and therefore it is very risky to estimate the human synergies in financial terms when first initiating the M&A. It has to be taken into account that people are creatures of habit and they are likely to oppose change if they do not feel that it is beneficial to them. According to Bengt Rydén, former head of the Stockholm stock exchange, the dimensions associated with intangible capabilities of the people, e.g., competence, and the corporate culture of the firm are often overlooked, which can lead to lost possible value creation throughout the change process (Finanstidningen, 1999).

The financial synergies and how they are reached is not the focus of this paper, which is why we will not go into depth about that in the theory. We will be looking into how well the motives of the M&A can be reached through capability transfer, with human resource synergies as the main focus. We are more interested in how the people in the firm react in the integration of two firms and how they can, with their competence, bring value to the M&A. The human synergy perspective is also an important aspect when considering the change process.

1.5.6 Integration

The integration is the basis for value creation, which is why it is a critical success factor in the acquisition process and needs special attention from management. A strategic plan designed to capture the specific situation of the M&A, such as what kind of M&A it is, who is involved in the process, and what capabilities are to be transferred is necessary to initiate the M&A.

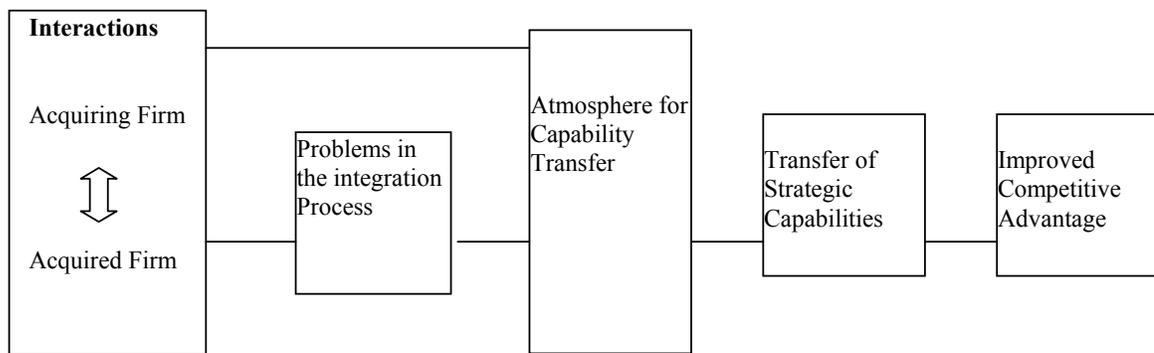


Figure 1.2: From Haspeslagh and Jemison, 1991.

As can be seen in the above figure, the acquisition goes through several phases, the integration being one, very important phase, which, according to Haspeslagh and Jemison (1991), is where the root of the value creation lies. However, in this phase, there are a number of problems that can arise. These problems need to be addressed and resolved in the best way possible, in order to get the best value enhancement possible from the acquisition. Some of the problems experienced in the integration can stem from insufficient analysis in the justification that was made in the acquisition decision making process.

Common problems in this stage can often be traced to a lack of information and direction of the integration process. Many problems are pushed to the integration stage that should have been resolved before the acquisition was even initiated. This is the increasing momentum problem from the acquisition decision stage. A broad range of motives from different stakeholders and organizational functions, meaning different departments of the firms, in the decision stage is a good base for justification. However, in the integration stage this can cause problems as all the different parties involved expect their motive to be prioritized. Differences in corporate culture and management style, as well as division of control are also potential sources of problems in the integration stage (Haspeslagh & Jemison, 1991).

Behind all the problematic areas that we have mentioned here, as well as behind an M&A process in general, is the fact that change is involved, and change is always difficult for the people in the firm.

1.5.7 Organizational Change

The two main types of change can be said to be structural, dealing with tangible features of the firm, for instance technical issues and unstructural change, dealing with emotions and human reactions. The values that are important in association with the unstructural kind of change, which is the one in focus in this study, are also important ingredients in the make-up of the corporate culture. The corporate culture, in turn, determines much of the behavior of the people in a firm and is therefore a very important tool to

be used in a situation where change is desired.

There are two other important categories of change worth mentioning, discontinuous and continuous change. Discontinuous change refers to when something in the external environment changes to such an extent that the firm has to change their operations to remain in business. Continuous change, on the other hand, occurs in stable environments and the firm itself initiates it in order to grow in a competitive environment (Hersey & Blanchard, 1993). M&As fall into the second category, continuous change which is the type we will concentrate on. Continuous change can be controlled by the firm and is, from our point of view, more interesting since we will be studying how to manage the change process in order to gain value.

1.5.8 Organizational Change and Integration

As the integration is the root for value creation, this is where much emphasis has to be put on how the change process works. Here, much attention has to be paid to how the intended value creation comes along. Focus has to be on how well the planned outcome is realized. If there is a gap between the planned and what actually happens, the reason for it has to be analyzed and the strategies might need to be adjusted (Hersey & Blanchard, 1993).

Hersey and Blanchard (1993), in their book "Management of Organizational Behavior", present two different ways of implementing

change, the *force field analysis* and the *logical incrementalism*. The first one suggests that even before deciding on a change, the factors affecting it should be examined. If those factors that are in favor of the change outweigh those unfavorable to it, it should work out well. If the opposite situation is found, that particular change may not be so advisable. According to the logical incrementalism, those that are affected by the change should be informed and involved at an early stage, this because it is such a complex situation for the employees to grasp.

Kurt Lewin created a change model with three different stages in the late 40's. The three stages are; unfreezing, transition, and refreezing and the model has been widely used for organizational change (Iskat & Liebowitz, 1996). Angelöw (1991), however, raises a finger of caution against using this theory too extensively. He finds the theory to view change as static and temporary, while Angelöw himself sees change as continuous and dynamic processes, which are a natural part of everyday life in a firm.

1.6 Problem Formulation

- How does change affect the employees and their performance and how can it be led successfully?
- What are some of the problems/success factors associated with the integration process?

1.7 Applicability to Industry in General

We believe that our study can serve as some sort of guideline for companies who are planning to undertake an M&A. Our hope is that it could serve as a way to learn from other firms' experiences in order to avoid their mistakes. However, we believe that each firm must find their own strategy according to their own unique situation. Our findings are based on the close study of three companies and can therefore not be considered right in every case.

1.8 The Thesis Process

The process of working on our thesis has gone through many different stages. First of all, we were not exactly clear from the beginning what area we wanted to explore in our thesis. After long discussions with each other and together with our advisors, we finally came to the decision that we wanted to research the field of mergers and acquisitions. Even after we had decided upon this, there were many other issues that we had to clarify before we could get started on our work, however. Most importantly, since this is an area that could be researched from many different perspectives, we had to find a focal point and create a research question or problem formulation. At first, we were not at all clear on what perspective we were going to take. We talked about examining the financial aspects or to make some sort of combination of financial and other stakeholder perspectives. Finally, we decided to concentrate on the

related areas of M&A decision making, integration, and change. This was a time-consuming but fruitful process because we learned much about the research field that surrounds M&As. It also laid a foundation for our problem analysis, which we used to pinpoint our problem formulation.

Although it has sometimes been agony and we have felt as though we will never be able to carry this project through, we have learned a lot, both about research and about the topic itself.

1.9 Our Method for the Thesis

For a more detailed discussion about methodology, see appendix 1.

1.9.1 Literature used

In our search for literature, we found one book in particular to give a very complete picture of the field we wanted to research, namely "Managing Acquisitions - Creating Value through Corporate Renewal", by Haspeslagh and Jemison (1991). We found their model to be very useful to use as a framework for our study, which is why we have followed their approach throughout our research. One of the main reasons that we chose this particular book was that it brings up some good points pertaining to our problem, that of integration and change, something which not many authors on the topic have done before. To get the deeper understanding and

framework for our study of change processes, we decided to use Angelöw's (1991) book, "Det Goda Förändringsarbetet, Om Individ och Organisation i Förändring". This book, in our view, gave a very good picture of the effects changes have on organizations and the people in them. In addition to this, we have also used other literature, both as a complement and as contrast.

1.9.2 Empirical study

We have chosen three companies from different industries and of different sizes in order to get as broad a spectrum of our study as possible. In all three cases, we have interviewed a few people about their experiences from the M&A in order to get a deep understanding of the situation.

We also find it appropriate to add that we are taking the standpoint of the Swedish companies in the M&As that we have studied. We have only looked at the deals from their perspective and interviewed people from their side although we have talked to two people from the British side of one of the companies (that had a plant in the UK before the acquisition).

First, we have a medium sized company, which has been very successful on the market of dental implants, that acquired a successful American company in order to get access to that market. In this company, we have interviewed four key players who have been directly involved in the integration process. These persons all have managerial positions, but on different levels in the organization.

Our next company is a small Swedish firm, which is highly successful on the market for masts for yachts. This company acquired a British manufacturer of masts for smaller boats in order to enable further exploration of the UK market which is more open to this kind of masts. In this case, the acquired company was on the verge of going bankrupt. We have interviewed four persons in this company too, all of whom have been directly involved in the integration process. Two of these persons come from the UK side and have been in charge of managing the integration and thus worked very closely with the issues. The other two represent the Swedish headquarters, where they hold managerial positions.

The third case is a large and, also successful, Swedish pharmaceutical company which merged with an equally large and successful British pharmaceutical company in order to grow, become better at R&D, and gain a broader range of products. We have interviewed five persons, four of whom hold managerial positions at different levels, and one who is a "regular employee".

Our interviews have been largely unstructured. We had some given questions from the beginning but no given answer alternatives. We asked follow-up questions as the interviews went along, depending on the answers we got. We did this, because we wanted a deeper knowledge of the situation and about how people felt about it. The purpose of our survey is such that it is of interest to find out personal experiences of the people involved in the M&A, how they affect the quality of the work and the work place. This, we do not believe can be researched by using questionnaires or statistical methods, because these methods limit peoples' possibilities to

talk freely and elaborate on their experiences.

2 Theoretical Background

2.1 Acquisition Decision Making – the Motives That Drive the M&A Process

There are numerous motives for M&As, no matter what industry one considers. In order to analyze them more easily we sort them into business related and market related motives. Underlying the motives are the expected synergies, the calculated gain, when the M&A is completed. In the following section, the expected synergies will be explained, as they are an important part in deciding which firm to acquire.

The business related motives are often referred to as *economies of scale and scope*. The first mentioned refers to when total production of services or products get a lower per item production cost so that in the end the total profit is maximized. To explain this even further one can think of the advantages with buying larger volumes, which usually gives a lower per-item cost than buying only a few. The cost per item also decreases in other departments like administration, production and distribution as the amount of products or services increases (Ross, Westerfield, and Jaffe, 1996).

Under the business related motives, the category of *economies of scope* can

also be found. This is explained as; the reduction in total cost that is achievable when a group of products are all made by a single firm, rather than being made in the same amounts by a set of independent firms (Milgrom and Roberts, 1992).

The market-related motives are the factors affecting the market in which the firm operates. These are factors affecting the firm, and can be non-diversifiable such as legislation or the business cycle. Therefore our concentration is going to stay on those factors which the firms themselves have a possibility to manipulate, for instance competition and customer relations. Many of the M&As are carried out to get the company to a leading position on the market, to decrease competition, and thus increase profit. The other reason is to increase the customer and product base. The customers will be offered more service as the firm is represented on more locations. Hopefully the increased size of the firm will also attract more customers that consider size a sign of security.

To further examine the choice which the firm has to make when deciding on the possible candidate for an M&A, the firm usually has a strategic plan in which the future direction of the firm and its development is described, or at least decided on. There are some alternatives, or motives in the direction of the M&A concerning the expansion, and these are also determining what kind of M&A it is. According to Ross, Westerfield, and Jaffe (1996), there are three distinct types of M&A:s, (but we will only use two of them):

1. The Horizontal M&A – In this type of M&A, the bidder and the target

are in the same industry; thus it serves to strengthen their position within the domain in relation to the competitors. The main purpose in this case is to gain economies of scale.

2. The Vertical M&A – The bidder and target are positioned at different steps of the production process. It serves to expand the domain by offering a wider range of products and gaining control of the production process, that is, economies of scope.

According to Haspeslagh & Jemison, (1991) they also include the following synergy sources in addition to those mentioned above:

- *Functional skills transfers*, which is technological or some other specific functional knowledge, which results in manufacturing at a lower cost with improved quality. This results in an improved competitive position of the firm as the functional skills are transferred and shared within the firm. The functional skills are best described as the routines, habits, manufacturing processes, and the knowledge and experiences of the employees.
- *The general management skills transfers* refers to the possibility to develop and improve the strategic organization with general management skills through the M&A. The capabilities to be transferred can be the ability to set corporate direction and leadership. Other areas are control of financial systems and control over human resource areas.

Haspeslagh & Jemison (1991), distinguish between three categories of

relations, which an acquisition can have to a specific business strategy; acquiring a specific capability, acquiring a platform, or acquiring an existing business position.

Acquiring a capability is when a firm is acquired on the basis that the specific capability is needed for the acquiring firm's business strategy. A lacking knowledge, skill, product, or management skill, is the reason for this type of acquisition. An acquisition like this is based upon the impossibility to develop the specific capability at the acquiring firm.

Acquiring a platform is an acquisition where the acquired firm needs a starting point and where they calculate to invest more capital than the cost of the acquisition itself. This is for firms investing in the long-term perspective, an investment that might not start to pay back until several years into the future. Firms that have access to capital set off for major investment usually do this kind of acquisition.

Acquiring a business position refers to acquiring a well-known business that is up and running and no further integration of the two firms is intended.

2.2 Integration – the Source of Value Creation

The need for partnerships between the employees, customers and suppliers is an important element in the new management wisdom. In partnerships operating under the win-win situation, it is possible to gain advantages of each other's capabilities and thereby get a competitive advantage. Integration refers to the organizational environment. In this case, it means that the environment should stimulate innovation and entrepreneurship, as well as collaboration across departments. Joint projects and group-work are central and information and communication ties all the parts together.

