



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

## **The end of a Stormy Relationship**

-a case study of an international business divorce and its  
organisational and emotional challenges

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## **Abstract**

The term divorce can be used in explaining many challenges of a demerger, showing similarities to the existing M&A process literature which commonly uses the term marriage. By studying a demerger one can gain insights to challenges met at various stages in a disintegration process. The findings of this study can therefore help companies to improve their allocation of their resources during the demerger. Although many M&As later are shown to demerge, the demerger and its disintegration process has not been subject to previous studies. The main finding is that the disintegration process can be divided into three main process phases; the pre-demerger, the disintegration, and the post-demerger. Various organisational and emotional challenges can be seen during these phases. Organisational challenges are shown to be; creating a new group management, the negotiation of contracts, restructuring the departments, and strengthening the brand and the product portfolio. Prominent emotional challenges are shown to be handling uncertainty concerning layoffs, new work procedures and work tasks, and creating “togetherness” among the employees.

**Keywords:** demergers, disintegration processes, organisational challenges

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## 1. Introduction

This chapter introduces the growing trend of Mergers and Acquisitions (M&As) and its low success rate. Major reasons for M&A failure are presented along with some obstacles for integration success. The importance of the integration process and its human related aspects are stressed as factors for the final outcome of a M&A. Finally the importance of investigating a demerger and its disintegration process is stressed, as the result of the low success rates of M&As.

### 1.1 Background

Mergers and acquisitions (M&As) are not new phenomena and have over the years been subjects for several studies. In fact, it is now an increasing worldwide trend which indeed puts light on the importance of organisations' ability to successfully manage the M&A integration process (Gaughan, 2007). The trend shows that the number of announced global M&As has steadily increased over the past 25 years (Mergermarket, 2011; IMAA, 2012). The Nordic economies, in particular, have experienced a significant increase in new M&As (KPMG, 2011). Sweden was the single largest M&A market in 2009 and in 2010, "hosting" more than one third of all M&As in the Nordic countries. Since Sweden has a history of being the most economically advanced Nordic country, its attractiveness as target market for M&A activities is predicted to remain high in the future (ibid).

The integration process itself and its related activities and drivers, has shown to be influencing factors for the result of M&As (Schwiezer, 2007). M&As are extreme ways of reorganising two companies, and the changes are often regarded, by employees, as unfamiliar and threatening (Searle & Ball, 2004). Panchal and Cartwright (2001) state that there is a common understanding of M&As as emotionally stressful events, affecting employees' working as well as personal lives. However, when such stress is handled properly it can instead turn out to be a positive experience for all people involved in the integration process, since they can learn from it.

Even if the M&A intentions are good, not all M&As turn out as "successful" as planned. In fact, the success rate of national and cross-border M&As can merely be estimated to between 20-50 percent (Schwiezer, 2007). Previous M&A research have shown that a lack of strategic and organisational fit as well as failure to reach financial returns, are major reasons for M&A failures (ibid). Additional reasons, which might not be the actual reason for a failure but yet

an obstacle for the success, are low levels of internal cooperation and trust (Bijlsma-Frankema, 2004). The reasons for failure and obstacles for success stated above are shown to be the most prominent, however, even if a M&A reaches success a disintegration can actually become reality. This can be shown in the case of AB Volvo when they sold Volvo Car Corporation to Ford. This decision to disintegrate was for economic reasons and not due to a business failure, and can, therefore, be regarded as a strategic decision. Another example is the case of Sony Ericsson, in which Ericsson pulled off from the cooperation since they instead wanted to proceed on their own and focus on other business activities.

Since statistics show that M&As are an increasing trend at the same time as the literature shows that the success rate of M&As is low, it is likely to assume that demergers will become a increasing trend too. M&As are a huge field within academia, howsoever; demergers and their disintegration processes and challenges have not been studied previously.

## 1.2 Problematisation

Most previous research on terminations of relationships focuses only on business relationship terminations at a vertical level, i.e. the relationship between buyers and sellers, or on the personal level with divorces. At the horizontal level, i.e. between competitors, there is still no theory or description explaining the termination process (Tidström & Åhman, 2006). This means that even though most M&As fail, the disintegration process of demergers still remain an uninvestigated process in academia. It can be due to the difficulty of gathering empirical data, or the fact that managers more often are inclined to tell their success stories instead of the failure ones (ibid).

Tidström and Åhman (2006) stress the importance of studying ending processes of horizontal business cooperations because of their complexity and importance. By studying an ending process one can gain deeper knowledge of how to manage it in general, and also of how to manage it during its different stages. The demerger and its disintegration process entail several challenges, and can, furthermore, be seen as a catalyst for significant internal changes of a company. Breen (2005) argues that a demerger process is a complex process for managers to handle, and it requires a large amount of both time and resources. Once the company has demerged, focus should be put on getting the new organisation together and leave the “old relationship” behind. It could therefore be assumed, that much time and

resources can be saved or allocated differently if one better know which tasks and challenges to put emphasis on.

The aim of this study is to gain insights into the demerger phenomenon. By investigating this uninvestigated phenomenon, one can help to shed light on the unfolding of the disintegration process and its challenges. Historically, stories are often written from the superior or “winning” party’s perspective, therefore, this study aims at telling the story from an inferior party’s perspective. To be able to provide this clear view on the disintegration process of a demerger, following research question was formulated;

*How does a disintegration process unfold in a demerger, and what are the main challenges for the inferior party?*

This study contributes with insights about the demerger phenomenon and its disintegration process; by identifying and describing different process phases and organisational challenges. Moreover, this study provides a base for further studies of demergers and their disintegration processes. The findings of this study can not only help to contribute to academia by shedding light on the uninvestigated demerger phenomena, they can also contribute to the practical field by giving insights to managers who are handling such a large process. In particular, it can provide helpful insights for an inferior firm, which can be helped not only to understand the unfolding of the process but also the potential challenges in a disintegration process.

### **1.3 The case of the Cloetta Fazer demerger**

To provide insights to the disintegration process of an international demerger, this thesis study the case of the Cloetta Fazer’s demerger within the confectionery industry. The focus is put on the inferior party Cloetta’s disintegration process from the superior party Fazer Confectionery. The demerger was announced in June 2008, and up until the turning of the year 2008/2009, the disintegration of Cloetta from Fazer Confectionery took place. The merger was terminated in 2008, when the different future strategic objectives and ownership issues became too heavy for the organisation to bear (Cloetta, 2008a). Fazer Confectionery gained superiority in the Cloetta Fazer merger, which was set up to be a merger of equals. This was showed by the increase in the Fazer brand sales and the stagnation in the Cloetta brands (Cloetta AB, 2008b). The merger between Cloetta and Fazer Confectionery unfolded in the 2000’s, and was from Cloettas perspective, enabled thanks to the acquisition of the



Swedish confectionery company Candelia, in the late 1990's (CEO, 2012). The acquisition allowed Cloetta to get enough annual turnovers, to be able to merge as an equal with Fazer Confectionery which just had been parted from the other divisions in the Fazer Group (Bjursell, 2009). The Fazer Group and Cloetta had since the 1970's, shared a mutual interest of cooperation, and had already had one in production during the 1990's (OY Karl Fazer AB, 2010). However at that time, the Fazer Group was larger than Cloetta, and there was no possibility of a merger between equals, which was the term from the Cloetta owners (CEO, 2012). At the time of the merger, both Cloetta and Fazer Confectionery had a strong position on the respective markets, hence long corporate histories. The Finnish Fazer Group was founded in 1891 and the Swedish Cloetta was founded in 1862, and both had during the 1900's developed into the industry leaders after several acquisitions as well as through organic growth (Cloetta AB, 2009a; OY Fazer Ab 2010).

## 2. Methodology

This chapter provides an overview of the chosen research design and methodology. The choice of a case study is carefully described, so is also the sampling and the various data sources. The choice of research design and method were regarded as the best option to be able to fulfil the purpose of the study.

### 2.1 A case study

The aim of this study is to in depth explore and describe a disintegration process of a demerger, which means that the study has a qualitative nature. The terms qualitative research design and case study design are often used synonymously, and this study started from a chosen case. The disintegration process in a demerger is an unexamined process, and therefore the choice of doing a case study of this process was made. This choice of a case study is further strengthened by Bryman (1993), who emphasises that cases are useful in providing a deep understanding of areas of organisational functioning that are not well documented. The fact that this study started from the chosen case, rather than from a review of documented literature, also affected the choice of research approach. When starting from a chosen case it is called an inductive research approach, which turned out to be the best option for this study due to the lack of previous studies and theories about demerger processes in general, and disintegration processes in particular.

The decision of a case study approach is also correlated to the how- and what-nature of this thesis' research question, since it enables an investigation of these questions. Although the research question developed and became more specified throughout the working procedure of the thesis, it was however decided from the beginning that how- and what-aspects were going to be the starting-points of this study. Studies based on how- and what-questions deal with operational links which need to be traced over time (cf. Yin, 2003), as is the nature of a process. This fact indeed makes the case study decision even more logical, since the purpose of this study is to investigate a disintegration process. By choosing this approach it was possible to put emphasis on the actual process, the so called unfolding of events within the case company.

A case study does not only enable the investigation of the process, but also the retaining of meaningful characteristics of the organisational and managerial aspects within the process. It

also enables investigation of not only phenomena related to human behaviour, but also the investigation of complex situations with organisational and emotional challenges (cf. Yin, 2003). In this study, one of the main focuses is to get an insider perspective on the demerged companies' views on the disintegration process. In an investigation of this human related phenomenon, a case study is a well suited method according to several researchers in a broad range of different research areas (cf. Eisenhardt & Graebner, 2007).

Researchers also stress that case studies give a massive body of information (cf. Yin, 2003). This was a major advantage in this study since the inductive approach demands a rich and thick data basis for further analysis. One of the main criticisms given by researcher in regards to case study design is the difficulty to generalise if one only uses one case to give insight (cf. Bryman, 1993; cf. Yin, 2003). Using one case in this thesis, however, enabled a detailed description of the demerger phenomenon and its disintegration process. With a single case study, it was easier to go into details in this specific area of research. According to Eisenhardt and Graebner (2007), it is possible to build more advanced theories when investigating an independent experiment. A single case study of the disintegration process phenomenon in one firm, can still, according to Welch, Piekkari, Plakoyaiannaki, and Paavilainen-Mäntymäki (2011), be enough to create new and revolutionary theoretical findings.

### **2.1.1 The chosen case study company**

The predicted M&A-increase leads to assumptions that the future might bring many unsuccessful M&As that might actually lead to disintegration processes. Just because this specific process has not been studied before does not mean that it has not happened, thus, previously merged companies deciding to demerge, can be found in almost all industries. Therefore, some criterions were set up for the selection process; 1) Swedish party, 2) a recent demerger, and 3) inferiority in the relationship. With these three criterions taken into considerations, the choice fell upon the Cloetta Fazer demerger and its disintegration process. Since neither a demerger nor its disintegration processes have been subject to previous studies, the chosen case of Cloetta's disintegration process from Fazer, could help to achieve insights into this previously uncharted research area (cf. Yin, 2003).