The stakeholders' views of value can be seen from the different groups that make up the stakeholders. These groups, i.e. employees, communities, customers and suppliers define the term value in different ways. For employees, it can mean pride of association with the workplace, or a means of achieving personal goals. Communities value firms for what they provide, the type of people that are employed by the firm, taxes and employment for people. For the customers the value lies in the firm's ability to meet their needs for products and services (Haspeslagh & Jemison, 1991).

The management perspective on value creation reflects their belief that their own decisions are following the strategic plans of the firm. They do not feel that the stock market reflects the value of the firm and its management. The acquisition is a long-term investment and an immediate result from it can not be truthfully seen in the stock price until expected synergies are realized. According to Haspeslagh and Jemison (1991), there are major differences of value creation between firms, some have focused

on realizing financial results, others on enlarging their business domain, and others yet, on building up corporate capabilities. They all agreed that the long-term financial results are the only true measure of their actions, and judgments that the acquisition was right for the firm.

2.2.1 Level of Integration

The level of absorption between the acquired and the acquiring firm usually depends on the motives for the acquisition itself. If the firm was after economies of scale, the absorption of the acquired firm into the acquiring one is high. The reason for this is that in order to reach the intended synergies with larger production volumes; the firms need to be integrated to one unit.

When the motive is to gain economies of scope, the acquired firm will be more likely to have a somewhat more independent existence than in the previously described example. There are also acquisitions where this is not true, since the absorption factor varies widely between companies. A general guideline, even within the same industry is impossible to identify (Haspeslagh & Jemison, 1991).

2.2.2 Managing the Integration Process

In the model created by Haspeslagh and Jemison (1991) to illustrate the

integration process, they refer to five boxes (see picture, p. 16). The third one is called atmosphere for capability transfer and deals with the environment in which the change takes place and how it should be in order for the change to be a success. There are five components that make up the atmosphere:

1. Reciprocal organizational understanding

The parties to an M&A should possess basic knowledge about each other, such as some history, personnel make-up, value, organizational approach, and culture. The firm that receives the new capability needs to develop an understanding of how and why that capability worked in the other firm. The difficulty of this depends on the capability to be transferred. It is more difficult to transfer implicit capabilities, for example how to sell a certain product. In a case like this, it is not enough to learn how to do something, you also need to understand the context in which it was done and be able to replicate that context.

2. Willingness to work together

It is often difficult to gain willingness from people of both firms to work together. This could be because people tend to see it as a zero sum game, where one party "wins" at the other's expense instead of working together toward a strategic opportunity for both sides.

There are several factors affecting the willingness of the people in the two firms to work together, including a desire of holding onto old ways, and reward systems. Other common reasons are fear of job security and a loss of power over resources. Uncertainty about changing and what the future

will bring, makes people try to protect their old routines and thus resist change. Acquired companies may feel that there is a risk that the acquiring company (if it is larger) will impose their ways, which could be very different and bureaucratic. Reward systems are very important in shaping the behavior of people in an organization. This is why it is good to create reward systems that encourage cooperation between the two firms.

3. Capacity to transfer and receive the capability

It should go without saying that the capability to be transferred should actually exist and be possible to identify. However, it could be the case that the presence of the capability has been taken for granted and the acquisition justification was carried out hurriedly without investigating the capability thoroughly enough. On the other end, the firm that is supposed to "receive" the capability must have the resources to apply it to their setting. It could be the case that they do not have enough technical equipment or knowledge or it could be that they lack sufficient manpower.

4. Discretionary resources

In order to facilitate the creation of the right atmosphere for capability transfer, both firms should have access to sufficient capital for the integration period. There should not be a fixation on the short-term results, instead, there should be allowed for some time to get used to the new situation and adjust the routines to it.

5. Cause-Effect understanding of benefits

In order to gain real advantage of the deal, it is necessary that the employees of both firms understand the benefits that can be realized by the

capability transfer and the two firms cooperating. While it is good to have a timetable and plan for when it might be possible to expect outcomes, it is, as we saw previously, dangerous to be too rigid, there must be room for flexibility when the conditions change.

The atmosphere for capability transfer is important because it determines the degree of mutual exchange and learning that takes place after the M&A. The atmosphere is created by the interaction between the people in the two firms. (Haspeslagh & Jemison, 1991).

2.2.3 Problems in the Integration Process

One common problem in the integration process that can sometimes cause value destruction is a lack of leadership and direction (Kotter, 1998, Haspeslagh and Jemison, 1991, Kanter, 1993).

Haspeslagh and Jemison (1991) suggest three problem areas when it comes to implementation; determinism, value destruction, and leadership vacuum. In the next section, leading the change process, we will discuss some obstacles to change.

1. *Determinism* - In the Acquisition Decision Process, it is good to be able to "sell" the idea to as many groups of the two firms as possible. This way, there will be a broad acceptance of it and all groups can identify advantages for themselves. However, when reaching the integration process, if the justification is made on too broad grounds, there is no one

clear purpose. All the groups want their interests to be served. A good justification can also present a false sense of security. This is dangerous because if there is a very strong belief in the initial plan, the integration process can get too rigid, there has to be room for flexibility. M&As are often faced with unexpected events and changes in the environment. These changes can lead to frustration and confusion both among senior and lower level management. Senior management becomes confused when their original plan becomes obsolete because of external events. Middle and operating managers become confused when senior management holds them to the original plan even though the situation has changed. "The problem of determinism occurs when this feeling of confusion and frustration causes managers to increase their commitment to the original acquisition justification, instead of addressing the factors causing the problems" (Haspeslagh & Jemison, 1991, p.127).

2. *Value destruction* - When employees have value for themselves destroyed, they become unwilling to work toward acquisition success. The value that is destroyed can be either *economic* or *psychic*. *Economic value*, as the name implies, refers to loss of job and income, job security, or benefits. *Psychic value* is destroyed through the rumors, presumptions, actions, and decisions affecting the lives of the participants. Psychic value can be explained as the non-monetary benefits that come from holding an employment at a certain firm, such as career advancement and the status of being part of a group. When psychic value is destroyed, there is a risk that employees start to counteract the change process and the cooperation of the two firms. These self-preservation efforts may take the form of withdrawing from work, or showing up for work with no motivation and

initiative. People in both organizations need to see the purpose of the acquisition and understand their role in it. The hard part for management to take into consideration is when to push forward and when to accommodate peoples' needs and slow down the change process. Although, it is necessary to move ahead quickly, there has to be a balance between the speed and peoples' need to understand. In order to be more successful with the change process, management should seek the acceptance of the employees for the intended changes.

3. *Leadership Vacuum*

The attention of senior executives is at its peak at the time of the deal. Once the deal is signed and it is time for implementation, they leave the responsibility to the lower level managers. It seems as though the leadership vacuum in the integration process has to do with a focus on performance expectations on the part of the senior executives. First of all, the justification analyses made before the deal, by different parties, provided a set of targets. In order to, more objectively, be able to judge the reaching of these targets, senior executives detach themselves from the integration process. Moreover, senior executives tend to leave the key content questions of how to bring the two firms together to the lower level managers to solve after the deal. The problem with this is that these lower level managers who are left with the task of solving key organizational questions were not involved in the negotiations of the justification process and are therefore not aware of the conditions of the acquisition.

A leadership vacuum at the top can cause misdirection at all managerial levels, which makes it hard to create an atmosphere favorable for capability

transfer. In addition to this, the leaders really need to "walk their talk" so that the employees feel that they can trust management. If the leader says one thing to the employees and then acts in a different manner, it will create confusion and distrust among employees (Haspeslagh & Jemison, 1991). "Senior executives need to provide institutional leadership and create a broad vision for the combined firms that will accommodate the acquisition's purpose and the respective needs of the combined firms" (Haspeslagh & Jemison, 1991, p.132).

2.3 Leading a Successful Change Process

There are two types of change. One deals with structural change, such as architectural style, technology, and dress codes. The other one, unstructural change, which is the one that we will be dealing with for the purpose of this study, deals with mental, intangible issues, such as peoples' values, norms, beliefs, and assumptions (Hersey & Blanchard, 1993). The soft values mentioned above are, to the most part, what makes up the corporate culture. Each of the firm's individuals, with their mental models, has a part in the corporate culture. More importantly, however, for our purposes, the corporate culture could be seen as something that can be manipulated (to an extent) by the firm in order to encourage certain behavior from the employees. As corporate culture is largely what determines how people in the firm react and behave, it has to encourage behaviors that promote change, such as initiative and leadership (Kotter, 1998).

According to Hersey and Blanchard (1993), there are two alternative theories to follow when implementing change. The first one is called *force field analysis* and refers to the careful examination of the organization's environment, finding factors that are favorable to the intended change and weighting them against factors that are unfavorable to the change. As follows, if the favorable factors outweigh the unfavorable ones, the change should be carried out and vice versa. This could imply that some M&As should never be carried out in the first place and mistakes of this nature might have been avoided if the force field analysis had been carried out. The other theory that they suggest is *logical incrementalism* which says that since change is usually time-consuming and complex to implement, it is good to present the idea early in the process so that the employees can get familiar with it (Hersey & Blanchard, 1993). However, when giving out information, it is imperative that it be correct, because people will immediately start to form a picture of what is about to happen based on the information they get. This picture, if it is incorrect, can be very hard to change later on as the first impressions tend to last. It is important that the changes make sense to the employees, meaning that the change reinforces the picture that the employees have of what the purpose of the organization is, and their role in it (Weick, 1995). Since the corporate culture, to a great extent, determines the employees' behavior, therefore, it should be good to establish a corporate culture that is favorable to change by promoting, for instance, leadership and initiative (Kotter, 1996).

When there is such a drastic change in an organization as an M&A, people experience various psychological phenomena. Traditionally, management

has been very hierarchical and top management has often controlled the change process. People have been seen as objects that could be manipulated instead of as thinking beings with feelings and initiative. As knowledge becomes a more central resource to firms, people are moving into a position of more importance. Therefore, more attention is paid to how they feel and what is important in order for them to feel comfortable and be highly productive. In the successful change process, the experiences and knowledge of the employees becomes the most important resource. The firm that will be most successful is the one that can engage the most of its employees in the change process (Angelöw, 1991).

To make sure that all the important areas are covered in the change plan, there are some questions that could be helpful to ask in connection with the formulation of this plan.

- | | |
|-----------------|--|
| Ethics | <ul style="list-style-type: none">• How can the employees be respected throughout the change process?• How can equal employees be treated and evaluated equally in the change process?• How can psychological and physical suffering be avoided in the change process?• How can we try to accommodate as many peoples' interests as possible? |
| Self-confidence | <ul style="list-style-type: none">• How can the self-confidence be strengthened through the change process? |
| Motivation | <ul style="list-style-type: none">• How can willingness for change be created in the firm? |
| Belief | <ul style="list-style-type: none">• How can a mutual trust be created in the firm? |
| Participation | <ul style="list-style-type: none">• In what way can the employees be made part of the change process? |

- How can all the employees be involved in the formulation of problems, discussions about changes, measures to be taken, and the speed at which the changes should be carried out?
- Information Knowledge
- How can ample and direct information be spread throughout the organization?
- Organizational Culture
- How can knowledge about the change process be spread throughout the organization?
 - How can an organizational culture that encourages change be established?
- Security
- How can all the employees be made to feel secure in times of change?
- Goals
- What do we want to change?
 - What do we need to change?
- Method
- How should the concrete change process be carried out?
 - Are all the employees part of work-teams that can make up the base for the change process?
- Allocation
- Who should do what?
 - How should the responsibility for the change work be divided between key persons?
- Timing
- When should different parts of the change work be done?
 - What have we learned from previous changes?
- Evaluation
- What problems have arisen as a result of those changes?
 - What has been good and bad respectively in previous changes?
 - How can we know that we are making progress, that is, when short-

term wins are reached?

- How often should the change process be followed up and evaluated?
- Who should do the follow-up work?

(Angelöw, 1991)

2.3.1 Resistance to or Acceptance of Changes

People tend to resist change because it represents insecurity about what will happen to them in the future. You know and feel secure with the current situation, but you are not sure what the future will bring. Change brings uncertainty and anxiety. To avoid this, it is useful to view change as a challenge instead of as a threat. When trust, sufficient information, and involvement by all parties characterizes the change process, the employees often welcome it. The concept of change in itself has no value, although to the individual, a particular change can be seen in three different ways. It can be irrelevant, positive, or negative. If it is seen as irrelevant or positive, it is usually accepted and the individual can be an asset in the change work. However, if the change is negative to the individual, it is often viewed as a threat or a challenge. If an individual sees the change as a threat, he will use much energy to defend himself and will therefore represent an obstacle to the change work. The same situation can be viewed as positive by one and negative by someone else. Thus, it is about getting each individual in the firm to see how the change can be useful to them (Angelöw, 1991). Communication is a very important factor when trying to influence resistance to change. People need to understand why the organization is changing and they need to understand the benefits of it for themselves. If

there is less satisfying news, like people losing their jobs, the best way to handle those issues is with honest, direct, and fast information. There is no need to drag out the painful process (Wilbur, 1999). To build strong working relations based on mutual understanding and respect is another important factor for managers trying to lower employees' resistance to change. It is also important for managers who face resistance not to lose focus on the goals of the change. It is a strength to be able to keep an eye on both the employees, what they feel about the change and the believed outcomes of it. Sometimes the resistance can even be turned into an advantage since it can be seen as if the employees care about what is happening around them. This, of course, requires management to find out exactly what the resistance is about and involve the employees in formulating the changes in a way that they find meaningful (Maurer, 1998).

There are several different defense mechanisms that people use to resist change:

1. **Aggressiveness** - An unnatural anger in association with the coming change. To protect his self-respect and security, the person uses anger against management and might even spread unconfirmed rumors about what management will do in the future, acts that would hurt job security.
2. **Denial** - The person avoids dealing with the coming change directly. He notes that change will take place but he refuses to realize that it will affect him. Even if he was told in advance, a person in denial might very well have forgotten all about it once the change is

initiated.

3. **Cast suspicion upon** - In this case, the person believes that the real motives for the change are different from those stated. He thinks that there could be hidden motives that are favorable only to the manager.
4. **Lack of Interest** - The person shows a total lack of interest for the change and believes that everything will remain the same after all. The difference between this and denial is that the person is aware of the change but does not show any interest in it. He is passive and believes that he will keep the same role in the firm.
5. **Rationalization** - Means that the person makes up explanations that are not really in line with reality in order to cope with the change.
6. **Regression** - The person goes back to earlier stages of development. He often becomes very dependent on guidance from above instead of taking initiative on his own. It is also common with alcohol and drug abuse.
7. **Projection** - The person blames others for events in which he takes an active part. This is usually called creating scapegoats.

Before a major change that can be seen as threatening, it is common that people go through certain stages and reactions. When they first hear of the change, the psychological capability may be altered resulting in difficulties with concentration, decision-making, and a lowered cognitive ability.

People tend to concentrate on non-essentials, become restless, and have difficulties remembering what they are told. Thus, the information that is given to a person in this condition must be repeated at a later time. It is very common with rumors and misunderstandings at this stage because the information may pass several levels before it reaches the people that are affected. In a situation of stress, such as one when there is major change, people could end up in a situation of tunnel vision, meaning that they lock out information that they do not desire. Sometimes this can be blamed on the sender because he does not provide accurate information due to the fact that it is difficult to hand over negative information. Another phenomenon that is closely connected to tunnel vision is when the cognitive process blocks off important messages because the person is subject to psychological pressure. The person can not take in information and especially not information that is not in line with prevalent conceptions. It becomes harder to choose between different paths of action.

After the initial shock, people gradually start to understand the situation and find a purpose with what is going on. Even in this stage, some physical and psychosomatic symptoms might appear, such as headaches, stomachaches, and dizziness. It is important to let the individual express his experiences of the situation. The information about the changes might have to be repeated to make sure that the individual does not build his picture of what is happening on false grounds, for example incomplete rumors. If the change process is handled in such a way that the individuals are allowed to take part and express how they feel about it, people will eventually start to accept the changes and even become hopeful about the future (Angelöw, 1991).

2.3.2 Change Strategy

There are some aspects that need to be carefully considered before starting up a change process in the firm. The degree of involvement by employees is one of those important aspects that we will be discussing somewhat more in depth in the following text. According to Angelöw (1991), there are three different change strategies with different degrees of employee involvement: the top-down, the representative, and the involving strategy.

The *top-down strategy* means that a few people are involved. In this case, top management defines the problem and an action plan is created either by management themselves or by a consultant who in turn gives the completed action plan back to management for execution. The basis for the top-down change strategy is that management has an objective view of what is best for the firm in the short term. In order to carry out the changes more smoothly, it is important that as few people as possible are involved. It is believed that it is better to inform people about a concrete proposal so that the employees cannot build up resistance toward something that they find to be insufficiently thought through in the plan. It follows quite naturally though, that the top-down change strategy leads to resistance and hard feelings in the longer run. The employees feel run over and left out because they have not been involved in the planning of their own future (Angelöw, 1991). This leads to the opposite of what was desired, namely that the employees start to oppose the change efforts. Other common consequences are conflicts among employees, lower work morale, loss of communication

between different levels of the firm, and a feeling among the employees that they are not important (Olsson, 1985).

The *representative change strategy* means that representatives from different parts of the firm are involved in planning and executing the change. The employees get continuous information about the proceedings of the change process. In the initial stages of the representative change strategy, the employees may be partly involved, especially if the change deals with a problem that was acknowledged by the employees as something that needed attention. However, the employees are mostly not directly involved in the change process. Usually, their involvement is limited to collection of data, answering questionnaires, or getting a heavier workload since one of the fellow workers has been part of a project group working on the change process.

The *involving change strategy* is based on the assumption that all of those affected by the change should be involved in the process. Changes should be planned, carried out, and followed up by those that are affected by them. This means that a substantial number of people are involved in the process. Although this change strategy is time consuming, it leads to a willingness to change among those affected. Everyone is a change agent and has to take responsibility for carrying out the changes that have been proposed. In this strategy the chances are good for change to become a natural part of everyday work.

To successfully implement change, not just managers, but people at all levels of the organization who can act as change leaders are needed. With

the help of a large leadership team, a powerful vision can be created and communicated. The employees can be empowered to act on the vision, relevant short-term goals can be set, flexibility can be incorporated in the vision, and the new routines can be anchored in the organizational culture (Kotter, 1998). According to Kotter (1997), there are six important characteristics of an effective vision:

1. *Imaginable*: Conveys a picture of what the future will look like.
2. *Desirable*: Appeals to the long-term interests of employees, customers, stockholders, and others who have a stake in the enterprise.
3. *Feasible*: Comprises realistic, attainable goals.
4. *Focused*: Is clear enough to provide guidance in decision-making.
5. *Flexible*: Is general enough to allow individual initiative and alternative responses in light of changing conditions.
6. *Communicable*: Is easy to communicate; can be successfully explained within five minutes.

Table: 2.1 from Kotter, 1997

A good vision statement creates a sense of cohesion and teamwork in the organization and helps everybody to head toward the same goal. In a change process, a good vision statement has three different purposes; it clarifies the general direction of the change, it motivates people to take action in the right direction, and it helps to coordinate the actions of different actors. If people understand the current reality and have a vision of what the organization wants to become, the difference between the present and the potential future defines the agenda for the change and serves as a motivator to work towards the intended future (Simpson, 1994).

3 The Case Studies

In this section we will present the information that we have gotten through the interviews. Later in the "conclusions section", we will take a more critical look at these facts and add our own reflections in order to make some final points about the cases.

3.1 Case 1 – Nobel Biocare

Nobel Biocare was founded in 1981 in Gothenburg, Sweden and is a medical engineering firm. Their market position is in dental implants, but also bone-anchored hearing aids, facial prostheses and dental crowns. It is truly an international firm with ninety percent of its sales outside the Nordic countries, with customers in more than 50 countries. The firm has the manufacturing facilities in Karlskoga, Sweden and in Yorba Linda, California. Nobel Biocare has subsidiaries and sales offices in 20 countries, and employs more than 1000 people (Nobel Biocare).

The firm's philosophy is to improve quality of life for the patient in need of tooth replacement. Nobel Biocare's mission is to "develop the global market and strengthen their position on the world's leading supplier of innovative dental surgical and prosthetic products with optimal treatment results".

Their objective is to achieve a sustainable sales growth of 20 percent annually. They also commit 6 percent of their income to research and development.

The operations are divided into two business areas; dental implants, including the Brånemark and Steri-Oss systems, and the high-tech computer system called Procera.

The dental implants systems to start with, goes back to the discovery by Professor Per-Ingvar Brånemark, that bone-a living tissue, accepts titanium as a natural part of the body. This named the implants procedure, the Brånemark method.

The Brånemark system is the dental implant method. It covers material, fixtures and other system components to integrate with the tissue, withstanding long-term usage and normal chewing functions. The Brånemark system is used to treat both complete and partial edentulousness. Small screw-like elements (called fixtures) are placed in the jawbone and act as new dental roots. The new crowns are secured onto them. The patient is given teeth that are stable and look and feel like natural teeth; they also have better chewing ability than a conventional detachable prosthesis or a bridge. The treatment method is well established and documented and more than 700,000 patients worldwide have received new teeth with this method (www.nobelbiocare.se).

In September 1998 NobelBiocare acquired their American competitor

Steri-Oss. Steri-Oss was the leading US dental implant company, the dental implants method is also called Steri-Oss, which is a system with a large freedom of choice and user-friendliness. This has helped the system to get a powerful position among general dental practitioners, especially on the US market. Steri-Oss offers implants with different surface coatings and has expertise in the HA (Hydroxyl Apatite) -coated implants. Which is a substance that is designed to accelerate integration between the implant surface and the jawbone. Sales for the Steri-Oss firm have increased by more than 20 percent in recent years (Nobel Biocare annual report, 1998).

The other business area is the computer system called Procera, a high-tech industrial CAD-CAM process for production of dental crowns. It is used to manufacture the nucleus of prosthetic replacements for dental crowns and bridges. The usage is first to have a scanner and PC at the dental laboratory. With these items the shape of the tooth can be registered with high precision. The copying is then designed on the computer using CADD (computer Aided Dental Design). Then the information is sent to a Procera production unit, where the coating is produced (Nachemson-Ekwall, 1999b).

3.2 Case 2 – Seldén Mast AB

The corporation is one of the world's leading manufacturers of masts and rigs for yachts. The Seldén Corporation with the world headquarters in Gothenburg was founded in 1960. Five years later they started manufacturing masts made out of aluminum, which is still the best selling product. Seldén Mast AB has been a very successful company and they now have production plants in Gothenburg, England and in the U.S. with over 700 distributors selling their products. The Seldén Corporation has done a few acquisitions, the first being to buy 50% in Kempe Masts, which took place in 1976. Six years later in 1988, they decided to expand even further and acquired the YRAB (Svartå Yatch Rigging AB), and they also acquired the remaining 50% of Kempe Masts. The international expansion of Seldén started with Kempe Masts, which after the entire company was purchased became Seldén Masts Ltd. In 1997, after several years of negotiations Seldén Mast AB acquired Proctor Mast Ltd., based in England. Proctor has been incorporated into the Seldén Mast Ltd., which is a wholly owned subsidiary of Seldén Mast AB in Sweden, as a manufacturing and distribution location. The acquisition was a strategic decision by Seldén since they wanted to expand into a new product segment, manufacturing masts for smaller boats and dinghies. Proctor was operating in this market and possessed the skills necessary, which is what Seldén Mast was after. In 1998, Seldén Mast AB also founded a production location in Charleston, South Carolina.

The philosophy of the Seldén Corporation is that all employees should be sailors, so that they make products of good quality. The products must be so good that the employees would want to use them when they go sailing. This has not presented a problem in Sweden, as all the employees are

sailors. However, in the UK and the US, they have had to work on this. In the US it has been quite successful, the staff have been out sailing together on weekends. In the UK, it is somewhat more difficult since the class-differences are very prominent, it is hard to get people from different social classes to socialize with each other on their time off.

3.3 Case 3 – AstraZeneca

The discussion of the merger AstraZeneca, will be done on the Research and Development department. This is due to the size of the firm, and we feel that a focus is required for the purpose of this paper. There will be a short summary of the entire firm, so that all underlying reasons for the merger will be clarified. The discussion and analysis are done entirely on the R&D department of AstraZeneca.

In April 1999 AstraZeneca was formed through the merger of Astra AB, Sweden, and Zeneca Group PLC, the UK. The firm is a provider of pharmaceuticals for serious health problems in seven different therapeutical areas; cancer, cardiovascular, central nervous system, gastrointestinal, infection, pain control and anesthesia, and respiratory.

The firm has its corporate headquarters in London and has more than 50,000 employees world wide. The Research and Development (R&D) centers are in Sweden, UK and the USA, with the R&D headquarters in Södertälje, Sweden. The R&D department of AstraZeneca has approximately 10,000 employees and an R&D investment of US \$ 2billion

in 1999.

Their business philosophy is based on their combined expertise of the two firms, with a concentration of skills and resources to maintain a flow of high-quality medicines which offer improved benefits for patients and a business performance that delivers value for their shareholders, customers, employees and other business partners (www.astrazeneca.com).

We find it appropriate to add that most of our study took place before the large announcement of the new strategies for the entire organization. This announcement meant that the employees were given more information about what the future would look like for them. Since this was done at the very end of our research period, we have not been able to analyze the effects of this particular announcement.

3.4 Acquisition Decision Making – the Motives that Drive the M&A Process

Nobel Biocare

The acquisition of Steri-Oss by Nobel Biocare meant synergy effects in terms of *economies of scale*. The increase in production means that the synergy effects are realized since larger quantities of materials for production can be purchased at a lower price than

before. This can also be referred to as *a horizontal acquisition* since Steri-Oss was a direct competitor of Nobel Biocare, producing and selling similar products with just slight differences. According to managers at Nobel Biocare, the acquisition was intended to, and did, enlarge the business domain in relation to the competition. It was a means for Nobel Biocare to grow stronger on the US market, and a chance for Steri-Oss to increase market share on the European market. The US market is important since it is the largest market for dental implants. It is also the market where most research is carried out and the competency is regarded as being of high class. If a firm is successful on the US market it is very likely to continue to be successful on other markets as well, according to managers at Noble Biocare. Nobel Biocare needed to grow fast to sustain as a strong entity on the dental implants market. Organic growth would have been an alternative but too slow. The fastest and best way to grow from Nobel Biocare's point of view was to acquire a firm in the right geographic location.

Economies of scope, were also realized since the difference in the products of the two firms made the unit more complete. One of the purposes of the acquisition that they have mentioned to us was to gain the brand name, production, and distribution channels of Steri-Oss. The difference in the products of the two firms was in the surface materials of dental crowns; they both possessed their own unique product with well-known brand names. This was one of the products that Nobel Biocare wanted to gain through the acquisition of Steri-Oss. The second product that was added to Nobel Biocare's product base was, HA (Hydroxyl Apatite) coating, a substance which is designed to accelerate the integration between the dental

implant surface and the jawbone. Thirdly, the important capability that came with the purchase was the effective sales-department of Steri-Oss. This department was integrated with the sales-department of Nobel Biocare of Chicago, and moved to the Steri-Oss production plant and headquarters in Yorba Linda, California (managers at Nobel Biocare).