The first criterion, a Swedish party, was decided upon because of many reasons. Sweden's attractiveness as a market for international M&A activities indicates that time will bring more demergers on the Swedish market, which indeed spurs the interest in this phenomenon in

particular in Sweden. Swedish companies' tradition of openness and positive attitudes towards participating in studies was another important factor for this decision. Furthermore, easy access to interviewees was also of importance, hence the possibility to contact them again and meet them for additional interviews with follow up-questions. This was all enabled by studying the Swedish party of the demerger.

The second criterion, a recent demerger, was made because the demerger needed to be a fairly recent one in order for the interviewees to have the ability to easily recall the disintegration process. If studying an old process the probability of post-creation of memories are getting bigger since interviewees might recreate "inaccurate" memories of the process. Cloetta and Fazer decided to demerge in 2008, which is fairly recent in time. The definite end point of the demerger was drawn to the turning of the year 2011/2012, because of the announcement of a new integration process between Cloetta and a new firm, which started in the beginning of 2012. By deciding not to look at that new integration process as well, the risk of confusing the interviewees was diminished. It might be hard to separate one process from another if they are taking place during the same period of time, and that was the reason why a definite stop for the selected case had to be decided upon before the interviews were conducted.

The third important criterion of the firm was inferiority in the previous merger relationship, since history commonly takes the superior party's perspective. Consequently, this study examines the disintegration process of one inferior firm from the superior firm. The reason for investigating one party's perspective only, is to be able to take a stand towards the investigation. Even though the nature of a merger is two equal companies, this is shown to be difficult to achieve in real life. Panchal and Cartwright (2001) states that few mergers can be regarded as mergers between equals since there are always imbalances in power between the partners, although those can be very small. The inequality can be seen in terms of control among many aspects, but also in terms of development of products. In terms of the Cloetta Fazer product development, Cloetta was chosen because of its underdevelopment in terms of products at the time of the demerger. This study is therefore only focusing on the disintegration process from Cloetta's perspective, and not from a dual perspective of both Cloetta Fazer.

## 2.2 Data collection methods

In case studies the data can come from many different primary as well as secondary sources, however, according to Yin (2003) two of the most important sources are interviews and documentation. Interviews and documentation have been used, among others, as sources of information in this study, which will be described more in detail below.

### 2.2.1 Primary data

Since conducting interviews is a highly efficient way to get a relevant, rich and empirical set of data, this study was mostly based on interviews. Interviews are also a highly flexible way of data gathering, and especially when the area of research is a phenomenon as in this case (cf. Eisenhardt & Graebner, 2007). By conducting interviews it was possible to directly put focus on the chosen case study topic, and to get a deeper and more comprehensive knowledge about the disintegration process phenomenon (cf. Yin, 2003). Qualitative interviews were conducted as the study aimed at examining a phenomena and reactions to the specific events of the disintegration process; and not to investigate quantitative variables such as how much, how often, and how many (cf. Trost, 2010).

Six interviews were conducted with employees from various manager positions and departments at Cloetta. The range included board members, group management, and department managers. The interviewees were chosen to cover the whole value chain. This choice was made since it enabled for an understanding of the unfolding of the disintegration process in the whole organisation. Some of the employees held their positions already before the public announcement of the demerger, while others were appointed their positions afterwards during the disintegration process. The common determinant was that all interviewees were involved in the disintegration process, and were still employed at Cloetta during the time frame of this study. Adequate employees were identified with help from internal communication distributed by Cloetta, in which employees with management roles in the disintegration process were mentioned. Since the initial selection of interviewees was carefully thought through, the sampling can be classified as a non-probability sampling. Moreover, the sampling was purposeful since the intention was to find those interviewees that best could help get an as comprehensive data as possible, in order to discover, understand, and gain insight into the disintegration process of the demerger.

The interviews were, conducted in Swedish and in a semi-structured manner, in which “question areas” were used at the same time as keeping an open mind towards other interesting areas mentioned by the interviewees (cf. Bryman, 1993). The defined “question areas” were formulated before the interviews, and concerned possible interesting discussion points in the disintegration process. The question areas were public information such as the disputes and conflicts prior to the demerger, the announcement of the demerger, and the layoffs of personnel. Even if the interviews were structured in terms of possible “question areas”, the interviewees were encouraged to freely tell their stories – their version of the disintegration process (cf. Trost, 2010). The “question areas” were open and without order, rather, they were asked where they were best suited in the situation. This enabled a broader and deeper knowledge about the data since the discussion became more graduated (cf. Ahrne & Svensson, 2011). The order and the content of the “question areas” were also adjusted to who the respondent was and what department s/he worked at. The first question area in all interviews was a description of the interviewees’ history at Cloetta (current and previous position at the firm). Depending on what the respondent said during the introductory part of the interview the order of the following questions were adapted to best suit the given situation in order not to interrupt the interviewees’ reasoning.

Since the disintegration process started a few years back in time it was important to facilitate for the interviewees to remember the process. It was therefore made sure that the interviewees were not interrupted when they tried to recall and retell how they personally perceived and remembered the disintegration process. The authors were responsible for three interviews each. One of the authors took a leading role, and had the main responsibility for the structure of the interview and the order of the questions, while the other author had a more inactive role. The one having the inactive role took notes, listened carefully to the conversation between the interviewer and the respondent, and then asked additional questions when needed in order to get more information or when certain things needed to be explained more specifically. The interviews were recorded, which was clarified and agreed on before the interview. This enabled the conversations to be more focused, since the inactive interviewer only had to write complementary notes. The recorded interviews were later transcribed in order not to lose any details (cf. Ahrne & Svensson, 2011).

### 2.2.2 Secondary data

The secondary data sources were used to get important background information before the interviews and to complement the interviews afterwards. Documents are an integrated element in the qualitative stream of data collection (cf. Bryman, 1993). Internal and external text documents such as internal communication and press releases were used to provide guidelines and a starting point for the interviews, in terms of “question areas” and background information. Academic articles as well as newspaper articles, consultancy reports, annual reports, and press releases were used to strengthen the data given from the interviewees. Yin (2003) states, that documentary information is relevant to all case studies regardless of the specific topics of the cases. The documentation used in this thesis has been exact and was not created retrospectively, and it had a broad coverage. According to Yin (2003), documentation gives the researcher the possibility to go over the information repeatedly, thus, this possibility was facilitating in the investigation of the Cloetta disintegration from Fazer. Moreover, one can easily get a broad scope of the research area by complementing primary data with secondary data sources. The access was of crucial importance when it came to the use of documentation as a secondary data source. The promised internal documents were sent from the company, and the matter of getting access to internal documents was not an issue for this study.

### 2.3 Data analysis

To keep the closeness to the emotional reactions and organisational challenges discussed by the interviewees, the empirical text presented in chapter 3 and 4 is written as a story with an active and direct voice, rather than in an authoritative voice. The story enables the reader to feel closer to the interviewees, even if there is a risk that the writers sometimes feel closer the reader too even if the reader tries not to be present in the text (cf. Alvesson, 2000). Even if the choice was made to take a stand and only looking at Cloetta’s perspective, the aim was to tell the story of the employees and not to present the writers word on the subject. If this own view sometimes shines through, hopefully, the reader is anyhow able to see the contribution to the research field of the disintegration process.

After the interviews the data was divided into constructed categories with clustered data, in order to also be able to clearly present the data. The categories do not follow the interview guide question areas, which is common in qualitative studies (cf. Ahrne & Svensson, 2011).

The empirical findings are presented in a process as the story of the demerger and its disintegration process unfolded. This chosen style of presenting the empirical findings as a story, facilitate for finding a natural and clear order for the categories (cf.. Strauss & Corbin, 1990). The categories were built up on the clustered data from the disintegration process' time and phase aspects, which in turn, followed the story. The empirical material was reduced to concern the disintegration process only, which meant that other aspects of less importance to the specific research area of this study were excluded.

This study's inductive approach heavily affected the analysis of this study, with its starting point in the empirical findings and then the evaluation of what theoretical streams can be applied. When the empirical data was collected, categorised, reduced, and written, the work started with trying to explain the findings. After having evaluated the findings and seen major challenges, the focus shifted towards trying to explain the findings. After having read literature from various fields, not only from the business side but also from psychology and sociology, the choice fell upon three research streams within these research fields which could explain different aspects of the demerger and the disintegration process. The three fields were divorce literature, integration literature and change management literature. Those three fields showed both interesting similarities and differences both in terms of the process but also in terms of emotional reactions and challenges. The analysis first provides a summary of the main important findings in the three different demerger phases. Thereafter, the findings are explained in terms of similarities and differences with help from the three research streams presented above.

#### **2.4 The quality of the study**

It is important to measure the internal and the external validity of the study. The internal validity is depending upon whether or not this study measures the disintegration process phenomenon of the demerger, which it was set out to measure. The external validity of this study is depending on that the findings can be extended to more than the investigated context of this specific case (cf. Bryman, 1992).

To strengthen the internal validity, several precautions were made. The inductive nature of this study demanded a totally open mind during the interview, which required an awareness of possible assumptions concerning the disintegration. The assumptions were stated to be; (1) in such a large of process as the disintegration process the employees must have met many types



of challenges, and (2) these challenges were met and sometimes overcome. These assumptions were derived from the researchers' previous theoretical and practical studies and experiences within management and international business. The interviews were long and exhaustive (around one hour each), in which a deep understanding of the phenomenon of the disintegration process was enabled. A wide range of interviewees enabled the internal validity to be strengthened since the findings covered the whole organisation; different management levels and departments. The fact that the interviewees also were able to contact for clarification of the interview data also enhanced the internal validity of the study. The interview data was triangulated to increase the internal validity, and it was done by comparing the data from the interviewees with articles and press releases. Peer students were also asked to comment upon the empirical findings as they emerged, as another way of triangulating the data to strengthen the validity. The transcription of the interviews enabled for the interviews to be both read and listened to several times, in order to see and to hear intonations and important aspects more clearly. With all these precautions made to strengthen the internal validity, there is no doubt that there is no other competing explanation for the findings of the study - it is a causal connection between the disintegration process and the findings (cf. Bryman, 1992).

Several considerations were also exercised, in terms of the external validity. The idea of this case study was not to generalise, but to specify the conditions for a phenomenon, action in a phenomenon, and the outcomes of a phenomenon. If conditions would change, the outcomes from the study would also change. By stating this, the data from the different interviews become comparable even if the interviewees are not asked exactly the same questions (cf. Strauss & Corbin, 1990). The rich and thick description of the empirical findings gathered, facilitate for other external parties to compare their situation to this case study context. Furthermore, a rich and thick data of empirical findings, as in this study, is enough to build advanced theory (cf. Welch, Piekkari, Plakoyaiannaki, and Paavilainen-Mäntymäki, 2011). By triangulating the rich and thick data with internal and external documents, the case study facts can be supported since it is a multiple measure of the same phenomenon (cf. Yin, 2003). The different interviews can also in fact, refer to multiple examples of events that are indicative for the disintegration phenomena. This would mean that in this study each individual's view on the disintegration process would be an example of a disintegration process (cf. Strauss & Corbin, 1990).