The Brånemark system was widely recognized for the high quality and long history of clinical studies on patients that had been carried out. Some of the *functional skills transferred* to the Steri-Oss plant were design and production processes of dental implants. Since these functional skills were much more developed in the Swedish plant at Karlskoga, the production manager from that plant was transferred to the Yorba Linda plant to train the employees there. Moreover, Nobel Biocare implemented the control system SAP R/3 at Steri-Oss, to be able to keep close track of the activities going on in the firm. This means that the entire firm is now connected through this system and can easily communicate with each other, no matter where they are located.

The general management skills transferred were of no greater importance since Nobel Biocare found Steri-Oss to be a well-managed and successful firm. Some slight changes did take place as Nobel Biocare's office of Chicago was integrated into that of Steri-Oss in California. The management team running Steri-Oss continued after the acquisition, with added responsibility for the entire North American region. Synergy effects were realized through less administration costs as the Nobel Biocare office of Chicago was moved to the plant in California.

Nobel Biocare acquired, with Steri-Oss, an up-and-running firm, with a good reputation and a strong home market. With the acquisition of Steri-Oss, Nobel Biocare "bought" a gateway for successful selling and distribution on the US market as well as satisfied customers. Steri-Oss had no subdivisions in Europe; instead, they were selling their products to the European market through distributors. After the acquisition, Nobel Biocare bought some of these distributors' sales-organizations and these were added to the already existing sales offices of Nobel Biocare. Most of these were very positive since it meant that they were now a part of the industry-leading firm in dental implants. Others were not so positive and refused to assist by giving out names, addresses, and price lists of their customers, meaning a lot of extra work of investigating nature. They had to act as detectives tracing the customers of the former Steri-Oss in order to inform them about the move so that they would be able to find the products.

At the time of the acquisition announcement, Nobel Biocare distributed information pamphlets called "Together" to customers and employees. Here, Nobel Biocare listed the advantages with the acquisition of Steri-Oss and what it would mean for the future of the firm. There are six areas that were considered important when Nobel Biocare decided to purchase Steri-Oss.

1. A complete range of products.
2. Global leadership and strength, which means quick access to the benefits of global network, and a leading-edge dental care development.

3. Breakthrough dental care developments, expanding activities into the consumer market.
4. Critical mass/scale, robust market development and the resources for potential consumer pull-through activities.
5. Increased support network, greater ability to cater to individual, clinical, business, and educational needs.
6. Expanded research and development for the future.

The decision to acquire Steri-Oss followed the strategic plan that Nobel Biocare had developed after careful analysis. Considering broadening their product range within osseointegration as orthopedics, or to have a more focused strategy - on dental specialist products, to choose between high volume or high margin, they decided on the latter. The philosophy behind this being that it is better to be the best on a limited market, than being second best on a larger market. Having taken the path of being the best in the dental specialist products, they were looking at an estimated market potential of 12-15 billion SEK (with the dental implants) on a market that was only developed to 25-30% of its potential, this excluding the Procera market. Nobel Biocare had a strong market position with a market share of 25-30% and was, with that, the leading company on the market (Nachemson-Ekwall, 1999a). The overall purpose was to gain a substantial growth in the product sales and a long-term profitability of the company. In order to reach these goals it was necessary to increase the business volume to be able to intensify the marketing efforts and continue as the leading

firm within research and development. Before the decision was final, Nobel Biocare had screened the entire industry and analyzed all the competitors. There were also scenarios considered with potential future threats by different competitors. The conclusion was that Steri-Oss suited their needs very well. They had the scale, products, customers, competency in sales, and the geographical market position.

As we see it, Nobel Biocare used the *force field analysis* in order to determine if the acquisition should be made. This means that they made sure that the advantages expected from the acquisition outweigh the expected disadvantages.

Seldén Mast AB

According to the management at Seldén, the main reasons for the acquisition were to diversify the product range and to move into the UK market. Proctor Mast Ltd. was chosen because they produced masts for smaller boats, which is more popular in the UK. On the market for larger masts in the UK, Seldén had reached the limit of sales; they could not grow anymore because the market was saturated. The Proctor brand name is well known and can grow much stronger on the UK market (managers at Seldén Mast).

The motives for the acquisition of Proctor Mast Ltd. were both *economies of scale* and *scope*, just like in the Nobel Biocare case.

Economies of scale, have been reached through a *horizontal acquisition*, since they are now able to produce more. As production increased, the per-unit cost of production decreased, which was one of the main motives for the acquisition according to the Seldén managers. The acquisition of Proctor Mast Ltd. is a so called horizontal M&A. Seldén Mast AB bought a firm operating in the same industry, with similar products, but with slight differences. Seldén's acquisition strengthened their position in the domain, in relation to the competitors. According to the managers, it was important for Seldén Mast to grow and the natural step was to expand into the important UK market. As in the case of Nobel Biocare, they bought their way into the UK market through the acquisition of an existing firm with a known name.

Economies of scope have been realized with the increase in the range of products, making it more complete. The increase of production comes from the broadened product range, which came from the addition of Proctor's products, including masts for dinghies and smaller boats. The purpose of the acquisition was to gain the brand name, production, and distribution channels for masts intended for dinghies and smaller boats. With the acquisition they also purchased their own distribution line in the UK. Proctor Mast Ltd. was a production plant for masts, but they were also selling their products directly to customers, something in which Seldén Mast had not previously been involved (managers at Seldén Mast). This can be seen as an attempt to integrate the business into distribution and direct selling to customers. Again, this is a similar scenario to that in the acquisition of Steri-Oss by Nobel Biocare. Seldén, just like Nobel Biocare have complemented their product range through their acquisition of Proctor

Mast Ltd. and they have at the same time acquired distribution channels to reach the UK customers more easily.

This is, as one manager told us, also what is happening with an ongoing acquisition that Seldén Mast is undertaking at this moment in Denmark. The firm to be acquired is one of Seldén Mast's former distributors, the purpose of this being, to enlarge the product base on the Danish market. The distributor was selling Seldén's products, but also products from other firms.

A functional skills transfer took place when Seldén's competitive edge on the market was applied to the manufacturing of Proctor products. This competitive edge is the special attention that is put into the design and engineering of the products. In order to transfer these skills, Seldén sent over their production manager from Gothenburg to the UK location to teach the Proctor workers the production process of Seldén. The design of Seldén's products are input saving, and of high quality, something with which Proctor Mast Ltd. were not previously concerned. As the managers of Seldén Mast have later been faced with, they never bothered to keep track of costs for production in order to gain financial efficiency.

Seldén Mast also renewed the production line as the plant was given a facelift. The purpose of this was that a uniform production system at all Seldén plants is a part of their strategic business plan. This has its roots in the well working production of the plants in Sweden and the high output these plants accomplish. A replication of this was made in the acquired Proctor plant.

The project manager has an important role in the functional skills that are transferred and in making the firm uniform. The manager for each functional department is the manager for that specific department for all locations of Seldén Mast. This means, for example, that the plant manager on the UK location is the same person as in Sweden, which makes problems easier and faster to deal with.

Instead of having one manager in charge of the entire global market, Nobel Biocare chose to let the Steri-Oss functional managers continue, although with some help from the Swedish production manager, with the added responsibility for the entire North American. In that case, though, the management team at Steri-Oss was highly competent and Nobel Biocare saw no problems in letting them run the US business. After all, they knew the American market better. In the Seldén case, the management team of the acquired Proctor Ltd. had showed few signs of competence and run down the company completely, therefore Seldén wanted to keep more control over operations from their Gothenburg headquarters.

Seldén Mast identified a number of improvements that needed to be done in the way Proctor Mast Ltd. was managed before the integration could start. They found that they needed to transfer the *general management skills* that they had developed over the years. Proctor Mast Ltd. had a management without a sufficient control system, financial or otherwise. Management had no control over the material costs and sometimes even sold the final products at prices that did not cover the costs of inputs. The financial system was replaced by a compatible control system between the Seldén

Mast plants, so that through a linked computer-base it was possible to see material in stock and production speed. In addition to this, all the companies within the Seldén group share the same accounting system and checkup, to keep tight control over the capital. Just like Nobel Biocare, Seldén Mast chose to link all the locations together through a common computer-based control system in order to make it easier to communicate and stay ahead of what was going on at the different locations.

Some changes also took place in the management group as Seldén Mast Ltd. was merged with Proctor Mast Ltd. The control over purchasing and sales was also moved to the Seldén Mast office in Sweden to have a tight control over the firm. Instead of this, Nobel Biocare moved all the stock to the same warehouse location in Europe to be able to keep track of the sales and distribution more easily.

Seldén Mast has acquired several firms that they find fit well into their strategic plans. When they choose a firm to acquire, they examine the corporate culture and the philosophy of that company very carefully to make sure that it will be possible to work with them throughout the integration. They have warded off acquisition plans at the last minute because they did not feel that they would be able to get along with the management in the other firm. They felt that they counteracted them and that there was a great risk that the acquisition would fail (manager at Seldén Mast).

The above implies that Seldén, like Nobel Biocare, use *the force field analysis* strategy when they decide on what companies to acquire. They

weigh the positive against the negative and if they find more positive than negative effects, they decide to go ahead. If, on the other hand, the opposite situation is found, they are not afraid to turn down the deal.

According to managers at Seldén Mast, they knew when they bought Proctor Mast, that they needed to make major investments. Proctor was run down, the production was ineffective, and they knew that major investments in the plant were required to make it profitable - investments that might exceed the cost of the acquired firm. Thus, they aimed at *acquiring a platform*, a long-term investment, where the importance was acquiring the location and then gain stability through improvements in the slacking parts of the firm. Nobel Biocare, in comparison, were never faced with this problem since they acquired a company that was very well functioning by itself. They did not need to make any major investments in technical equipment or facilities. Their investments were limited to the structural and administrative ones including the SAP R/3 system for controlling the operations.

AstraZeneca

The primary reason stated by the managers we have talked to for the merger between Astra AB and the Zeneca Group PLC was that size is getting to be more important in the pharmaceutical industry, and then, especially, the capability to pool resources and capital for research and development of new pharmaceuticals. In this, the two firms found each other complementing one another in the product areas.

The same basic reason as for the acquisitions by Nobel Biocare and Seldén Mast, although between Astra and Zeneca it was a merger of equals. It was a merger on the grounds of *economies of scale*; both firms had the opinion that a substantial growth was necessary for further existence, a goal that was hard to reach through organic growth. The solution was external growth through a merger with a complementary firm of approximately the same size. The synergy effects realized in the future of the R&D department could potentially be tremendous compared to if the firms would operate without integration. Together, they create the second largest research center in the world in the pharmaceuticals industry (www.astrazeneca.com). The synergies are realized as the firms and their R&D functions are integrated. The resource inputs for research and development can be lowered with sharing of research and knowledge. There are also synergies realized through cost reductions from sales departments and administration, resulting from layoffs in overlapping areas, although in the R&D department this cannot be seen yet. According to one manager at AstraZeneca, the substantial cost saving synergy effect is not the people laid off, it is the people not required to be employed in the future. That means that most of the synergies, calculated to be 6000 employees that are not needed in the new AstraZeneca, is made up by people that would have been hired if the firms would operate independently in the future. It is the long-term earnings growth that AstraZeneca's management concluded was the intention with the strategic merger of equals, on the grounds of financial strength and scale.

Another business related motive for the merger is *economies of scope*, which, in this case can be reached since the firms complement each other

and the product base can be broadened. The firms complemented each other both in products and in research, with some slight overlapping, especially in the area of production and marketing. In this respect, all three M&As that we have looked into are similar, they all serve to complement the existing product range in some way. There is, in all three cases, some minor overlapping (that is probably unavoidable) especially in functions such as administration, marketing, etc. That is also where they have all wanted and realized synergies in the form of personnel cuts.

The functional skills transfer, will be found in the exchange of research and information that the R&D centers at each firm has come up with. This is important since break-throughs, with shared information and new ideas will be available to the research centers, which will hopefully fasten the time consuming process of developing useful pharmaceuticals. Here, the merger between Astra and Zeneca differs from the acquisitions made by Nobel Biocare and Seldén Mast, at least when considering the R&D department. In the R&D function, according to a manager we interviewed, it is not about teaching one firm to work in the same way as the other, instead it is about sharing information and learning from each other. Instead of choosing one best way out of the two, they will, through sharing and mutual learning, come up with the "AstraZeneca way", which is a combination of the best from both companies.

Other reasons presented by AstraZeneca as overall reasons for the two firms to merge were (www.astrazeneca.com):

1. They wanted to have a leading position in a number of specialist

markets, like oncology and anesthesia.

2. A widespread class coverage in key therapy areas, such as cardiovascular and respiratory disease, due to the complementary nature of their products.
3. An ability to deliver the potential of existing and future products through the power and the reach of combined global sales and market resource.
4. They wanted a major primary care presence, particularly in gastrointestinal, cardiovascular and respiratory medicine.

Expected synergies as a result of the merger, specifically for the AstraZeneca Research and Development Department are (www.astrazeneca.com):

1. Substantial R&D expenditure-pro forma combined 1998 R&D expenditure US \$2.2 billion would have positioned AstraZeneca as the second largest R&D organization in the pharmaceutical industry.
2. Strong combined development pipeline, with 50 new chemical entities, with some 12 new products on track for the launch in 2001.
3. Potential for further discoveries by the greater scale and focus on selected areas and technology.

4. Research partnerships to supplement its own R&D, AstraZeneca will work with external partners, such as academic institutions and other pharmaceutical companies, to broaden its range of exploratory research and to gain access to more scientists and new technologies.

Although, there are, of course, negative aspects connected with the merger as well, the firms have, in their negotiations found that the result would be, to the most part, positive. This means that, they too, have used the *force field analysis* when deciding to go ahead with the deal.

3.5 Integration –the Source of Value Creation

In the following sections we will take a look at the integration process, to which extent the firms choose to integrate the two parties, how to manage it in a successful way, and what problems could arise. We start out by examining the level of integration.

3.5.1 Level of Integration

Nobel Biocare

NobelBiocare integrated the Chicago office completely into the acquired Steri-Oss. The entire sales department was kept and moved, but some of the

other employees were laid off since there would be no place for them at the Yorba Linda location. Management set the time frame for the integration at one year.

Nobel Biocare examined Steri-Oss carefully before the acquisition process was started and found that Steri-Oss had a profile that they thought fitted the purpose of the acquisition. Their position as a strong leader on the American market with a well-known brand name was a match for Nobel Biocare that saw external expansion as necessary for future survival.

Seldén Mast AB

Seldén Mast AB also chose to integrate Proctor Mast Ltd. completely with their already existing English organization. It was estimated that it would take three years for Proctor to be completely integrated into the Seldén organization. It was Seldén Mast Ltd., an English firm, with English staff and management, that bought Proctor Mast Ltd., but they, in turn, had a Swedish owner, Seldén Mast AB. Seldén wanted all the processes and routines to be the same in all Seldén plants, no matter where they were located. This, as was recognized by the Seldén managers, meant that much had to be changed about the work routines in the Proctor plant. Seldén have set their integration plan at three years, whereas Nobel Biocare have limited the time for integration to one year. This was possible in their case because Steri-Oss was a well-organized firm and Nobel Biocare did not have to update their facilities and management team before they could start the integration process.

AstraZeneca

The two companies in this merger have been, or rather, are currently being totally integrated into one unit. For the R&D department, which is the one that we have been investigating, this is quite a slow process, because some time is needed before it can be determined which parts to keep and where they should be located. There is not much overlap between the areas researched by the two companies; instead, they complement each other quite well in terms of research areas. Here lies one of the main differences between the two acquisitions that we have researched and the merger between Astra and Zeneca R&D. Even though, just like in the other two cases, Astra and Zeneca will be completely integrated, the process for that to be accomplished in the R&D function has to be longer since they have to work out their own model (managers at AstraZeneca).

3.5.2 Managing the Integration Process

Nobel Biocare

1. Reciprocal organizational understanding

According to the interviewees, both firms were well aware of each other, they had been direct competitors and were both well known and had good reputations on the market. Moreover, since Nobel Biocare had an office in

Chicago already, they also knew much about the American management style and organizational culture.

The two companies, as mentioned before, complemented each other very well; this also goes for the capabilities to be transferred. The Nobel Biocare managers had determined that Steri-Oss was better at marketing and sales and that Nobel Biocare had better production procedures. For this reason, Nobel Biocare sent over the production manager from their Karlskoga plant to train the employees in Yorba Linda. In order to take advantage of Steri-Oss superior marketing and sales competence, they were put in charge of the entire North American region.

2. Willingness to work together

At first, the employees at the Yorba Linda location of Steri-Oss were somewhat confused because they were suddenly going to work for one of their main competitors. However, since the information was given in a professional manner and actions were taken very fast to avoid uncertainty, this was not a great problem. Moreover, at this location, no negative changes were to be done, in fact, the workplace was going to be expanded, which meant that the employees ran a very low risk of becoming unemployed due to the acquisition. Since they became responsible for the North American market for Nobel Biocare, it meant that they got added responsibilities. This, according to managers at Nobel Biocare was a major stimulator for the employees at former Steri-Oss in Yorba Linda. They were incorporated in the organization and they were treated like equals, not run over and replaced by the acquiring firm.

At the Chicago plant of Nobel Biocare, the scenario was different. Since the plant was going to be closed and the operations moved to Yorba Linda, the employees would have to either move or quit their jobs. The problem could have become very serious had the Nobel Biocare management not been so careful about not letting any rumors about the acquisition start to spread before it was officially announced. Now they could avoid this problem because they had planned their actions so well. Once the deal was announced, they held a meeting with the employees at the Chicago plant, telling them exactly what the future would look like and what the role of each employee would be. This way, much unnecessary distress, fear, and rumor spreading among the employees was avoided. Another plus was that all of the employees in Chicago had the option of moving to Yorba Linda, although most of them chose to stay since it was not difficult to find new jobs in the Chicago area.

3. Capacity to transfer and receive the capability

Both the firms in this acquisition were highly competent and had unique technical equipment and skills to carry out their operations. Nobel Biocare had carefully examined Steri-Oss before they decided to acquire them in order to make sure that they were really a firm that would fit well with their strategic plan. Steri-Oss was a means for Nobel Biocare, both to get a stable position on the US market and to complement their product range on the European market (managers at Nobel Biocare).

4. Discretionary resources

The most significant fact that can be mentioned is that according to a manager we interviewed at Nobel Biocare, they had enough cash to be able

to acquire Steri-Oss without cutting too deeply into the capital reserves. Steri-Oss was also found by the management team of Nobel Biocare to be a successful firm before the acquisition, which meant that no funds had to be invested into refurbishing the acquired company in technological terms. One year was set off for the integration of the two firms. This was seen as enough time since the integration was very carefully planned before it was announced to those affected.

5. Cause-Effect understanding of benefits

At the time of the announcement of the acquisition of Steri-Oss by Nobel Biocare, a pamphlet, "Together", with information about the acquisition and the goals of it was distributed to all the employees and the customers. This way, everybody who was affected by the changes could find out what was intended for the future and how the work situation would be changed.

Seldén Mast AB

1. Reciprocal Organizational understanding

In the case of Seldén Mast AB and their acquisition of Proctor Mast Ltd., the two companies knew a great deal about each other. They had been competitors in the same market and there had been prior discussions about an acquisition of Proctor. Seldén received the possibility and know-how of producing masts for smaller boats and dinghies as well as a more effective distribution channel to the UK market. Proctor received the capability to receive the capability they wanted from Proctor. They possessed superior production facilities and had the resources and knowledge necessary to

develop it (managers at Seldén Mast).

When Seldén acquired Proctor, they were very run down, in all possible ways, and they had to renew their work routines in order to make them more effective. From the Seldén managers' point of view, the Proctor Mast plant, production routines had been very primitive. When there were changes in the product design, for iicult to receive the capability they wanted from Proctor. They possessed superior production facilities and had the resources and knowledge necessary to develop it (managers at Seldén Mast).

When Seldén acquired Proctor, they were very run down, in all possible ways, and they had to renew their work routines in order to make them more effective. From the Seldén managers' point of view, the Proctor Mast plant, production routines had been very primitive. When there were changes in the product design, for instance, they would be reported orally to the workers in the plant. This meant that nothing was written down and no blueprints were made for the products. For Seldén, it is important to have careful documentation of designs. When the order for production reaches the plant there should be no question about how to build the product. By keeping blueprints they also made sure that no person would be irreplaceable. Although this was good for Seldén AB, some of the old Proctor employees were not so thrilled about it since it meant that they could easily be replaced. For them it meant that they would have to justify their positions and earn their place in the firm. If someone else could do their job better, they would risk loosing their position.

Seldén differs from Nobel Biocare since they bought a company that was run down and in which they had to make major investments to make it work. However, they too enjoyed some value-adding effects since they acquired new products and a more effective way to reach the UK market.

2. Willingness to work together

According to the interviewed Seldén managers, there was no big problem to get the two companies to accept the deal. However, when Seldén wanted to implement their documentation system at Proctor Mast, the workers at Proctor Mast thought Seldén was a bit tiresome. Since they had been used to their way of working with oral reporting and quite a slow pace, they felt comfortable with it and were somewhat afraid that they would not manage to work in the new way. They thought it was just a lot of extra work.

Fear of job loss is a common reason for people to be reluctant towards cooperating in large organizational changes. In the Seldén case, about half of the Proctor workers had been let go before the integration process was started. Also, the employees of the former Proctor plant could be worried because they lost their unique position in the company when they started to document the work procedures. However, according to the Seldén managers, they were very particular about telling the employees of Proctor that it was not common practice in the company to get rid of employees. In fact, Seldén is a company with very low employee turnover; people come there to stay and Seldén want their employees to be satisfied and stay in the company. They told us that they held meetings with all the employees to inform them about what was going to happen. "There is no justice in a process like this; some of those people who had to go were probably very

good workers" (manager at Seldén Mast). Just like Nobel Biocare, Seldén followed the philosophy that it is better to give information as fast as possible and keep the employees informed about what is going on than to keep them in the dark. Especially when there is negative news like lay-offs, they both stress the importance of dealing with it as fast as possible.

Seldén introduced the Swedish way of having get-togethers where managers and workers would all be invited. This way, they tried to establish a feeling of belonging and thereby a willingness to work together.

3. Capacity to transfer and receive capability

The firm that is about to receive a capability has to be able to apply it to their setting, and they need the right technical equipment and manpower to use it properly. Before Seldén could do anything at all with the Proctor plant, they had to upgrade it in terms of tools, equipment, facilities, and staff. As mentioned, half the workers at Proctor were laid off because they were very inefficient. Moreover, Seldén refurbished the plant and built a canteen and other areas to improve the work environment for the employees. Since the already existing Seldén plant in England, according to a Seldén manager, was not very well equipped, they moved it to the new plant as well, which made it easier to integrate the work. Hence, Seldén, like Nobel Biocare, could show Proctor that they were considered important in the deal and that they would not be run over through the acquisition.

4. Discretionary resources

One of the conditions that Seldén managers have pointed out as being an

important factor in making it possible for them to carry out such a costly undertaking as the acquisition of Proctor, is that they have sufficient funds. They maintain that since they have a very stable financial position, they can afford to make some mistakes. However, from experience, they know that it is dangerous to make a detailed plan for how the integration process should be carried out and how much time it is allowed to take. They know that there are always unanticipated events that change the conditions for the integration. For the particular acquisition of Proctor Mast, they have freed up a person to work exclusively with the integration process.

Nobel Biocare was also in a stable financial position where they could set off enough funds to purchase Steri-Oss without hurting. However, Seldén needed more slack since they were not able to plan their integration process as carefully. There were many aspects to consider before they could even get started and they also knew that the conditions could change once they got started. Nobel Biocare had the main actions planned very well in advance and when they started the integration process, they could act with high certainty and determination.

5. Cause-Effect understanding of benefits

At first, it was obvious to the managers at Seldén Mast that the employees of Proctor found it very annoying that they had to change their work-routines to the Seldén way. They found it to be time-consuming and a lot of hard work to make careful designs of all the products. After a while, though, they started to understand that it was much easier to work that way, that it saves time in the long run. Moreover, Seldén made the work environment better for the employees and they initiated a tradition of staff

get-togethers where both management and union workers were invited. Seldén made extra efforts to involve the employees in the change process. They held regular meetings with the employees to tell them what was happening and they also took the time to listen to the employees' concerns (managers at Seldén Mast).

AstraZeneca

1. Reciprocal organizational understanding

In the R&D department, Astra and Zeneca had some overlapping research areas but there were also areas where one or the other of the companies possessed superior knowledge. It is too early yet to tell who is better at what and which practices will be kept in what areas. Both companies knew about each other and there had been much talk in press and media about a possible merger between the two companies. There had also been much speculation about other possible constellations, but there is no doubt that the employees of the two firms had a good picture of the other one. They were both successful in the field of R&D (manager at AstraZeneca).

Since, in this case, we are talking about a merger of equals, there were no major investments made by any of the firms. Managers who we have interviewed point out that they were about the same size and equally successful so, in that respect, there was not one firm that was dominating the deal (it is too early to say if one part will take control in the future at this stage). One aspect that makes the situation different from both Nobel Biocare and Seldén is the fact that the merger was preceded by rumors and

speculation in media, which made the employees speculate about the future, whereas the other two companies could work undisturbed on their integration plans.

2. Willingness to work together

In the case of Astra and Zeneca, both companies were large and successful and in a process of growing even more. This meant that it was quite natural for them to merge, if it had not been this constellation, it would have been a different one. They were well aware of the fact that there was much speculation about potential partnerships of different kinds in the industry. Since it is a merger of equals, nobody has been taken over; both companies have gone into the deal of their own free will. The fact that the employees of AstraZeneca are now working for one of the world's largest drug companies has added some excitement for being part of this merger. Since the deal is so new and the effects of the personnel cut downs have not been noticed yet, one manager believes that many of the employees in the R&D department are still in a phase of denial. They do not realize that there might be changes in the future that affect their position in the new company.

As our interviewees have told us, there is no resentment towards cooperating between the employees of the two firms, although the former Astra employees seem to deny the fact that they might have to change. We have also been told that there is some concern among the employees that the English company will gain more influence in the future, especially since the Swedish head of research may retire soon.

3. Capacity to transfer and receive the capability

Both the companies that were part of this merger are highly competent at R&D, which means that they both have the capacity to receive the capabilities from each other. However, the main focus needs to be on sharing experiences and knowledge between the groups in different research areas. The goal for AstraZeneca is to learn from the experiences that are made in the different areas throughout their research work. The idea with the co-operation, as we have been told, is that when something significant is found out in one area, it should be shared with the other research areas. In order to improve the research methods, this philosophy is also supposed to encourage sharing experiences about what is the best way to go about the research work. Thus, there should be a continuous sharing of capabilities and knowledge between the different parts of the constellation in the R&D department. This, in turn leads to better research methods for the entire firm and a better cooperation and we-feeling over the borders of those different research areas (manager at AstraZeneca).

The first picture shows how research is often conducted in companies where research is an important part. No sharing is allowed between the areas, if something is found in one area, it is carefully kept secret, only to be used by that group of researchers. In this picture, the research groups are blocked off from each other and no capability transfer and learning can be reached.