The construct validity is a more exact form of validity. The construct validity procedure can link the phenomenon of the disintegration process and its challenges to a theoretical arena and in that way enable theory building (cf. Bryman, 1992). This would mean that the disintegration process phenomenon and its challenges could be linked to other theoretical areas and in that way help to build new theory in the demerger field in general and the disintegration process in particular. There were many typical events mentioned during the interviews with different interviewees. In fact, after a few interviews no new information was added to the different “question areas”, the information was rather confirmed. This was a clear sign that the sample was complete and that it was enough to reach theoretical saturation (cf. Strauss & Corbin, 1990).

### **3. The historical background of Cloetta**

The 150 year old Cloetta is the Nordic region's oldest manufacturer of chocolate and confectioneries. The firm started its business in Copenhagen 1862 when the three brothers Bernhard, Christoffer and Nutin Cloetta from Bergün in Switzerland; started to manufacture chocolate, confectionery and sweets originated from Swiss and French recipes. Thanks to a growing demand of chocolate their products also spread to Sweden, as the brothers opened a factory in Malmö in 1872. The brothers expanded their business in 1875 when they launched the "Chocolateria" in Malmö, which provided hot chocolate and later also became a chocolate shop. In 1899 Cloetta purchased Chokladfabriks Aktiebolaget Motala, which was followed by a relocation of the newly purchased factory and Cloetta's factory to Ljungsbro, just outside Linköping. The Svenfelt family, owner a newly established competitor, took over the majority of the shares in Cloetta in 1917 (Cloetta AB, 2009a).

Ever since Cloetta's relocation to Ljungsbro, the firm has been significantly embedded in the local community, and the company was in the beginning responsible for the urban planning and public utilities, including street maintenance and power supply. As late as in the 1930's the factory in Ljungsbro accommodated a post office, a telephone station, as well as a bank. Cloetta did also provide employee housing, a daycare centre, a clinic and a dentist's office (Cloetta AB, 2009a). Although this is no longer the case, Cloetta's previous responsibility in taking care of the local community of Ljungsbro is yet heavily connected to the company's identity in the eyes of employees as well as of the small community.

#### **3.1 The upcoming merger between Cloetta and Fazer Confectionery**

During the second half of the 20<sup>th</sup> century Cloetta grew both organically and through acquisitions. During the 1990s Cloetta acquired the two confectionery companies Again and Candelia (Cloetta AB, 2009a), and the annual turnover went from 500 million up to around two billion. With a market share of about 30 percent, Cloetta became a manufacturing firm on the rise. The acquisition of Candelia repositioned Cloetta from the third to the first place in the Swedish chocolate and confectionery industry. The acquisitions of Again and Candelia eventually opened up for a merger with a larger firm, on equal terms (Bjursell, 2007). Already in the 1970's, discussions about a possible merger between Cloetta and the Fazer Group existed (Bjursell, 2007). The Fazer Group was founded in 1891, manufacturing and selling chocolate and confectioneries in Finland, and from 1920 also in Sweden as they established a

shop in Stockholm. In 1989, Fazer introduced an independent operative division for confectioneries, separated from their other divisions (OY Karl Fazer AB, 2010). Later on, in 1990 collaboration with common production activities started between Cloetta and Fazer Confectionery (OY Karl Fazer AB, 2010). After a while the collaboration between the firms experienced difficulties, but they were, however overcome, and mutual interest between the firms continued (Bjursell, 2007).

Cloetta and Fazer Confectionery were said to be a perfect match since their products were complementary with different target groups, and together they created a strong combined brand portfolio. Cloetta provided brands such as Kexchoklad, Plopp, and Center; and Fazer provided brands such as Marianne, Tyrkisk Peber, Geisha, and Tutti Frutti (Bjursell, 2007). Kexchoklad was introduced already in the beginning of the 1900's (Cloetta AB, 2009a) and is one the company's most well-known products. Kexchoklad is nowadays known as being a sponsor to the Swedish national skiing team and the cooperation between them started in 1999. Kexchoklad has also, since 2002, been a sponsor to the Swedish national handball team, and during the Olympics of 2012 in London Kexchoklad will be team sponsor to the Swedish Olympic Committee (Cloetta AB, 2011). The confectionery industry was stated by employees at Cloetta to be conservative, which can be seen by the long history of the brands. Few brands have developed into leaders since 1965, according to one manager. Moreover, shopping behaviour of consumers is also conservative and has been relatively unchanged since the 1950's. Consumers' purchase decisions of confectionery products are to 80-90 percent driven by impulse, which makes it extremely difficult to successfully introduce new products.

The combination of the two strong home markets, Finland and Sweden, and the fact that they both were number one in the confectionery industry on the respectively home markets, spurred the idea of a perfect match, and they would be able to strengthen their relatively weak positions on the Norwegian and Danish markets if they merged. Moreover, Fazer already had a sales organisation in Sweden, whilst Cloetta previously had worked in sales alliances in Finland. By merging, they would achieve synergies not only in sales, but also in production, marketing, purchase and administration. Cloetta Fazer was predicted to change the Nordic confectionery market completely, with Cloetta Fazer moving to top positions on the Nordic markets. The merger put Cloetta Fazer in a position of holding a 25 percent market share, and that was a way for both Cloetta and Fazer to grow, and to safeguard their long-term

competitiveness in order to create stronger brands (Bjursell, 2007). The Svenfelt family owns Cloetta through AB Malfors Promotor, whilst the family holding company Karl Fazer owns Fazer, in reality Oy Karl Fazer Ab (DI, 2008a). When, hereafter, referring to the owners of Cloetta respectively Fazer it is implicitly AB Malfors Promotor respectively Karl Fazer that are referred to.

Cloetta and Fazer were not only seen as the perfect match by their owners and the public. Employees also saw it as interesting and prosperous cooperation, since stronger market positions would give leverage and authority, and the employees also found it appealing to work with a larger product range, which they could develop even further. The expectations on the merger were many and only the future would show if they were the perfect match after all.

### **3.2 The pooling of interest merger-method**

In 1999, the agreement of a merger between Cloetta and Fazer Confectionery was finally made and together they formed Cloetta Fazer AB in 2000 (OY Karl Fazer AB, 2010). The new merged firm was planned to become integrated within a period of two years, and it had seven different production facilities for chocolate and sugar confectioneries; three in Sweden, two in Finland, and two in Poland (Bjursell, 2007).

The merger was performed according to the pooling-of-interest accounting method for business combinations, which can be used in mergers of equals. A main advantage of this method was that the companies did not have to recognise goodwill as an asset of financial statements. In order to get the 50/50 balance of shares an apportion of Fazer Confectionery was made by OY Karl Fazer AB, in exchange for shares in Cloetta AB. The 50/50 balance was also put in place for the board of directors and group management (Bjursell, 2007). The agreement emphasised that Fazer should at the latest of July the 30<sup>th</sup> 2002, make a structural placement of 3,415,200 B-stocks to institutional allocators, and would then after the gradual sales have 31.7 percent of the capital and 42.9 percent of the votes. This structural replacement had to be done in order to create the equal ownership structure agreed on (DI, 2002a).

#### 4. The demerger process

Already during the first years of the merger it was shown that it was not easy to create an equal relationship. The demerger was announced on the 16<sup>th</sup> of June, 2008. From the time of the merger in 2000 until the turning of the year 2008/2009, three clear phases can be identified in the demerger and its disintegration process.

The first phase, ranges from 2000 until the demerger announcement on the 16<sup>th</sup> of June 2008, included numerous disputes between the owners concerning the ownership structure. All the disputes came to negatively affect the relationship between Fazer and Cloetta, a relationship that beforehand was thought of as the “perfect match”. At the end of Cloetta and Fazer’s time together, the collaboration was low between the firms, and Fazer’s brands had experienced more development and had larger sales volumes than Cloetta’s brands. The stormy relationship got an abrupt end in 2008 when the two owners decided to demerge Cloetta Fazer into; Cloetta AB and Fazer Confectionery. This led to a beginning of a new phase for Cloetta which included a disintegration process, followed by structural changes of the organisation. In this second phase, there were many emotions among the employees such as reactions towards the demerger as well as towards upcoming layoffs. On the 1<sup>st</sup> of January 2009, Cloetta operated independently again and the third phase of the disintegration process started. Cloetta was later listed on the Stockholm stock exchange in February 2009, while Fazer Confectionery instead became privately owned (Cloetta, 2009b). This phase included a focus on developing the Cloetta brand and the product portfolio, along with bringing the organisation’s departments and employees together. The demerger process below lays the basis for the continuation of the story. The three arrows represent the three different phases presented in the disintegration process, and the phases are adjusted to the time and content of the whole time period.

**Figure 1. The disintegration process**



Source: Created by authors (Karlsson & Nordell, 2012)

## 4.1 Phase 1 - The pre-demerger

The starting point for this phase is the time of the merger in 2000, and it has its definite end when the public announcement of the demerger came on June 16, 2008. The phase included a work towards integrating Cloetta Fazer, on the same time as there were upcoming owner disputes and conflicts as well as a decreased cooperation between departments.

### 4.1.1 The ownership related conflicts

When Cloetta and Fazer merged the intention was to get a balanced ownership structure with two equal partners, but it was never actually realised. The ownership conflicts were the main reasons for the internal conflicts that arose over the years. The first dispute started with the structural replacement that Fazer had agreed on doing at the latest of July the 30<sup>th</sup> 2002 in order to fully become an equal party in the Cloetta Fazer merger (DI, 2000). Fazer sold stocks in May 2002 (DI, 2002a) and a few weeks later in June 2002, which, according to them, meant that they reached the agreement by decreasing the ownership share to only 20 percent of the capital and 40 percent of the votes (DI, 2002b). The stocks, however, got stuck in the possession of a third hand party and never reached the stock market as they were required to in order to fulfil the merger agreement. From Cloetta's view, this was seen as conflicting to the agreement and there was a feeling that the plans of how Cloetta Fazer should be owned was not being realised. Fazer argued that it was just an intentional agreement which actually never was put in place or committed to. It was then obvious that Cloetta and Fazer interpreted the agreement differently. During the autumn of 2004 Fazer started to purchase stocks in Cloetta Fazer again from individuals, and from companies with close connections to the Fazer Group. Through that purchase Fazer again exceeded the pre-defined ownership agreement in terms of capital. Cloetta's owners protested but Fazer's owners had no intention to decrease the ownership (DI, 2006a).

The different ownership intentions and the conflicts became more and more obvious for the board of directors and the group management when Fazer made these stock purchases. One understood that there existed two conflicting agendas regarding Cloetta Fazer's future, not only in terms of ownership but also in terms of contradicting growth strategies. Whilst Cloetta's owners wanted to grow by acquiring other companies within the same industry, Fazer's owners tried to purchase the whole Cloetta Fazer.



The group management, initially, tried to ignore the conflicts and not let them affect their business operations. The hidden agenda, however, was obvious and made it difficult to set long term plans for more than one-two, maybe three years ahead. The group management tried to stay out of them as much as they could, which was expressed: *“We knew that the owners’ conflicts at some point would seriously affect us, but we had no idea of when exactly. Of course it differed how well we could handle that fact, some of us did not care while others worried about it.”* Gradually, the hidden agenda led to organisational tensions which led to internal polarisations in the board of directors and in the group management, who started to care more about the interest of their “company of origin”. Around 20 persons were well-informed about these tensions, although they were not yet communicated internally. Many employees, however, soon understood that things had started to become more complicated in the group management as strange decisions gradually were taken on irrelevant grounds which could not fully be understood. At the marketing, logistics, and sales departments, the hidden agenda was frequently present even if it did not yet affect the daily work for the employees. The logistics manager, for example, expressed how it was just a concern of the owners and not of the departments by saying: *“It is politics for me, I cannot do anything about it. It is an owner question, and I cannot really affect it.”* The small effect on the departments’ operational level was due to the fact that their working tasks were not directly affected by those kinds of decisions. Since the employees’ daily operations were not seriously disturbed nor interrupted by the conflicts, they did not see the problematic situation that was piling up.

#### **4.1.2 The conflicts escalated - the hostile bid**

The conflicts became more evident in 2005 when Fazer’s owners placed a bid on Cloetta Fazer (DI, 2005a). Since Cloetta and its owners were surprised by the bid they made it clear that they saw it as a hostile move from the owners of Fazer (DI, 2005b). Fazer then placed the bid to the stock owners, and stated that their aim was to buy the whole Cloetta Fazer if everyone agreed to sell their stocks. The bid was, however, rejected by the owners with reference to the low price, and they instead continued to hold their shares. The board of directors’ reaction to and support towards the bid varied, and even if they together chose not to recommend it to the shareholders (DI, 2005c), one of them actually sold all possessed stocks (DI, 2005d). One of Cloetta’s owners thereafter bought stocks in Cloetta Fazer, and explained it as a completely economical business done via another firm, because of the low bid from Fazer (DI, 2005e). The fact that the board did not recommend the shareholders to



accept Fazer's bid led to further internal tensions since it then was obvious that there were ownership's and board of director's disagreements. Cloetta Fazer was moved to the obs-list on the Stockholm exchange market after this incident since the company no longer complied with the ownership concentration rules regarding share of stocks. It was stated that 25 percent of the total stocks had to be in public possession, and Cloetta Fazer then owned more than 78 percent of the total shares (DI, 2005f). Even if accepted the bid offer, Fazer still increased their share of capital from 24 to 29.4 percent and their votes from 40 to 42 percent (DI, 2005g). Additionally, the third party stocks together made up a total of 58.2 percent of the capital and 52.6 percent of the votes. In comparison, Cloetta's owners only had 20.5 percent of the capital and 39.6 percent of the votes (DI, 2006a).

The bid affected the group management in several ways as they found it even more complicated to continue their operations as they had done prior to the bid, This was expressed by the employees: *"That was when the company was torn apart!"* and *"that was in many ways the last nail in the coffin of the Cloetta Fazer-era."* and *"it became the definite turning point."* The future development of the company was uncertain, which led to a lack of incentives and it became more complicated to make decisions and find solutions that both parties were satisfied with. Escalating tensions put additional pressure on the already strained relationship in the group, and there was an ever-present feeling of latent hostility. This affected every meeting and decision and started to increasingly paralyse and obstruct decisions concerning the daily operations. After meetings in the group management there was a feeling of uncertainty if any concrete decisions ever would be taken, which caused internal insecurity that paralysed Cloetta Fazer's development.

After that day it became publicly known that there where internal conflicts; on ownership level, on group management level and within the board. At this time, all employees as well as several external parties understood that Fazer had a different growth strategy and that there was probably not a common bright future for Cloetta Fazer. Evidently, the hidden agenda was not hidden anymore. Many employees thought it was truly sad that all these conflicts were taking place since they had worked hard to create and develop the inspiring collaboration Cloetta Fazer. But now, to protect Cloetta Fazer and its fate had started to be regarded as a dead end. The employees could not find enough reasons for protecting and working for "saving" Cloetta Fazer as long as the owners continued with their legal fights. An example of

such feeling was given by one of the employees: *“Why should we spend our time trying to develop the company while the owners are fighting and preventing us from doing so?”* This common perception led to the fact that employees started to take a stand in the conflict. The employees started to protect their roots rather than working together trying to create a common bright future. One employee describe the employees’ loyalties by saying: *“That kind of behaviour is just a human reaction to such event. People choose side regardless of if they act as private persons or as in this case employees.”* There was a feeling of unpleasantness and regardless of which of the two companies you “belonged to” you were upset and felt betrayed by the hostile move. The polarisation that had started in the group management already before the bid now spread further down in the organisation, further away from the group management and the board of directors.

The owners’ conflicts spread internally and started to negatively affect the daily operations. Since the owners did not seem to have any common long-term plans for Cloetta Fazer it was hard and complicated to plan for the future, and the employees started to experience problems with long-term planning of projects as well. At the product development department the daily operations had not previously been affected by the owners’ conflicts, but the number of common projects started to decrease now. Fewer projects were introduced, and those that actually were introduced mostly concerned Fazer-products and seldom Cloetta-products. The overall time perspective of the projects became shorter during the second half of the Cloetta Fazer-era. Fazer’s products steadily increased on the Swedish market, both in produced as well as sold volumes, whilst Cloetta’s products had the opposite development on the Finnish market. These issues were internally discussed at Cloetta, since they felt outpaced by Fazer and the development of their products.

All disagreements and conflicts regarding the agreements and the shares of stocks eventually got legal consequences in January 2006, when Hjalmar Svenfelt Stiftelse sued Karl Fazer in Helsinki district court in Finland (DI, 2006b). That dispute was later ruled out in favour of Karl Fazer (DI, 2007a). In 2007 Svea Hovrätt in Sweden, on the other hand, ruled in favour of Hjalmar Svenfelt stiftelse and Karl Fazer was demanded to decrease his ownership (ibid). Karl Fazer had at this point of time 42.2 percent of the votes, a third party 10.0 percent of the votes, and Malfors Promotors 39.6 percent. During the same year, the third party sold stocks to a newly founded company owned by members of the Fazer family (DI, 2007b). The

attempts to legally solve the conflicts were not suitable since it was hard to simultaneously solve conflicts and maintain decent operations and management functions. The CEO stressed it as: “*It is a hopeless situation*”. The owners started to seek for alternative solutions to their legal disputes in 2007. Since the advices differed depending on from which country they came from it, howsoever, it turned out to be problematic to find solutions that both parties could agree upon. The owners started to realise that they probably could not find a good common solution to their conflicts. In the meantime the whole company suffered since the process of finding solutions cost a lot of money, and required a lot of time and energy. From the perspective of the group management this was the first time when the owners started to think about a demerger as the only possible way to solve all the problems. All employees also started to very openly return back to their roots – to Cloetta respective Fazer.

Over the years the group management was criticised since no acquisitions had been made even though that had been discussed at several shareholder-meetings over the years. The paralysed operations started to be questioned in 2007, and as a result of the high external pressure from the shareholders Cloetta Fazer acquired the Swedish confectionery company Karamellpojka and the Finish company Fennobon (Cloetta AB, 2009a). Cloetta Fazer got a new CEO around the same time, and the acquisitions were seen as a way to “prove” the market and show external parties that Cloetta Fazer still was a player to count on despite the ownership-related conflicts. The situation was not the most desirable one for the new CEO, since it was not an easy task to simultaneously handle internal conflicts and satisfy shareholders’ demands. Retrospectively, the acquisitions can be seen as the final stroke on the market for Cloetta Fazer. When the acquisition of Karamellpojka did not turn out as successfully as hoped, since their product portfolio did not match Cloetta Fazer’s, there were few alternatives left to further develop Cloetta Fazer.

In the beginning of 2008 the owners mutually decided to demerge and to “return to their roots”, and they communicated their plan to start a demerger-process to a small number of employees in the group management at Cloetta Fazer. However, as late as in May 2008 the owners still tried to negotiate with help from an impartial third party in order to solve their disputes. Evidentially, these attempts were unsuccessful. In practice, the decision to demerge meant that all legal disputes were put down. The companies’ owners agreed to terminate all their fights and start preparing for operating as two separate organisations by January 2009.

The board chairman at that time felt relieved that all disputes and conflicts then got a definite end (DI, 2008a).

At the time of the demerger decision, Cloetta and Fazer departments' integration levels varied heavily. On the supply chain side, Cloetta Fazer was largely integrated even though not all operations were exercised in completely the same way. For example, the logistics department was integrated by having a common warehouse in Norrköping. Sales were also integrated; since Fazer products were sold by Cloetta in Sweden, Norway and Denmark, and Cloetta's products were sold by Fazer in Finland. On the technical side, the common operations were not fully integrated. On the operational level, the technical department was said to be integrated with Fazer in one year's time, however, little knowledge exchange take place even though that was the intention from the technical manager. On the group management level, the market organisation, then located in Stockholm and not in Ljungsbro, was said to never have become totally integrated. Fazer only wanted to work with Fazer brands and that was the primary priority instead of working together on a common goal. This was more or less a hidden agenda experienced in the management point of view. Many employees tried to bring the hidden agenda with the Fazer brands up for discussion, but failed. The production development department was in a close cooperation with Fazer and with the market department during the merger. The varying integration levels at the time of the demerger announcement should be kept in mind as the story continues.

#### 4.1.3 The disintegration commission

The owners created what they called a "disintegration commission" responsible for handling everything concerning the demerger. From Cloetta's perspective this little commission was in jest called the "accident investigation team" since it had to handle what had turned out to be a business failure. This group worked as a temporary board that had to take all the decisions regarding e.g logistics, brands, factories, employees before the public announcement in June 2008. The commission consisted of owner-representatives, group management-representatives from Cloetta and from Fazer, and an intercessory law firm. The board and the group management were put in a complicated position. From being colleagues and working closely together with developing Cloetta Fazer they suddenly became opposite parties in a demerger. These odd circumstances was emphasised by one employee: *"From being friends and colleagues, we became opposite parties over a night."* The disintegration commission

worked during almost half a year with demerger preparations by negotiating about the common operations and how they should be divided. The work was described by the CEO: *“Overall, there was a friendly climate during these months, but of course it escalated at some points when we were disagreeing in specific factual questions. But that’s what happens during negotiations”*. The commission worked towards a division that would be beneficial for both Cloetta and Fazer. Of course the firms’ respective representatives made everything they could to get the best out of the demerger as possible. These negotiations were preoccupying the operations, and no long term plans were exercised. The agreements concerned the products, the markets, the factories and the warehouses, the brands, and the employees.