In the second picture, on the other hand, the situation at AstraZeneca R&D is found. Here, the arrows between the research areas represent sharing of ideas, experience, and learning.

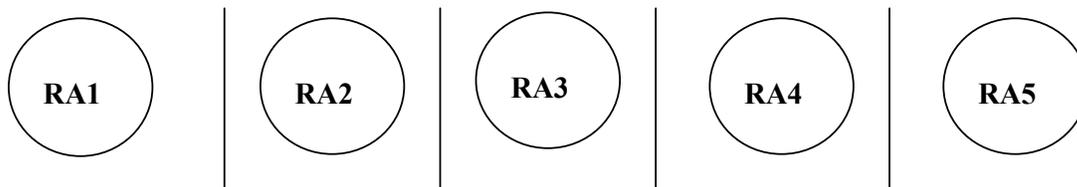


Figure 3.1: AstraZeneca, 1999.

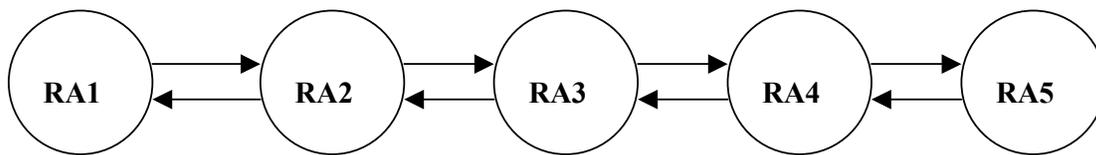


Figure 3.2: AstraZeneca, 1999.

4. Discretionary resources

According to one manager, it is not possible to expect fast results in the area of R&D. It takes a long time to find out what has been gained through the merger, who has learned what, and what has been the total increase in value. For the integration, the time schedule has been set at three years, leaving room for flexibility and adaptation to the new situation. In likeness with Seldén, AstraZeneca have allowed a long time for the integration. They too, see that there are aspects that can not be so clearly determined in advance, they may have to reconsider later on in the process. This is, most likely, due to the fact that AstraZeneca is a much larger firm than the two others that we have examined are, which means that all change actions are even more complex.

5. Cause-Effect understanding of benefits

In order to gain cooperation from the employees, management has had

strong communication throughout the organization, giving out information about what can happen in situations like mergers. They are currently working on a new reward system that is to be linked to the integration process. All three companies have this point in common. Communication and sufficient information is a very important factor in order to make the integration work out.

3.5.3 Problems in the Integration Process

Nobel Biocare AB

In the opinion of the managers we have interviewed at Nobel Biocare, the main concern was deciding which US office to keep. With the acquisition they had both the Steri-Oss headquarters in Yorba Linda, and the Nobel Biocare office in Chicago. They were of approximately the same size, with the exception that Steri-Oss had a production plant at the Yorba Linda site. Nobel Biocare had no production in Chicago, it was a sales and administration central for its North America sales. They came to the conclusion that the best decision was to close down the Chicago office and move it to Yorba Linda.

At the same time as the news of the acquisition was publicly announced Nobel Biocare had a group of people stationed at the Chicago office to inform employees about the future of the Nobel Biocare office. This way they were able to prevent false rumors, which was a great concern of the

Nobel Biocare management, since the employees were told what would happen directly from management. It also added trust for management since they did not try to keep any information from the employees, no matter if it was negative. This is really a sign that the leaders of this company take responsibility of their own actions, there is no *leadership vacuum*. Out of the 50 employees only as few as five or six persons made the move to the Yorba Linda plant, mostly due to the relative ease of getting a new job at a different company. We have been told that the people who decided to leave Nobel Biocare were, of course, sad to leave a company that they had liked, but they all felt that the action made sense. Although they decided not to move to Yorba Linda, they stayed devoted to doing a good job until the end. In order to keep them, they were offered extra pay and help with finding new jobs, which all of them got. Thus, although they had some *psychic value* destroyed due to the fact that they had to leave the workplace and colleagues, none of them had any *economic value* destroyed.

There were much less problems than the management team of Nobel Biocare had expected. They ran a risk of losing a great number of competent key people from the Chicago office. However, this never happened, only very few important key persons left Nobel Biocare as they chose not to move to the Steri-Oss location in California. The company has not lost any of the people they really wanted to keep through the acquisition process.

According to managers, there have only been a few difficulties in the integration, regarding the ways management work. The main reason that

Nobel Biocare has had such few problems is the close communication between the management of the two firms. They have both been positive and excited about working together as one firm so there have been no hard feeling from any part.

Further, Nobel Biocare realize that one has to act with assertiveness and be aware of the differences between the American and the Swedish corporate cultures. The Swedish management of Nobel Biocare decided not to alter the management of Steri-Oss since it was a highly successful and well-organized company. Although 99% of the employees were Americans, there were larger differences between the management of Nobel Biocare's office in Chicago and Steri-Oss, than between Nobel Biocare's management in Sweden and the management of Steri-Oss.

One of the most difficult undertakings during the integration process, which could have created problems, according to the managers, was the implementation of the SAP R/3 system at Steri-Oss. It had been implemented at the Nobel Biocare headquarters and offices by task forces, made up of employees. The system was implemented in four countries at the time, and the change was tremendous in the beginning and would have been hard to carry through, had they not had such competent and loyal employees. SAP R/3 was successfully implemented throughout the Nobel Biocare organization and when the turn came to Steri-Oss, management at Nobel Biocare was not concerned since they had the experience of implementing it and knew where the difficulties would lie. One of the main reasons that it has been such a smooth process for Nobel Biocare to carry out changes is that they have relatively young, enthusiastic, and competent

employees. The employees at Nobel Biocare are used to working in project form, which was necessary in order to implement SAP R/3. Although they were tired of project work, the employees made the best of the situation, showing that they really are loyal to the firm and feel proud to be a part of it. In this respect, we believe that the employees have had *psychic value* created instead of destroyed. They feel proud of being part of the successful combination of Steri-Oss and Nobel Biocare.

Seldén Mast AB

According to Seldén managers, one of the main concerns with the integration work, were the differences in corporate culture and morale. A low level of trust between workers and management had characterized Proctor Mast Ltd. The situation for Proctor Mast Ltd. at the time of the acquisition was very bad, they were financially broken down and about to go bankrupt. Although the situation was catastrophic, the management neglected to tell the employees what was happening and what the plans for the future were. This caused much distress for the employees and naturally they lost confidence in the managers. There was no tradition of reporting in the firm, they did not even keep track of manufacturing costs and often, the products were sold at prices well below cost (managers at Seldén Mast).

There was no pride associated with belonging to the firm, no "we-feeling" of being in the same "boat", rowing in the same direction. It even went so far as to employees stealing from the company. These people are referred to as "bad eggs" in England and they contributed very much to the low morale

(managers at Seldén Mast). Further adding to the problems, as experienced by the managers at the Seldén plant in the UK, the unions in some cases encouraged the workers to slow down the pace in order not to make themselves look bad.

For Seldén, this meant that they had to focus on winning the trust of the employees of Proctor. They did this by giving information to the employees and involving them in what was going on. They informed the employees both about what the situation had been like before the acquisition and what the plan was for the future. In the beginning it was hard, but as the employees of Proctor saw the promises come true and their own work situation get better, they became more cooperative. Like in the Nobel Biocare case, the leaders in charge of the Seldén acquisition took their responsibility for building trust from the employees through clear and direct communication. Thus, we could not detect a *leadership vacuum* in this case either.

Managers at Seldén Mast found one of the main problems to be that the employees of former Proctor did not have any trust in the old management at Proctor. When Seldén took over, they transferred this distrust to their management. The problem with this was that the employees were not aware of the troublesome economic conditions in which Proctor was involved. Therefore it was more difficult for them to understand that the takeover made by Seldén really saved their jobs. To gain trust from the employees, Seldén used a program that is available in the UK that is called “Investors in people”, which is a government sponsored program that helps firms to focus on the employees' training needs, people issues within the

organization, and involving people in the organization. They have also used an independent consulting firm that has done a “health check” on the employees. This meant that the employees have been able to tell the consultants anonymously what they felt about the organization, what had become better and what could be improved yet. At present, they have found that the trust for management has grown since the acquisition was initiated and the Seldén management took over the plant (managers at Seldén Mast).

According to managers we have interviewed at Seldén, there were some problems in the production processes as well. The main problem was the move of the existing Seldén production into the acquired Proctor facilities. During a period the plant had two production processes going on, the Seldén masts and the smaller Proctor masts. This meant that the Seldén people worked on the Seldén masts, and the former Proctor employees worked on the Proctor masts. They started to integrate the production processes so that people would learn the processes at each production line to make them flexible and to increase the understanding between the two firms. This also created problems, since the Seldén production, which had been effective, was slowed down as it was moved to the new plant. This, in turn, created delays in delivering masts to customers on time (managers at Seldén Mast). In this respect, it could be said that *psychic value* was, to some extent, destroyed for the Seldén workers since they now had to work in a less effective environment for a while.

The Seldén management was faced with many more problems with the existing firm to be acquired than Nobel Biocare did. However, they both use the direct information tactic to gain trust from the employees of the

newly acquired firm.

AstraZeneca

So far, according to all the people we have interviewed at AstraZeneca, there have not been many problems because the changes have not been felt. However, they are all aware of the problems that might arise in the future. In order to prevent negative effects of the changes, management have encouraged the employees to engage in seminars and work-shops intended to educate them about what are common reactions in M&As and how to work with them. In the opinion of those people we have talked to

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Nobel Biocare

Nobel Biocare found it very important that the negotiations between the firms were kept totally confidential, to involve as few people as possible in the process. They are proud of not having had any fluctuations in the stock price, revealing that no information about the acquisition of Steri-Oss had leaked out before it was announced to the public. This shows, as we see it, that the acquisition process had been handled professionally and was carefully planned. From the start, only the groups from each firm met during the negotiations. As the agreement had been reached, the managers from the different functions of Nobel Biocare were the first to find out. In order to take part of the information, they were required to sign confidentiality papers. The managers of the subdivisions were informed a month before the public announcement. According to a Nobel Biocare manager, the reason why it was important to inform the managers of the subdivisions is the strong consumer preferences that exist in the dental implants market, the managers had to be prepared when the acquisition was publicly announced. Not even at this stage there was any leakage of information to the public, even though more people got involved. This means that there no rumors were spread that could have hurt the negotiation process and the public found out when they were supposed to, on the announcement day.

As can be seen in the above example, Nobel Biocare followed the logical incrementalism strategy once they announced the deal to the employees. After that, they kept the employees very well informed about all the actions to be taken.

Nobel Biocare believe that the success of an acquisition and the integration lies in the preparation of the strategic plan that should be presented at the time of the announcement. They also believe that it depends on what kind of acquisition it is, that is, what the motive for the acquisition is. If the acquired firm is complementary to the acquiring firm, the chances of success are much higher than if there is much overlapping between the firms. Nobel Biocare had a plan concerning employees, products, and the location of the US office well prepared when the acquisition was publicly announced. For most of top management at Steri-Oss, this meant something positive. As we see it, value was created for them since they were promoted and made responsible for handling the entire North American region; selling, distribution and continued production of the Steri-Oss products.

The management means that another factor affecting the integration was the good chemistry between the management of Nobel Biocare and that of Steri-Oss. They had good faith and trust in each other and created a group from both firms that drew up the strategic plans for the future. The managers for each function from both sides are encouraged to co-operate and make plans together in order to enhance the understanding between the two companies and their cultures. The timetable for the integration phase was set, and at each meeting the manager for each department had to report on the progress so far. The meetings served as a sort of follow up to the implementation of the integration plan. They were actually able to do most of the integration changes ahead of schedule. This was especially obvious at the closing of the Chicago office, which was done by the end of the year instead of by the end of the first quarter of the next year, which was the

goal according to the schedule.

There was an “acquisition general”, chosen from Nobel Biocare to help with the integration at the Steri-Oss plant, who had a lot of experience with a broad spectrum of knowledge about the firm. His main responsibility was to help management if there were some difficulties understanding the directives from Nobel Biocare. His mission was to be a facilitator between Nobel Biocare and Steri-Oss. Another person from Nobel Biocare, the manager for their German subdivision, became vice president at the office in Yorba Linda. It was important to get experienced persons from different countries into Steri-Oss, mostly not to make Steri-Oss too independent, so that they would take over (managers at Nobel Biocare).

The importance of being well-prepared and having strong communication, so that no false rumors are spread before the announcement is made and the employees are informed, is something that is mentioned frequently by those interviewed at Nobel Biocare. When the information was released, people, especially at the Nobel Biocare office in Chicago, were not overly excited at first. However, the employees were given the information fast, to let them know what their future part in the organization would be. Since this meant that some people had to leave the company due to the move to Yorba Linda, it was important to deal with the news as fast as possible in order to avoid the negative effects of uncertainty among the employees.

At the Steri-Oss plant in Yorba Linda, the reactions among the employees when the announcement was made was, in most cases, confusion, in the sense that they were now going to work for their competitor. The

information for the future was presented at an early stage, but at the Yorba Linda plant, it was more positive since the future base for Nobel Biocare of North America sales would be in California, meaning an expansion of the plant in Yorba Linda and more work openings (managers at Nobel Biocare). This, giving credit to the Steri-Oss plant, employees, and management and showing belief in the good work they performed.

The competent and successful management team has played an important role in the change process and one of the explanations for the ability to attract effective managers lies in the incentive plan, which includes offering the employees options in the company. According to Nobel Biocare management, this is an important incentive since, this way the payoff for management rises more the more smooth and successful the integration phase is. It also serves as proof of strong and competent leadership of the integration. The management team leading the integration was aware of the benefits of having an incentive plan that encouraged working for a smooth integration.