The working procedure of the demerger commission was rigorously controlled and registered, since nothing was allowed to be transmitted to anyone outside the commission. Decisions needed to be thoroughly discussed before a final decision was taken at the same time as daily operations had to continue as usual. Even though the employees were not informed about the existence of the commission many started to suspect that something was taking place at the top level of the company. Gradually more and more employees were informed about the demerger and involved in the process of preparing for the demerger and preparing to give both internal and public information. Cloetta’s CEO was often absent and assumed that most employees started to realise that he, as he said: *“I disappeared from the corridors”*. For the HR manager it became obvious during the spring 2008 that a demerger soon would take place, and since much of the input needed in order to execute the demerger was human resource-related. Although the inevitable demerger was not yet communicated or talked about internally it soon became apparent to employees on different levels and at different departments that something significant was happening to the company. When the demerger was a fact it started to feel surreal, and there was a vague feeling of absurdity among those who worked with preparing the demerger, which was expressed as: *“A constant feeling of absurdity. It can’t be like this....this is not how it should be.”*

During the spring 2008 the demerger preparations started to affect most of the company. The product development that gets their tasks from the marketing department had previously experienced fewer and fewer product launches for Cloetta, but now, they even experienced a vacuum in their operations. In April-May it was obvious that something was going to happen and the employees started to speculate around different scenarios. Many employees hoped

that Cloetta was going to become an independent company again and it was discussed as a liberalisation, but no one actually knew if that was the case. At the technical department the daily operations went on as smoothly as they always had done up until unexpected things started to happen in a joint project. A large part of the project consisted of a large-scale investment in new chocolate cisterns, in which the procurement was done jointly in order to get an advantageous price. However, when Cloetta was ready to purchase the cisterns by putting together their specification to the supplier they realised that Fazer had already bought their cisterns without letting them know about it. Surprisingly Cloetta was informed about this by one of the suppliers they previously had been in contact with together with Fazer. The smoothly running project was now put in a different context. The employees at Cloetta had to re-evaluate the project and decide whether or not to proceed with it. After careful considerations Cloetta decided to continue the project on their own but there was a period of uncertainty regarding the future of the project. The critical factor was the fact that the project had been running for such a long time and it would then have been too expensive to terminate at that point of time. Cloetta bought their cisterns on their own and the cooperation with the Finnish factory stopped immediately. One employee that was surprised by Fazer's purchase said: *"What the hell is going on? But after that I soon realised that something unaccountable was going to happen."* From Cloetta's side no one could foresee Fazer's independent purchase since Fazer had not previously shown any signs of interrupting the project.

#### **4.1.4 The public announcement**

Due to the fact that Cloetta Fazer was listed at the stock exchange there were certain rules to follow regarding the way information was given both internally and externally. Prior to the public announcement the disintegration commission had to sign confidentiality agreements. If the information would have leaked beforehand that would have got very negative consequences; for the company, for the employees, and for the brand. Cloetta's trustworthiness would have been damaged, and therefore all internal and external information had to come at the same time. The difficulty of informing the employees was expressed by the CEO: *"Damn it, we have to do something that we know is inevitable, and we do not favour all consequences of it, but we have to do it anyway."* and *"It was hard to motivate oneself and others that we were forced to do this."* The information about the demerger was given to the employees at a meeting in the cafeteria at June 16, and at the same time the public



announcement came: *“The stormy relationship between Cloetta and Fazer is now over”* (DI, 2008a).

The reasons behind the decision were presented along with information about future possible consequences. The disintegration commission described what they had been doing over the past months, but they carefully avoided instilling false hopes. The CEO explained how he gave the information: *“My experience is that the only way is to tell everything you know. Do not instill expectations by prognoses. Tell only what you can tell, and do it as open as you can. The worst thing is when installed expectations are not fulfilled. The trustworthiness is gone, and without it you cannot accomplish anything”*. The decision to demerge Cloetta Fazer was publicly communicated to be due to the owners’ difficulties to find a common agreement of the company’s long-term ownership structure (DI, 2008a). The information session immediately led to reactions among the employees. Some felt sad, other were worried about their personal future, while others thought it was truly sad that Cloetta had to face this kind of destiny. A very turbulent and uncertain period started after June 16. One employee reflected upon the demerger by saying: *“A merger is planned and prepared for in positive settings. A demerger on the other hand, is not actually planned. And there are no positive settings then.”*

#### **4.2 Phase 2 - The disintegration phase**

On the 16<sup>th</sup> of June 2008, when Cloetta Fazer decided to demerge and started to create the new Cloetta respectively Fazer Confectionery (Cloetta AB, 2008b), one can say that this became the start of a new phase which continued until the turning of the year 2008/2009. During this phase, a short term perspective was still exercised, and the focus was put on not only to handle the employees’ reactions to the demerger, but also on all challenges Cloetta was facing: *“During the autumn 2008, it was a lot with the organisation I would say, and some employees were laid off.... It was finished at the turning of the year 2008/2009”*. After the whole organisation was informed about the demerger, the managers were then informed about the disintegration process, and they all got the task to talk to their separate departments within 48 hours. The information concerning the demerger and the disintegration process caused many emotional reactions among the employees which needed to be handled by the organisation. In general during this phase, the information given to the employees concerning the disintegration was seen as regular and well distributed. The employees all said that it was difficult to retrospectively pinpoint what could have been done differently regarding the

distribution of information. The information not only concerned questions such as when, what, how and why; but also information concerning upcoming layoffs and union negotiations. The Intranet, common information meetings, and a “question box”, were used as internal information channels.

#### 4.2.1 Emotional reactions among the employees

The emotional reactions to the demerger announcement varied heavily among the employees, and most importantly, the decision to demerge did not really surprise any of them. Many had actually been waiting for it to happen, even if that was more intensely and more openly discussed after the public announcement. Afterwards the open discussions about the demerger in the lunch room and corridors changed towards concerning more specific subjects such as the demerger reasons and uncertainty about the future. Some employees expressed more or less an indifferent feeling towards the demerger, by saying that the period after the public announcement was not so memorable or shocking, nor were the daily operations disturbed.

The emotional reactions varied among the employees, and this was also emphasised by the CEO: *“I believe people react differently, it depends on what kind of person you are”*. Another employee expressed an interesting point concerning the differing emotional reactions to a demerger: *“I always says that I like changes...but changes are always nice as long as they aren't affecting you too much. That's how it is. If you are experiencing a negative change, you don't think it is so damn funny!”* Some employees individually compared the demerger reactions to a personal divorce, even if stated that this was not a term used in the daily business operations. The connection was explained clearly by: *“Some has experienced divorces, or drawn parallels. It is not difficult to see....it includes the same ingredients”*. The divorce had created an understanding of the ingredients and emotional aspects involved in this process. The similarities had been seen in the negative and positive emotions experienced in a relationship breakup, explained by a clear statement: *“It is the relationship and the processes one has built up; the work procedures, the strategies... Suddenly, everything you have fought for and believed in is snatched away. And something new begins.”*

##### 4.2.1.1 Uncertainty arises

The demerger announcement was met with reactions of uncertainty among the employees. One employee explained that uncertainty was the common reaction during the change: *“This is always the case with new information, when you don't know what is going to happen... you*



*feel uncertain.*” The uncertainty took different forms at the different departments. In production, uncertainty arose around practical issues such as; what would happen with the Fazer production volumes. Also the employees knew that the logistics department was going to have to deal with a long rough time of fixed costs. A conclusion in regards to the fixed costs was drawn: *”This is the advantage of merging, and later the disadvantage of demerging.”* Uncertainty arose around what they could substitute the loss in production with, and this uncertainty continued during the whole time of the disintegration phase during the autumn. Within the product development and technical department, where many officials worked, the uncertainty had a different focus. The uncertainty mostly concerned other departments: *”What happens at Sales? What happens at Market? What happens with Production? What happens to THEM?”* Questions concerning the own personal situations were not brought up or discussed at these departments, and were exemplified by: *”Which sales staff will be laid off? What happens to the market department? It is exactly the same! And the rest of us, we’re not talking about what will happen to us or to the product development or to the technique department! This is actually the same as in a merger!!”* At the sales department the uncertainty was described as huge, mostly because it was there the redundancy risk for the sales staff was perceived as the greatest. The sales force became nervous and many questions arose, such as: *”What will happen to me? Will I no longer have a job? What will happen? Will there be redundancy?”* The employees started to question how the sales force would be constituted in a year, which created even more emotions and discussions. One employee explained how obvious the emotions became: *”You could almost touch the emotions.”* The uncertainty was explained to be at an equal level as during the process of a merger: *”It is the same, a little bit as we are in now. Same but in a reversed situation! What will happen to me?”*

Even if the employees felt uncertain about what was about to come in regards to layoffs or changes in their tasks, however, the efficiency did not go down according to some employees: *”The efficiency actually goes up at the end, because you don’t have to manage all the other projects any more, you simply produce. It is quite strange because you think that people will just stop to care and that everything will crash, but it is usually the opposite. You want to perform”* The uncertainty was not the only strong emotional reaction to the demerger, there were also the feelings of relief and/or sadness, and some found energy in the fact that they were able to re-build a completely “new Cloetta”.

#### 4.2.1.2 *Relief, sadness, and the new beginning*

Many of the employees expressed a feeling of relief regarding the demerger announcement, and many reasons for this feeling were brought up. The employees saw a definite end to the fight between the owner families, a fight that had been affecting the operations and the employees for many years. This was explained by one employee: *“I think that many felt a relief to get rid of the 4-5 year old fight, which you could say had been suffocating the company”* and *“It was the only solution”*. The reasons for the relief were grounded in the possibility of getting away from Fazer’s dominance and in being able to operate alone again as one independent firm. The difficulty in being the inferior firm was explained by the employees as: *“It is difficult to operate when the parents fight. Primarily, it was the owners that had problems and the operative side worked well, but I believe that many thought it was troublesome for the operations when Ljungsbros was seen as less important. And Fazer, they became so dominant.”* and *“We kind of stood there and wondered what the hell was going on. The train had kind of already passed by.”* The old Cloetta brands had for long been standing aside for Fazer’s brands, and the demerger brought new possibilities to start to develop them again. Fazer had been good at bringing their ideas forward, especially their brands. The feeling of relief in being just Cloetta again was emphasised to be stronger for those employees who had been employed at Cloetta prior to the merger with Fazer. Many of them had in fact been at Cloetta from generation to generation, and had a strong interest in the relationship and the conflicts between the owners. It was, especially for them, difficult to handle the situation of being the inferior party and to be omitted by Fazer. This was exemplified by one of the employees: *“It was really just the old Cloetta people, or the Cloetta fantasists who said so. The ones that had been employed in Sweden and only worked with Swedish products, they felt more for Cloetta, than for Fazer.”* These employees were used to, and took pride in; the strong importance that Cloetta and the Svenfelt family had had in the long history in the small community Ljungsbros.

On the same time as there was relief expressed among the employees, some employees also experienced sadness as an emotional reaction. This sadness was grounded in a belief that Cloetta Fazer had been worth a better destiny than a demerger. Some saw market and product opportunities disappearing, whilst others saw international career opportunities disappearing. Some employees also emphasised that it had been sad to quit working with Fazer colleagues since they had had a good time working together. Some departments which had more

interactions with Fazer in terms of common projects and product launching were explained to be sadder than others. This common feeling was explained by one employee: *“Damn it, we had so much fun going on! We were launching new products in new categories. In the production they said, damn it. We had been planning to start to produce some products here which would come from Finland and now we lose this opportunity”*.

One employee took the sadness one step further and talked about it terms of betrayal, explaining that much effort was put into the merger and into delivering results in the merger, and then all of a sudden, it was time to demerge. This was strongly described: *“It was sloppy! We had sweated and fought to really keep this together and to deliver and somewhat got it right... and still, the parents couldn’t get along”*. The employee further explained that it was difficult for the organisation to comply with its difficult situation, and said: *“First they tell us to love Cloetta Fazer and to deliver, giving all the arguments....and then they say quit that, this is how we’re doing it now! Where is the trustworthiness in that?! The explanation to the divorce is given, but they demand us to change one belief to another.”* The employee compared the demerger to a decision from the owners to try to change the religion of the employees, which was not easily done. Moreover, the employee talked about the changed trust towards the owners as an effect: *“The trust towards the owners was really put on a test.”* According to the employee “the marriage” was broken up since Cloetta Fazer lacked common basic values. The employee emphasised the importance of the basic values above strategy in terms of successful operations by: *“Culture eats strategy for breakfast.”* The same employee continued to explain the nature of the basic beliefs - *“You could say that you have professional and private basic values, but that is not the way it is. If you have basic values, you have basic values”* and *“In my basic values, you do not go through a divorce, but you don’t enter a marriage easily either.”*

In the turbulence of the many emotions, the employees also expressed that something new was possible to emerge and that they gained new energy from it. One employee was extremely enthusiastic and said: *“Oh this feels good, now we’re our own and we can do what WE want!”* The possibility to do something new was perceived as inspiring, exciting and challenging. The entrepreneurial spirit and a will of revenge became obvious, which was grounded in a will to show Fazer that Cloetta could make it one their own. One employee clearly expressed the entrepreneurial spirit: *“In some way it felt like this is a company who*

*really is 150 years old, but at the same time there was an entrepreneurial spirit.” This entrepreneurial spirit - to want to create something new - was embedded in the organisational atmosphere. The revenge lust took off after the demerger announcement, and intensified gradually as time passed by. There was also a sense of pride among the employees in this process of creating something new. One employee explained this by saying: “Suddenly the sales force knows that we are going to work together until the last day of December, and then we will be divided. Some of us we’ll be leaving to be a competitor. But now we have a common goal for both firms so let’s do this... It was inspiring and impressing to see the sales force continue working just like nothing had happened. They put in 120 percent to succeed.”*

As the employees became more and more aware about the reasons behind the demerger, the employees with negative emotional experiences, either started to adjust to it or felt obliged to do something they did not believe in. One employee explained how adjustable and flexible people actually were: *“People are very adjustable...If you are not adjustable you would not manage this. To all of a sudden turn 180 degrees and drive the other direction.”* Many employees experienced other negative emotions as the decision to demerge started to sink in, which were expressed as: *“You feel pressured and trapped in a corner.”* Some employees obliged to do something they did not believe in – to demerge Cloetta Fazer. This created illness for those employees who felt that they had to separate their basic values and beliefs from what they told to do commercially or industrially, but the employees were loyal: *“Mankind works in the way that you do it because you have to, because of the loyalty towards the decision-maker, and because it pays your rent and all that.”* Those employees who did not want to rebuild the new Cloetta changed jobs as it became unsustainable to work with something they did not fully believe in.

#### **4.2.2 The re-organisation and its impacts**

The demerger process was said to be completed in January 2009 (Cloetta AB, 2008a; Cloetta AB, 2008b) and at that time Cloetta lost 40 percent of the sales over one night. The first challenge then was to prevent Cloetta from bleeding which was stressed by one employee: *“The greatest challenge was to adjust the suit, as we lost 40% of the sales over one night. The organisation was torn apart”*. The firm had to go through massive reorganisations which took around half a year to manage, from June until the turning of the year, in order to be able to bear the costs. The first structure for the organisation and the personnel was later shown to be

too large and it was later restructured (after around 1.5 years), towards becoming less hierarchical. Not only the reorganisation of departments was in focus, the personnel force had to be adjusted accordingly.

#### *4.2.2.1 Creating the new group management*

The first challenge for the CEO was to create a new group management for Cloetta. In September 2008, it was announced that the work of creating the new organisation was in progress. Some new board of directors were announced at the same time, constituting both people from outside and inside the organisation (Cloetta, 2008d). The task of creating the group management was difficult and involved many rounds until it was complete. It was explained by the CEO: *“It took two years until this group was complete.”* The group was put together based on the persons within it rather than actual functions and roles, which was explained as a mature decision: *“a very mature way of putting together a group management. Instead of appoint specific positions, we brought together people with different competencies and capabilities. That was a mature decision.”* Basically, Cloetta first decided how they wanted the new organisation to look like and what competencies that were needed. It became important to create a group management with an as broad previous experience as possible, rather than the right title. This created both advantages and disadvantages for the group. An advantage was that if one in the group management had a problem, the person could rely on the groups’ experience. Among the employees, this was basically described as a *“safety net”* which decreased the uncertainty among the group. As a disadvantage, it was explained that it was sometimes problematic to know who was in charge of a certain decision and employees were sometimes annoyed when someone from another department interfered.

When a group management was created, the second task for the CEO was to get the new group management to work together properly. The difficulty was explained by the CEO: *“The first year was a catastrophe looking in the rear-view. We were a group of people, who all had different views and opinions. Some had a Fazer perspective, some had a Cloetta Fazer perspective, and some had a Cloetta perspective.”* Everyone had different opinions on what was right and wrong for the brand. It was an extremely turbulent time, with strong emotions and chaotic meetings. The importance of the common Cloetta vision was stressed as priority one: *“It is all about people, and to have a clear vision on what shall be done. It is important that everyone understands the mission in the same way. Do not leave anything to be*

*individually interpreted. You don't need a lot of processes and structures in the beginning; you need a vision working first. When this is handled, the people will organize the structures by them self.*" New core values, strategies, visions, and goals, needed to be stated by the CEO and informed to the group management. This new idea of Cloetta, what Cloetta would become, had been evolving in the CEO's mind during the long experience years at Cloetta: *"I had been working at Cloetta for such a long time so it felt natural. I felt what was right and wrong for Cloetta."* The CEO expressed that even though he had a strong vision of what was right and wrong for the new Cloetta, the difficulty was to get the group management to see it in the same way. The strong vision of the new Cloetta, howsoever, reached the group management eventually. This momentum gave the CEO new energy to continue the disintegration process, as explained: *"It is difficult, but at the same time fascinating, because if you succeed by at least 75%, a strong momentum is created. It is nice to see how people start to understand something in the same way, and how it leads to fast the action."* It was important as a leader of the group management to stay focused, and to stick with the line or direction decided upon. The important thing was to keep the same focus, even if it was not 100 percent perfect. It was explained that it could even be only 70 percent right, but that it was better than starting to give up for pressure from the group of turning direction.

#### *4.2.2.2 Negotiating the disintegration contracts*

After the announcement of the demerger of Cloetta Fazer, the agreement negotiations started. The CEO of the new Cloetta, the department manager in question, and the counterparts at Fazer, together negotiated the agreements. Furthermore, one lawyer from Cloetta and one from Fazer, and a third party lawyer firm, supported the negotiation process. The negotiations were also brought forward with a third party, who had an objective role. This was explained as crucial by the employees. However, one employee brought forward that there were too many people involved in the negotiations, and they therefore sometimes became unstructured: *"It felt like half Europe was in it"*. In an announcement, Cloetta stated how the organisation would be constituted: *"The companies will after the demerger cooperate within among others production and logistics. The production facilities in Ljungsbro and Alingsås (Karamellpojarna) will be included in the new Cloetta AB."* (Cloetta AB, 2008c)

The contracts concerned how the process and the demerger disintegration would be constituted. The most important contract negotiations concerned production, logistics and the commercial organisation (the KAM organisation). For production and logistics, there was a



large cooperation agreement to be solved. For production, the agreement included continued production agreement of Fazer product volumes. For the logistics, the negotiations started immediately after the announcement. The manager had to go to the office during the summer holidays to take part in the negotiations with lawyers in order to get some contracts signed. In the end, all logistics papers were signed except for the warehouse agreement. The question was concerning for how of a time there would be a cooperation on the warehouse side. The contract were prepared but were never signed, and the cooperation continued. For the commercial organisation the challenge was to divide the personnel fairly.

There were many emotional challenges concerning the negotiations of the agreements. The time pressure was constantly present in the disintegration negotiations. Many different reactions were appearing and the atmosphere became extremely sensitive. It was difficult for the managers to suddenly be on different sides and to negotiate with previous colleagues, it was sad and slow. The difficulties were explained as: “...*a personal divorce, it is very alike really. In some aspects it works out great, you are great friends, but in some aspects you are not friends at all. No respect...and you become small-minded, silly and ridiculous.*” and “*Details were pointed out in one contract, in which they wanted everything on their side all the time...So that they could have all the benefits, very lame really.*” and “*To be neutral at the same time as acting cold towards others.*” Also, another challenge were presented; trying to negotiate the demerger, and at the same time, to build something new. Some employees explained a schizophrenic feeling in having worked for almost 10 years with building up something, and suddenly divide it. It was even explained as living in parallel universes: “*I don't know if you like Harry Potter as much as I do, but you know the book when Hermione is in different times? That's how I felt that autumn. I live in different worlds. This is old Cloetta Fazer and this is Cloetta and Fazer, which will be demerged, and after the end of the year we will be new Cloetta! The whole time I felt that I was in different worlds. This was a lasting feeling for me.*”

#### *4.2.2.3 Handling the disintegration of the departments*

At the same time as the negotiation agreements took place concerning the disintegration, Cloetta also stood before a massive internal change in terms of re-organising the company's departments. Disintegration groups were created which were responsible for the different departments. The departments had their different “project groups”, which in turn informed the rest of the employees at the department. The project groups decided in questions such as what

to do, how to do it, and when to do it. One employee explains the process: *“We were all participants... or maybe not participating but we were included in someones projects. For example in the logistics group, everyone at the logistics department was in the group.”*