Another advantage that management believe made the integration proceed with ease, was the phase of the restructuring that had occurred with the storage in the years before the acquisition. Nobel Biocare changed the old storage system, containing the main storage at the production plant in Karlskoga and a number of smaller storage sites at the subdivision offices. Instead of this spread out system, a new central storage site for Europe was created in the Netherlands, where products were sent to customers on instant delivery. This was an important event that made it easier to distribute the Steri-Oss products when they were added to the product

range of Nobel Biocare. It resulted in direct delivery from the central storage.

One of the major reasons for the creation of a central European inventory center in the Netherlands is the transition of the European countries to the EU and a single market. The trade-barriers are torn down and the difficulties with customs in each country of the former European countries are now reduced to one set of rules instead of fourteen as previously. It is also the expectation of the single currency, the Euro that will make the trade from the central location more practical than the 20 subdivisions that before distributed the products (management at Nobel Biocare).

Seldén Mast AB

One of the most valuable features that the managers mention about the Seldén organization is the flat structure, which means that they can have very short decision processes. People in strategic positions are empowered to make decisions without having to consult higher levels of the organization. If a problem is detected, they can be gathered around the table trying to solve it five minutes later. When there is a problem in a different part of the firm, someone can be sent there on very short notice to help solving it. All of this has to do with the fact that Seldén is a company where the employees work very closely (managers at Seldén Mast). You just have to enter into the office to feel the nice and open atmosphere that characterizes the workplace. The employees are playing jokes on each other and the doors are open, not to leave anyone

out. In short, Seldén want to take advantage of the skills of each of their individual employees.

Reasons for the success the of acquisitions made by Seldén Mast as stated by the managers:

1. good control methods
2. good products-appreciated by customers
3. flat organization-problems can be resolved fast
4. good systems for the daily business operations
5. have financial resources-even to make some mistakes
6. good business history-it creates a feeling of security
7. acquiring a firm that is within their own products, or complementary
8. give bad decisions fast- like layoffs

Very much like in the case with Nobel Biocare, Seldén managers stress the fact that direct and honest communication is key in building trust from the employees. Instead of an incentive plan like the one that Nobel Biocare developed, Seldén made sure to improve the work conditions for the employees so that they would feel important, which they had not done

before. This also proves that the leaders of the integration were aware of the situation and could use it for the benefit of the integration. By making the conditions better for the employees, they gained their motivation (management at Seldén Mast).

The change process was not really well planned before the acquisition was made, since Seldén only had ten days to decide if they would acquire Proctor or not. The plan has been developed after the acquisition as a one-day-at-a-time deal. Because of the lack of documentation from the former management the understanding of the potential problems was not entirely clear as they got into the deal. There was not even a clear documentation of the value of inventories, machineries or products of Proctor. The administrator asked the Seldén people to take a look at Proctor and then make an offer on what they believed it to be worth-a ruff estimate. They did not have any control of the turnover, tools or equipment of Proctor. Another problem was that Seldén only wanted the carbon and smaller masts, not the other parts of the manufacturing processes. The question they had to answer to themselves was; would it be worth to acquire the firm to just for those two processes? Luckily they were able to sell off some parts of the unwanted production processes (managers at Seldén Mast).

AstraZeneca

During the negotiations between Astra and Zeneca, there were many rumors surrounding Astra and other companies in the pharmaceutical industry. However, it was only a few persons from Astra who were involved in the negotiations between the two companies and the rest of the employees were not told until the deal was publicly announced.

In the R&D department, the news about lay-offs has just been released. Even though the news have not been known until just now, there have been speculations among the employees and in media about what the future will look like for them. In order to deal with this and to prevent a large-scale "flight" from the company by competent employees, there is a close communication between management and employees and the employees are told that they are valuable and needed in the company, especially those with specific competencies (managers at AstraZeneca).

Our feeling after talking to the people at AstraZeneca is that the information about what is going on and what will happen in the future has been satisfactory. Before the deal was announced however, there were rumors in media and the employees were somewhat confused as to what was going on with their workplace, but once the deal was completed, they were kept informed at regular meeting.

The employees have also been "educated" in what a merger is about. So far, as we have been told, three seminars have been held for employees about, for instance, common reactions when things change at the workplace.

3.6.1 Resistance to or Acceptance of Changes

Nobel Biocare

It is difficult to find much resistance to the acquisition of Steri-Oss. The only part that we have been able to find where there has been some reluctance was in the implementation of SAP R/3. This reluctance was not so much towards the system as such, as towards the extra workload it meant. For a period of a few months, the employees at Steri-Oss were forced to use two different control systems in parallel.

Other than that, the feelings toward the integration were mostly positive, since it meant growing larger and more important on the market. One of the reasons for the low resistance rests in the fact that the management team was able to communicate the intended changes and the purpose of them in such a way that it made sense to the employees. They made the employees feel that their situation was going to improve as a result of the changes.

Seldén Mast

The Seldén case is very different from the Nobel Biocare case and the AstraZeneca one as well for that matter. Seldén acquired a company that had filed for bankruptcy and in which nothing had worked properly. Before

the acquisition, half the work force had been fired without Seldén's involvement. Had they been able to choose who was going to stay, they would have been able to pick those that were more positive to working for the new owner. Now, instead, they were faced with very much resistance to the changes that had to be made in order to make the Proctor plant work in a way that would be satisfactory for the Seldén organization. The workers were used to their old ways of production and they felt comfortable with it. When Seldén took over and wanted to change the procedures and become more structured, the Proctor workers felt threatened and reacted more or less with denial. Many of the workers refused, for a long time, to change their ways into the Seldén methods. The Proctor plant had been characterized by low trust for management, which also made it very difficult for the Seldén management to come in and make the changes. Another problem they encountered in this was that they had to get a hold of the descriptions on how to make the products. Those often only existed in the minds of those who had worked with it. Since quite a few people had been fired, they had to call them back to interview them about this. Then they ran test productions to make sure that the products would come out the same each time. If it did not, they had to start over. This was a very time consuming undertaking, especially since some of the current and former workers were reluctant to share this information.

In order to work out this difficult situation, two people from the former UK site of Seldén have worked very hard on resolving these issues and work up a good standard of the plant and the work routines. The first thing they had to do was to build trust in the employees. This, they did through a program sponsored by the British government, called "Investors in people". They

also have consultants coming in on a regular basis to ask the employees about their view of the firm. These polls are made anonymously, meaning that the employees are not taking any risks when answering the questions frankly. Even though things looked very bad sometimes, they refer to the first year as "hell", they never lost focus on what they had to do. They have kept the spirit high and carried out the changes in the pace that they have seen as appropriate (managers at Seldén in the UK).

One thing that they realized immediately was that it would not be possible to plan the integration process ahead, they would have to take one day at a time and deal with the problems as they arose. In contrast to the employees at Steri-Oss, those at Proctor could not easily be made to change their ways. They needed time to get used to the situation.

AstraZeneca

As far as the employees at the R&D department are concerned, not much resistance can be noticed because the changes have not been very drastic yet. However, one project leader who we have talked to, and who has worked at both companies, senses some reluctance toward the merger. Although the philosophy in the integration is that methods and findings should be shared between the two firms, the employees at former Astra feel that their way is the best after all. The attitude among employees is that "we will show them that our way is the best and make them change their way into ours". The project leader maintains that the best way to deal with these issues of resistance is through continuous communication and information.

This is something at which all those who we have interviewed feel that AstraZeneca have been good. They hold regular meetings, both on corporate and lower levels.

For the purpose of the change process at AstraZeneca, task forces were set up among the employees, which were used to work out suggestions for how the work should be done in the new company. This way, the ideas of the employees were taken into consideration and they were made to feel involved and important in the change process. At the R&D department, where the change has not really had a great impact yet, it is not very obvious how the employees feel about it. Some of them are positive, while others feel more negative or uncertain about the change and what it has in store for them for the future.

One very important factor for management in this situation, that has been a guideline for the AstraZeneca management team, is not to lose track of what the goals with the changes are, even if there can be some resistance among the employees from time to time depending on the situation. If the conditions change all the time and there does not seem to be any purpose with what is going on, the employees will start to lose faith in management and the whole change process (interview with manager at AstraZeneca).

3.6.2 Change Strategy

Nobel Biocare AB

Nobel Biocare used the *top-down strategy* for their change strategy in the integration process with Steri-Oss. This means that only a few people were involved in the initial stages. In this case, top management defined the problem and an action plan was created by the "acquisition general", who later became the "integration general". The "acquisition general" then handled the action plan together with management for execution. The basis for this was that management together with the integration general had a view of what they thought would be best for the firm in the short term. In the later stages of the negotiations, about one month before the public announcement of the acquisition was made, the functional managers were informed after having to sign confidentiality statements. This was done mainly because, since there is such a close relationship with the customers in the business, the functional managers needed to be able to give the customers correct information when the acquisition was made public. Thus, the employees were never asked about their ideas throughout the negotiations.

The integration went smoothly because of the hierarchical power structure that Steri-Oss had. If the top management is friendly towards the changes, the implementation is usually easier, this because the former Steri-Oss employees are used to being directed from the top management (interview with manager at Nobel Biocare).

Seldén Mast AB

The strategy used by Seldén Mast, was the top-down strategy, where the integration was led by the management. They had the vision of how it would be after the integration and change process was completed. Indirectly also employees were involved through the consulting firm used to by Seldén to understand the mistrust and problems towards management. With these confidential interviews with employees, management could get a better understanding of what was wrong, and then more easily deal with the problems in the integration and change process. These were of great importance to the integration general of Seldén Mast during the process, but the employees was never involved in the change with direct comments or feedback to management. The reason for this being the more hierarchical power structure in the UK where employees would have difficulties commenting up to face with management. Therefore the use of an independent consulting firm, where employees were able to more freely express opinions was the strategy to prefer.

AstraZeneca

It seems as though the decisions have, for the most part, come from the top, that is, the management has made most of the decisions, at least when it comes to drawing up the major directions for the changes to come. There have been attempts made to involve lower level management but the decisions seem to have been made in advance anyway. According to an employee who we have interviewed, management would make a proposal, which would then be discussed by lower level managers who were asked to give their input and come up with suggestions. However, the decisions that

were made in the end were very much like those that were proposed by top management in the first place.

AstraZeneca have looked into the difference between the British and the Swedish management styles and found that they are not very different on the issue of decision making (interview with manager at AstraZeneca). Both in Britain and in Sweden, the management can make decisions without involving all of the employees that are affected. They have come up with some points on decision-making in firms of these two countries. Consensus in decisions and consensus for decisions are regarded as two different things, where consensus for decision is used, both in Britain and Sweden. This means that decisions can be made quickly without involving everybody in the discussions, whereas, consensus in decisions is a very time-consuming process where everybody has to be in agreement in order for the decision to be made.

4 Conclusions

This section gives our view on the material that we have gathered and what implications we have found. We have chosen to go back to the problem formulation and answer the questions asked there with the addition of a final reflection on our case companies.

4.1 What are some problems and success factors in the Integration Process?

We have found three areas that are especially worth pointing out in this section. First of all, we think that it is easier to integrate two companies if they complement each other because not so many changes are needed. The second factor is that there should be a good understanding between the management of the two companies, and the third factor we have found is to develop a common control and communication system between the companies.

One of the factors that we believe to be instrumental for the success of the integration is the nature of the M&A and the reasons for it. In all the cases we have researched, one of the main reasons has been to complement the existing firm in some way. We believe that this is highly important because

this way both parts can feel that they contribute to the success of the M&A since they bring complementary competence. The areas of overlap are the places where most difficulties are found in the integration because one party has to be taught a different way of working. This also presents the risk that the employees of one firm feel like they do not add anything; they may feel completely run over by the other firm.

Another factor contributing to the success of the integration is the strategic and managerial "fit" between the parties of the M&A. Our three case companies have all mentioned growth to be part of their strategy and that growth, through an M&A of some sort would be the only option since organic growth would not be possible. As we see it, when this factor is fulfilled it is easier to carry out the integration and the necessary changes because they make sense, something that is important when trying to get employees involved in the process. When we talk about managerial "fit", we refer to the management or organizational culture and we believe it to be much easier to work together if they are similar between the companies. In our cases, we have understood that this has been a very important factor when choosing a partner. All our companies have mentioned the importance of being able to get a fruitful co-operation between the management teams. Both Nobel Biocare and Astra, through their negotiations found that they could accomplish this. Seldén never had to face the management team of Proctor Mast in negotiations since many of them had been dismissed, so in their case this did not present such a big problem.

A common denominator for our case companies is that they have all

implemented a common control system, meaning that all the offices around the world should be connected through a computer network and that they should use standardized systems. This entails both financial and other types of control, for instance production processes, sales, and inventory control. We believe that this is important because it serves to unify the company and thus, makes the integration process smoother. This way, the employees can feel that they are part of a large "family" and they can communicate with each other and learn from each other between the different locations. We conclude that a high level of integration is good for the unified company in the long run.

4.2 How do the Changes made in an M&A affect the employees and their performance, and how can they be led successfully?

In this area, we have made four main points. First, we believe that there is always some degree of resistance to change because people feel safe with their known ways of working. Secondly, people, when experiencing change fear that their role will diminish in importance when the organization grows, and thirdly we have found that there is a risk that people defend their old habits and ignore the changes. Our fourth point is that, in order to deal with the changes, it is important to have a clear goal

and stay focused on reaching it.