The largest changes were met by the group management, the sales and market organisations. One employee explained: *“For the sales, market and logistics departments it was more like a divorce, since the departments were more integrated.”* The sales department was also mostly affected by a re-organisation of personnel. The production and technique departments were not as affected by the demerger, emphasized by one employee: *“For us, it was not as much of a divorce really.”* The technique department was concerned with layoffs since they were not integrated with Fazer, only one person was laid off. Since the production facilities were separate for Cloetta and Fazer, with separate functions, not much changed and the disintegration was not discussed heavily at the department either. The employee explains how there was not much cooperation: *“What we wanted to do during the Cloetta Fazer time was to cooperate, by purchasing things together... However, except for this large project on which we cooperated, I don't think that it has been so much cooperation on the technique side.”* The demerger brought changes for the department of a more of a practical art. They were not able to turn to account for the expertise, but on the other hand they had a more leverage in decision making. One employee stated: *“We had to make the best out of it but with less resources.”* and *“It was more about putting aside the idea of that we should start to work together.”* On the production side, which were not so integrated with Fazer, there was a prolonged time frame for Fazer to remain with the production in Cloettas hands. This contract was later prolonged on a yearly basis. Cloetta was reliant on the volumes from Fazer. A possible learning is brought forward by one employee: *“We produced a lot for Fazer. We continued to produce what we had done before. But maybe, we could have been more prepared for changes in the volumes. We could have made it better by going through it all and rebuilt volumes which we could manage by ourselves. And not being dependent on someone.”* However, the employee also reflects on the difficulty of preparing for something one does not know is going to happen: *“We could not have prepared for it before the demerger decision, because it would have been crazy to prepare for a divorce without knowing about it.”* By knowing of the demerger, they could have been more prepared for changes in the production volumes and production agreement: *“Then production could have been placed were it is mostly effective rather than for old relations sake.”*



In terms of logistics, the cooperation with Fazer did not change at all. The logistics manager tried to keep the common warehouse in order to avoid the fixed costs. The fixed costs with a contracted warehouse space, with embarkation and unloading, was suddenly a large cost for the warehouse to bear. An employee explained that they wanted to keep the warehouse operations: *“We wanted to keep the warehouse operations that we had in common because we earned money on it. We tried for a year.”* Cloetta even introduced a second business system for Fazer and operated two systems for a while, just to be able to continue the cooperation. The warehouse personnel were worried concerning who would be laid off, if the cooperation was put down. This cooperation, however, continued during 1,5 years, so there was no effects on the personnel force during this phase. In product development, there was a vacuum after the demerger announcement since there were not many upcoming product launches, and the fact that the work with Fazer, and the whole idea of Fazer, disappeared. The department continued to work with optimisation of the warehouse and supplier evaluations as they had done before. There were some new product ideas in process, even if they were not many. The new situation was explained by one employee: *“It was a new situation... we did not have the contact with Finland anymore. But this was the only thing that disappeared really.”* The employees at the department were threshing around and, lacking information around new products, and what would happen to the market department. They wanted information on what to do and when they would be told what to do. The operations continued as usual without answers to those questions; accept for the fact that the product development department was included in the factory organisation. The department was later only concerned with two employees notices.

At the sales department, Cloetta started to market and sell products that were included in their own product portfolio prior to the merger (Cloetta 2008b). For the sales and market departments, the challenges were larger since they were more integrated. The sales department informed the customers that they would deliver from two different warehouses, use two different sales forces and two different terms. One employee explained that was no question of tasks rather of which company one would belong to. The sales department was going to have to recruit a sales force to cover the whole Sweden by recruiting sales personnel, the KAM organisation, and some regional managers to both firms. On the administration side they were too many employees. During the autumn 2008 the whole KAM was recruited

which constituted a heavy challenge. The trust was put on the HR department of Cloetta to create the new KAM organisations for both Cloetta and Fazer.

#### 4.2.3 The HR in focus

The loss of sales of 40 percent made Cloetta's organisation became too large relative the sales. Adjusting the old organisation and adjust it to the new situation, meant that Cloetta had to get rid of 30-35% of the personnel at the same time as new personnel was recruited. One employee explains how absurd this felt: *"This is always slightly absurd. At the same time as you give notice of dismissal you have to recruit personnel."* In September 2008, Cloetta announced the first personnel layoffs due to over capacity and sinking efficiency, concerning 60 employees on all levels in Cloetta Fazer (DI, 2008b). The majority of the layoffs concerned the sales department due to the creation of two commercial organisations.

##### 4.2.3.1 Creating the new sales force

The new CEO and Cloetta Sweden AB's CEO and the HR manager were put together with a mission from the owners to create two equal commercial organisations and doing it in a responsible and fair manner. The HR responsible explained the trust given by the owners: *"The owners trusted me to be in charge of the HR, even though I was staying at Cloetta after the demerger. It was very strange and put high expectations on loyalty."* This was done by dividing the existing Cloetta Fazer sales staff in Sweden between Cloetta and Fazer, and by at the same time recruiting new personnel. The difficult task was to make both parties satisfied, since employees were more attractive and desired by both firms. The HR manager explained this process: *"We tried to avoid bidding over each other creating that kind of game. I think we managed not to do it."* A tight dialog with Fazer became a key in handling if one employee was desired by both firms, or if an employee was not desired at all. The absurdness was strongly emphasized: *"It was completely ABSURD! Did you ever play rounders in school? Then you know how to do a selection of players! That's how we divided the sales staff... Well, now you got Lisa... then you have to take Pelle because he really is not that great. It felt like being in another world... This is not happening... It cannot be like this... but we did not know any better way to do it."* Other employees stressed that they sales force both were elected and could emphasise their free will, explained by: *"You could not choose. You got elected!"* and *"People picked up the phone and called and said - hey, I think it would be fun working at Cloetta!"* It was explain that some of the employees in Cloetta Fazer from the Cloetta time

who felt that they wanted to come back to Cloetta: *“They had already reversed back home when they saw the fight begin.”* Those employees were often placed in Ljungsbro, while the employees in Stockholm were mostly employed during the Cloetta Fazer time and did not have the same history with Cloetta. Consequently, employees in the sales force who did not raise their opinion were sometimes misplaced, and this was stressed by one employee: *“I had a regional manager who was completely devastated because he was going to Fazer, and he had been at Cloetta since the time of Candelia and the whole way forward.”*

So why was the sales force both recruited and laid off, one may ask. The first task was to see where the individuals were located, and then offer them proposed positions. An employee explained the division process as: *“They did a proposal of a division, in which they said, okay, you are proposed to go to Cloetta and you to Fazer. And if they said NO I don’t want that position, I want to work for Cloetta. Okay, pang. Then, you were back. And then the next one, yes that is great I will accept because it is perfect. And then the third – no I don’t want that position, I want to stay at Cloetta. Then suddenly you have two in the organisation while you have offered many employees a job in Fazer which might not have wanted them. Then you get vacancies at the same time as you get a redundancy in Cloetta.”* This meant that it was not a direct redundancy, rather the opposite. But when the employees had their preference of which company they wanted to belong to, then both a redundancy and a vacancy was appearing. Since the product portfolio decreased, less sales staff was needed and less administrative personnel. When the sales force was created, the lay off negotiations and individual agreements started to take form.

#### *4.2.3.2 Managing the lay off negotiations*

The task from the owners and from the board of directors was to create an organisation which worked, with the right employees in it. In a layoff, usually the Swedish employment law LAS (Lagen om anställningsskydd) is used, which states that the employees latest employed are the ones given notice except for when it concerns a rare and specific competence. The problem at Cloetta was that 90 percent of the employees had been employed for at least 25 years. Uncertainty was created among the employees. In the Case of Cloetta, it became difficult for them to follow LAS. The employees emphasised that Cloetta would not have worked because it would have been employees with the same competence staying at the firm, while other positions would have been unfilled. One employee explains: *“We did not need tree out of one*

*position as we needed before. We needed one or one and a half. It was a very special situation.”* The company tried to keep the competence by specific competences. At the warehouse for example, they managed to keep one employee with a specific competence which no one else had at the warehouse, and the name was removed from the LAS list. Cloetta ended up with a situation with mostly LAS, and individual agreements for the employees who were given notice. One employee explained this combination of LAS and individual agreement negotiations clearly: *“You have to take the wills into consideration. You can’t force anyone to work somewhere. It’s not good for them or the company. It’s a puzzle between the labour law, the union discussions, and the individuals’ will.”*

The HR responsible at Cloetta ended up with a list of 35 employees to lay off. Before the list was public, there was an importance of getting the group management on board and committed. The importance of this was expressed by the HR responsible: *“If one lingers, all of this will fall as domino pieces, and then we will not be able to help any of them!”* Cloetta started to individual agreement negotiations with all concerned employees. The need to find employees willing to discuss and to get help, which was heavily stressed as: *“We never forced anyone, even if they perceived it that way, we didn’t.”* The duration of the negotiations varied heavily from immediately up to three weeks. The layoff solutions were financed with money from the owners and insurance money, and all the solutions were individual adapted and decided upon in coherence with the employee. It ranged from was pension solutions, coaching or education, prolonged notice, or outsourcing. Some of the laid off personnel started to work at a staffing company, that already had a long relationship with Cloetta.

Handling the personnel layoffs was shown to be difficult, because it was the first time in the history of Ljungsbro that officials were laid off. The situation was compared to a crisis and even to the 9/11 attack in the United States by one employee: *“It was our 9/11, I usually say. It hurt badly!”* It was difficult and sensitive because when given this information about a notice, the employees felt pointed out and hurt. The employee reactions were explained as: *“Why do you talk to me, talk to someone next to me.”* It was tough for the employees to get the information about their notice. Both sometimes because they had gotten a placement they did not want, or a placement in the “wrong” firm. The embedded feeling at Cloetta was that a placement at another firm was adequate to a punishment. One employee explains: *“It is only one punishment on earth, and that is if you are not allowed to work at Cloetta!”* It was not

only that it was seen as a punishment among the employees; the company and the local community were “thunderstruck” according to the same employee. The whole community was heavily involved in what happened at Cloetta, and it was many emotions in the atmosphere. In the community, the company was seen as cruel, which was stressed as: “*We laid off personnel... we kicked them out! We were seen as so cruel!*” An example of a layoff which was not well received in the community was when Cloetta gave two salary administrators the notice and at the same time hired a new one for the same position. The company needed someone more qualified, and could not afford having the two former employees staying. This employment of the new younger girl arose many reactions among the people in the Ljungsbro community. The HR manager explained: “*The poor girls Mum were yelled at in the grocery store because her daughter had caused two old Ljungsbro inhabitants their job!*” This situation was not unique since a similar situation was experienced by the union. The union representatives could barely shop in Ljungsbro, even though they were not responsible for the layoffs. To be able to go through with the layoffs, Cloetta gave the unions’ personal support so that they were able to “stand straight.”