Through our analysis, we have found that change always brings some degree of resistance or reluctance. When the employees have been used to working in one way and then suddenly have to change, that causes distress, especially when another company is involved as is the case in an M&A. We have understood that although it is not always so obvious at first glance, employees feel strongly about their ways of working, it feels safe for them to continue in that way. When an M&A takes place and the work routines need to be altered to fit the new organization, it means that they have to learn something new and their specific capabilities may not be as valuable anymore. This situation is mostly visible in the Seldén case, where the Proctor workers and their specific capabilities were made available to more people in the organization. In the AstraZeneca case, there was also more sharing of knowledge between the two firms when the R&D functions were merged, meaning that one company would not be the only one with competence in their research areas anymore. In the Nobel Biocare case, we have not been able to detect any situation where this problem has occurred due to the fact that Steri-Oss are left to control their operations. Moreover, in that case, most of the old Nobel Biocare employees left and new people were hired when needed, which is why not many people had to change into new work routines.

Faced with this changing situation, people easily get afraid of losing their position and importance in the organization. Often, change means that employees have to work harder, at least in the initial stages of the integration between the two firms. It often involves learning and teaching

others new work routines, at the same time as they have to perform their regular tasks. As we have understood, this meets a great deal of resistance, especially, when the change means that the employees get a less important role for the company.

In a situation that involves change, we have found that employees tend to defend their old habits. Either they keep working in the same way as they have always done and ignore the changes that are supposed to be done, or they acknowledge the changes outwardly, but in their actions and in their own minds, they still hope that things will stay the same. This means that the employees' performance in the eyes of the new company suffers since they neglect the goals of the M&A. The result of this, is that the change process is usually more time-consuming than might be believed at first. We saw this clearly in the Seldén case where the workers at Proctor wanted to keep their primitive way of reporting because it felt safer. They wanted to keep their specific knowledge to themselves as long as possible since that way they would be guaranteed a position in the company. In the AstraZeneca case, we have also had some indications of employees who hang on to the belief that things will stay "their way" as long as possible.

The change strategy that we have found to be used by all three companies is the *top-down* strategy. We believe that this is necessary in order to gain commitment from the employees. If everybody was to be involved in all decisions, it would become much too time-consuming and the employees would lose faith in management's ability to lead. Furthermore, we believe that it is imperative that the changes are carried out the way they were presented even if there might be some minor problems on the way. Our

suggestion is to be quite forceful and move ahead on the proposed changes. However, we also conclude that it is necessary to find a balance between speed of change implementation and the need for people to make sense of the changes. The overall goal should be clear, while more detailed decisions could be discussed with those directly affected. Once management has announced the change, though, it has to be carried out in order for management to gain trust and respect. Although the employees may resent the changes at first, we believe that they will accept them in the long run. If there are too many disruptions so that the change process is held up, the employees could lose focus and feel insecure about what is really the goal of the integration. As we see it, there could even be a risk that the employees feel that they could get managers to change their minds and therefore start to counteract the changes. In short, one could say that the role of the managers as leaders and forerunners of the changes is a very important one.

4.3 A Final Reflection on the M&A Process in Our Case Companies!

One of the most critical questions surrounding the M&A process concerns the planning of the integration and change processes, how detailed should the plan be, is it possible to foresee difficulties? We have found that it is not relevant to try to come up with one right answer to the question of how well this process can be planned in advance, because each case calls for its own strategy. In the Nobel Biocare case, a very

careful plan was made, and in that case it was probably necessary. Had they not had a plan in place for the integration, it is likely that the employees would have become confused and lost direction. The employees at Nobel Biocare and Steri-Oss were confident with their work and could therefore comprehend the changes and adapt to a new situation quickly. In the Seldén case on the other hand, the conditions were far from the same. Although the Seldén employees were confident with their work, the Proctor employees were not. They were not at all ready for functioning within the Seldén organization and therefore the changes had to be implemented slowly to give the workers time to get used to the new environment. The AstraZeneca case shows proof of yet another situation. Here, although the two companies were well functioning, changes could not be implemented so easily, simply because it was not possible to decide exactly what the new organization would look like. Which one of these strategies is the best is impossible to determine at this point, maybe not ever. Our conclusion is that there is simply no right answer. We believe that every company has to come up with their own plan for the integration and change processes based on their situation. We think that it is necessary to evaluate the situation of both the own company and the partner in the deal as well as the general market conditions before deciding on how to act.

Appendix 1

Qualitative vs. Quantitative

This is an explanation of the way that information is collected, treated and analyzed. Qualitative research is where the focus is on verbal analysis and subjectivity and hermeneutics, meaning that the information is free from the scientist's bias characterize it. The qualitative researchers or the hermeneutics as they are sometimes referred to, mean that the relations between the scientist and the researched subject or between the investigator and the investigated can not be kept free from bias. They even point out that it should not be free from bias, that it is necessary to bring in the interpretive view so that it is up to whoever reads the information to interpret it their own way. The researcher seeks to illustrate the qualitative variation and use deep information about a few researched objects and pays specific interest to the unique or even deviant aspects. The researcher wants to find relations by using an unstructured approach. This means that they do not use structured interviews with given questions and answer alternatives. Instead, they improvise and ask questions and follow-up questions, as they find appropriate depending on how the interview proceeds. The researcher takes an active part in the discussions, therefore there will always be a certain degree of the subjectivity from the researcher (Thomasson, 1993).

Quantitative research means statistical analysis and the key words are objectivity and positivism. The positivists mean that the information

presented should be completely free from the researcher's interpretation so that everybody interprets the information the same way. This means that quantitative research refers to investigations where the results and conclusions are based on data that can be quantified. The quantitative state in the analysis means that the present relative appearance of the categories of the material should be presented numerically, in the form of frequencies and graphs. Using terms such as "often" or "seldom" is not enough as it can lead to misinterpretations depending on what each individual associates with the concept. The researcher has a certain degree of distance to the sources of information and the researched object. In the research, a large amount of sources are used in order to get empirical data. In this method, the general findings are of interest, not the specific, which is why it is more interesting to interview a broader range of subjects. When collecting data, the researcher uses a structured approach, meaning that, for instance, questionnaires with predetermined questions and answer alternatives are used. The researcher does not take an active part in the discussions, he/she acts merely as an observer and reports on what is found (Thomasson, 1993).

The most important part is the message itself since it serves as the meeting place between the analyst, the sender, and the receiver. This is why it is important that they all interpret the message the same way without the risk of subjectivity. Subjective interpretations of what is said between the lines must be avoided. In this lies the essential difference between the quantitative and qualitative analysis. Most studies are a mix between the two extremes (Holme & Solvang, 1991).

Quantitative methods	Quantitative methods
1? Precision: the researcher strives for a maximal reflection of the quantitative variation.	1? The researcher strives for the best possible illustration of qualitative variation.
2? Little information of many objects – broad survey.	2? Plentiful information of a few objects – deep survey.
3? Systematic and structured observations, e.g. questionnaires with given answer alternatives.	3? Unsystematic and unstructured observations, e.g. personal interview or questionnaire without given question and answer alternatives.
4? There is an interest for the general, average, and representative of the sample.	4? There is an interest in the specific, the unique, or the deviant.
5? The collection of information is done under conditions different from the reality of the examined situation.	5? The collection of information is done under conditions that closely resemble the reality of the examined situation.
6? The interest is spread between different variables.	6? The interest is on connections and structures.
7? Description and explanation.	7? Description and understanding
8? The researcher studies from the outside and strives to gain a role as an observer. The variation of the variables can be manipulated.	8? The researcher studies the phenomenon from within. He knows that he effects the result with his presence. He can also be actively involved
9? No personal relation between the researcher and the researched.	9? There is a personal relationship between the researcher and the researched.

Table 1.1: Translated from Holme and Solvang, 1991.

In our paper, we have used a mix of the two methods. We are aware that it is almost impossible to avoid bias. We have concentrated on a few firms in order to get specific focus on their experiences. This means that our own interaction with the respondents may have had an effect on the found results. However, we are more drawn to the qualitative method since we were interested in the specific situations that we have described. In our

interviews, we have had a certain amount of predetermined questions, or question areas that we have been interested in, but depending on the response we have gotten, we needed to be able to follow up with case specific questions. We have left it very open to the interviewees to talk freely about their experiences. That way, we believe that we have gotten the most information out of the interview situations.

Explorative vs. Descriptive

Most studies can be classified according to the existing knowledge on the subject before starting the study. When there are certain factors that are not known within the problem area, the study will be explorative. The main purpose of an explorative study is to collect as much knowledge as possible on the problem and then try to study it in a wider sense. These types of studies are often meant to be used as a base for other researchers. To do this kind of study several methods of collecting information are used, such as interviews and articles (Patel, R. and Davidson, B., 1994).

The study is descriptive when certain knowledge already exists about the problem and models and theories have already been elaborated. These studies include looking at past or present conditions. The studies are limited to certain aspects of the problem area but are more detailed than the explorative ones. It can be a description of a single aspect or the connection between two or more aspects. Often, there is only one single method used in each study in order to collect information, such as unique literature.

In areas where a great deal of models and theories already exist, studies are usually hypothesis testing. This sort of study demands that there is enough information to make assumptions about reality based on theory and then test the relevance of that theory in a real-life situation (Patel, R. and Davidson, B., 1994).

Our research is descriptive in nature. We have used existing theories, which we have then compared to the reality of those firms we have used in our research.

Inductive vs. Deductive Method

There are two different ways to describe theory, the inductive and the deductive. The inductive method implies that the researcher originates in personal experiences from reality. He/she then draws conclusions and makes theories and models based on this. This method may be criticized for not providing information, which is generally reliable. The risk is that the formulated theory can only be applied to the situation studied. Other criticism to this method is that without any theoretical understanding, there is no scientific ground for the research. The limited number of observations does not allow general conclusions to be drawn. However, this method has become more popular lately since explorative studies, that are increasingly used have to be inducted in an initial phase (Wallén, G., 1994).

The deductive way of conducting a study implies drawing conclusions from common principles emerging from existing theories. These are then tried

through empirical studies to determine the relevance of the theory. The results can either strengthen or weaken the theory (Holme, M.I. and Solvang, K.B., 1991). Thus, this method relies much more on theory than the inductive one, which serves, instead, to create new theories.

In our study, we have used the deductive method since we started out with some theories and then tested their relevance in the real situation. We have not intended to come up with any new theories. However, we have used the theory to draw conclusions, both about the relevance of the theory in a real situation and the situation itself, of the firms researched in our analysis.

Reliability and Validity of the Study

A study has an acceptable validity if it measures what is intended and is not affected by random events of various kinds. The same results should be found if the study is repeated. The validity depends on how empirical data is collected and what kind of data is used. It can be separated into inner and outer validity (Lundahl, U. and Skärvad, P-H., 1992). If a study is said to have inner validity, that means that the instruments used measure what they are supposed to measure. Outer validity is the agreement between the chosen indicator and the relationship searched.

Reliability is when the investigator has not affected the study. It should be possible to get the same result when taking the same study over again.

Our instrument for this research has been interviews with persons that have

been involved in the situations we are studying. Of course, there can be a lot of bias involved in this because the interviewed person can choose to hide certain facts that are not favorable to him or make the situation appear better than it is in reality. However, it would be very difficult to conduct this kind of study in any other way with the time limitations we have. In order for the research to be completely valid, we would have had to be part of the process ourselves and experience the changes. Even then, it would not have been totally accurate because we would not have known how things were before the change took place.

When it comes to reliability and our own role in the information we have gotten from the interviewees, it can not be totally excluded that we have affected the answers by the questions we have asked. There is a possibility that we have led the person in a certain direction by our tone of voice or even by the question itself. Since we have not had any structured interviews with set questions and answer alternatives, the questions have come up as we have gone along and depending on what the interviewee has answered. It is even possible that our bare presence in the room has affected the answers, it is easier to say something difficult anonymously than to the interviewer's face.

Primary vs. Secondary Data

Primary data is the information we gain through our own field research, such as interviews and observations. The advantage of interviews is that it is possible to observe more closely how the interviewee reacts to the

questions. His body language can be even more revealing than the answers, which gives the interviewer the opportunity to adapt the questions to each situation. This is also why it is more beneficial to use personal interviews than interviews over the phone, fax, or e-mail.

In our study, we have only used personal interviews, meaning that we have been in the same room as the interviewee when we have asked the questions.

Secondary data is that which has already been collected, processed, and documented by others. Examples of this are books, journals, magazines, newspapers, etc. For the purpose of this paper, we have used secondary data such as books, magazines, journals etc., to explain the theories that we have used used. In addition to this, we have used newspapers and magazines to discuss the cases we have used in our survey. We have also used secondary data to find a basis for the problem analysis and problem formulation.

Method for Interviews

Just the same as with research overall, there are two main methods for interviews: quantitative and qualitative. In a quantitative interview, all the interviewees are given the same questions and they are locked into the same answer alternatives. However, the fact that they get the same questions does not mean that they interpret them the same way, there could be a wide range of different interpretations of the same question. Since they

are all given the same answer alternatives, this leaves little to no room for their own reflections and opinions to be heard.

A qualitative interview is more like an everyday conversation, where the interviewee is allowed more freedom to express his/her own reflections and opinions about the situation researched. It is the researcher's responsibility to lead the interview so that those reflections are exposed, by asking follow-up questions throughout the interview. At the same time, it is important to make sure to get answers to those questions that were intended with the interview (Holme and Solvang, 1991). The qualitative interview can take two main forms; semi-structured and unstructured. The semi-structured interview is when the interviewer has certain given questions and then makes up follow-up questions as the interview proceeds. The unstructured interview takes place without any given questions and is very much like a conversation between the interviewee and the interviewer. Between these two extremes, there can be a range of different degrees of structure in the interviews.

In our interviews, we have used a qualitative and semi-structured method, where we had some given questions from the beginning. We had no answer alternatives, and asked follow-up questions as the interview went along, depending on the answers we got. This, because we wanted a deeper knowledge of the situation and about how people felt about it. The purpose of our survey is such that it is of interest to find out personal experiences from the M&A, how they affect the quality of the work and the work place. This, we do not believe can be researched by a quantitative study. Rather, it calls for a description of the situation and the people involved.

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