The general impression of the employees is that the solutions for the laid off personnel were well handled well, with few exceptions. This was expressed by the HR manager and the CEO, who were both heavily involved in the process: “*I have never made a dismissal which I am not proud over.*” and “*I believe that when finished with the processes, with the prerequisite we had, it was fair done.*” This was also the common feeling brought forward by other employees: “*When you think back, you feel; well, it turned out pretty well after the circumstances.*” The common impression is that employees understand that layoffs are needed in this kind of situation. Most of the employees who were laid off have moved on in life and found new platforms, even if it was difficult at the time of the notice. It was also described, that the employees soon adjusted to the situation, as one employee put it: “*In some way... people adjust and start to see the future in another way and finds opportunities. And pretty soon, the whole organisation has, I don’t know... forgot it. And it doesn’t leave a heavy trace, strangely enough.*”

On the flip side, some former employees were not able to rise and could not find happiness again, but those cases were few. Also during the notice period, the emotions were described as “tough” and “mostly negative”. In regards to the community, nevertheless, obliviousness

was not expressed. As one employee stressed: *“It may still be present there today... I don’t believe that they will EVER forgive us for that.”* In general, however, it was brought forward by many of the employees that they felt supported and informed about the layoffs. All the managers got support in handling difficult dialogues with the personnel and with personal issues. A learning regards to the layoffs was expressed by one employee: *“Let the way to the goal take the time the employee needs, rather than setting a time limit.”*

### **4.3 Phase 3 - The post-demerger phase**

The post demerger phase started in January 2009, when Cloetta again began to operate as an independent company, and lasted until the end of December 2011. This constituted the end for the phase, since 2012 is a new era at Cloetta in which a new merger with another company in the confectionery industry is taking place. Cloetta was listed, again, on the Stockholm exchange in February 2009 (Cloetta AB, 2009b). At the time of January 2009, the internal situation at Cloetta had many characteristics; they were in the middle of an extensive work of change and about to start its independent operations, thus, the short term basis was about to change towards a more long term focus.

Cloetta’s new group management was in place, and consisted of people from various backgrounds and differing previous history at Cloetta (Cloetta AB, 2008d). The group management had worked intensively to formulate Cloetta’s new goals, strategies, business idea, and business plan so that these could be stated and decided upon before January 2009 (Cloetta AB, 2008d). Most of the daily operations had, up until January, concerned questions such as the internal reorganisation that Cloetta was facing, as well as the layoff and recruitment of personnel. Now, the new organisational structure was already decided upon, the new department managers and staff had been appointed, and the union negotiations concerning the personnel were completed. Information meetings for the employees were held about future objectives and strategies. At this time, there was a clear idea of how the group management should continue (Cloetta AB, 2008d). Between January 2009 and December 2011, Cloetta worked hard to continue what they had started during the last six months of 2008. The first six months had been characterised by adjustments to the new situation of being an independent company again (Cloetta AB, 2009b). During the first six months of 2009 the organisation could, for the first time since the announcement, rest and take a short break and start reflecting upon what they had gone through during the past year. This period



was described as: *“I definitely state that we just sat, and were completely traumatised then. It might sound harsh, but I mean it!”* Now it was time for the new Cloetta to begin, and this development was the common ambition for all employees. It constituted the major challenge during the last phase; in terms of creating their new product portfolio as well as the new Cloetta brand (Cloetta AB, 2009b). Thereafter, the focus was on further additional adjustments of the organisational structure, and thereafter, the financial situation. It was clear that this priority was also accepted by the owners of Cloetta. One from the group management explained: *“Luckily, the owners were very patient. But we, in the group management, wanted even more time to create the new Cloetta.”* The creation of the new Cloetta and bringing the organisation and its employees together, constituted the major challenges during the last phase (Cloetta AB, 2009b).

#### **4.3.1 Market challenges - the new Cloetta**

The creation of new Cloetta can be seen as a two folded process consisting of; strengthening and developing the product portfolio and at the same time as strengthening and developing the company. During the first two years as an independent company there was a common internal reawakening, and the revenge lust which started already during the second phase as a response to the demerger announcement, increased. Numerous aspects needed to be taken into consideration, as were expressed by the CEO: *“What are we doing now? What is Cloetta – how do we look and what do we want? How does the market look like? Can we make any difference on the market?”*

##### *4.3.1.1 Developing the product portfolio*

During the third phase of the demerger, the post-demerger phase, the development of the product portfolio became the first priority. After the demerger Cloetta stated that they could start “recovering” from the inferior period. As an independent company, Cloetta was now able to prioritise differently and the first step was to evaluate the product portfolio. Questions needed to be answered were exemplified by the CEO: *“What does Cloetta, actually offer the market? What kind of products??”* and then *“How should our product portfolio look like? What kind of offers should we have?”* The group management started to build a new product portfolio adjusted to Cloetta, and the ambition differed from the one of previous Cloetta Fazer. Thereafter, the existing brands needed to be strengthened and new ones developed. There were barely any product launches in pipe, and Cloetta needed increased sales – quickly.



Even though there was an initial insecurity of how to develop and strengthen the brands, Cloetta always believed in their brands. The initial insecurity was pointed out by one employee: *“All of a sudden one has to do something completely new, and that makes one insecure and frightened. But after a while you regain the basic confidence in your strengths.”* The focus fell on new, exciting products which could create campaigns offering consumers something new and funny. The group management started to work hard trying to develop new products, and in the very beginning of this phase most of the resources were put on this. Although the work to create Cloetta’s own, new product portfolio is still taking place, that work was as most intense during 2009 and 2010.

#### *4.3.1.2 Building the new Cloetta brand*

At the same time as the product portfolio was developed and strengthened, the work started with building the new Cloetta brand. Slowly during 2009 the work began to take form with changing Cloetta’s overall company image of “boring” and “outdated”. The group management started to work hard to get a clear business development plan, and put most of the resources on this along with developing the product portfolio. It took some time before the new marketing strategy started to feel truly focused and coherent. A large challenge for Cloetta was to remove the old Cloetta Fazer-label. New core values were developed, and new visions, new goals, and new strategies were formulated. Many important questions arose, and the greatest question was expressed by one employee as: *“We’re now brand Cloetta – what do we want the brand to be?”* It was heavily discussed and one employee stressed that they felt lost by saying: *“We were a bit lost and vague about what we wanted to accomplish, and what we wanted to communicate to our customers.”* The CEO continued to put emphasise on creating a clear and positive brand and to make all employees working together – in the same direction, a work which had started in respect to the group management already in phase 2. However, all employees could not identify their selves with the new organisation and those employees chose to leave Cloetta, as some also had done in phase 2. Among those who stayed in the organisation an incredible strength was evolving when they all strived to fulfil the same goals. The organisational structure changed, and employees were replaced until “the perfect” composition was reached. Cloetta then got momentum; however, a new question arose in the group management: *How should we create new Cloetta?”* Cloetta carefully thought of how they wanted to be perceived when launching the new improved brand. The company has, according to the employees, historically been good at marketing their brands through

sponsorships and different collaborations. The brand building was discussed internally in terms of: *“The brand has always reflected the social responsibility the company has taken for the local community. I guess, and I hope that the Cloetta-brand continues to reflect this also in the future.”*

The new focus was in general explained as well received by the employees and the work was appreciated internally: *“Well done by the market department. Good work!”* However, some believed that the new core values, strategies, visions, and goals, could have been even better. The fact that Cloetta had become an independent company again was also received well among customer as well as on the market. During 2010 the firm earned around 35 million SEK, and the tremendous recovery was discussed by the CEO: *“We had sales increases of around 6-8 percent, and usually, the increase is just about 1-2 percent in this industry. So, the market-oriented development based on our difficult situation was really good. 2009 and 2010 were good years. It enhanced our self-confidence that we started to make money again”.* The company had for very long time had a good reputation of being a fair and nice company, as one employee said: *“It exists some kind of love for Cloetta.”* The company was at this point of time able to put a lot of effort on product development, and launch numbers of new products, and eventually they managed to convey a more joyful feeling to their customers. The company brand building through the product brands was explained to have led to a more modern perception: *“We are today communicating joy”* Internally it started to be perceived as a company who wanted to develop and launch new and modern products. The new atmosphere was described by one employee as having a positive impact on the work environment: *“The daily work became more fun. And the cohesiveness was strengthened.”*

#### **4.3.2 Unifying the company**

The work with strengthening and developing the new Cloetta brand and product portfolio had started, and now, the company needed to unify the departments and the employees around it. The group management and all departments had to be placed at one location, Ljungsbro, in order to decrease the physical distance between the employees. Thereafter, the company needed to start to operate more as one unit, together, both on a group management level and on an operational level. This was enabled through a down-to-earth management style, and a large upcoming project with a perfect timing.

#### *4.3.2.1 Bringing the departments together*

The organisational challenges further developed. One large challenge presented in phase 2 was to re-organise the departments in terms of; what to do, how to do it, and when to do it. This challenge evolved during this phase into getting all departments working together. They needed to be brought closer together towards the same goals in order to fully evolve into the new Cloetta. After the demerger, Cloetta was put in a situation where the company's resources were geographically scattered with employees located both in Ljungsbro and in Stockholm. One manager in the group management said: *"We had the old organisation, and then we tried to adjust that one to our new situation."* It took a longer time to create and build the team spirit and synergies between the production, the supply chain, and the commercial part of the organisation. Since Cloetta was not a very large company, it was very beneficial for them to have this possibility to be this flexible. And it increased their possibility to make quick decisions. This importance was highlighted by one employee: *"We need to have proximity between the commercial department, production, and supply chain."* Eventually, in the end of 2009 the marketing office in Stockholm was closed down, and consecutive recruitments had to be done since many of those employees working at the Stockholm office chose not to continue their employments in Ljungsbro. However, after the winding up of the Stockholm division Cloetta was able to gather their resources for product- and market development at the same place (Cloetta AB, 2009b).

This re-organisation of the departments was described by the CEO: *"The reorganisations led to the fact that the group management basically changed to nearly 80 percent during the first years after the demerger"*. It also facilitated for the group management to become very active since they got closer to the other departments. The ambition to create a tighter organisational structure succeeded. Thus, decisions were therefore easier taken with all involved parties. One of the members of the group management explained the management style as: *"simple, unpretentious and pleasant."* The new organisation was very focused and inspiring. One employee emphasised the group management's ability to get the new company together and transmit their enthusiasm to the rest of the organisation: *"It was easy for us employees to understand what challenges and what opportunities Cloetta was facing. Of course it was difficult, but it was inspiring."*

The technical department was still not directly affected by the demerger, even if some effects could be identified. As time passed by, the technical department has been able to start new projects, such as automated production functions which previously were done manually. These new possibilities were described by one employee: *“There have been many interesting technical projects. The in-sourcing of the maintenance-organisation was very exciting, that one turned out to well.”* The technical department did not perceive any confusion regarding the new organisational structure, it also continued as usual. One employee talked about the new internal structure and its plainness: *“You know the name of the new CEO, and you know where his office is. If there is any ambiguities or if you have any questions you can just go and ask.”* Cloetta still continued to produce Fazer-products, but the volumes were not as large as they initially were. The continued collaboration brought many discussions internally. On the one hand, it was problematic to continue such production relationship due to the insecurity regarding the time perspective of them. However, on the other hand, Cloetta was in need of the additional production volumes of the Fazer-products. Without them, Cloetta’s own volumes would be too small to fit the size of the factory in Ljungsbro. This factory would in that case not operate on its full capacity. However, these production collaborations were not planned to continue forever, they were rather seen as temporary solutions. In September 2010, it was again time for Cloetta to lay off personnel due to decreased production volumes from the production cooperation with Fazer (DI, 2010). Cloetta’s and Fazer’s cooperation in logistics with the common warehouse was also put down out of emotional and competition reasons. At the logistics department they felt independent again since they could start working with the new core values, strategies, goals and visions seriously for the first time. New working processes were implemented relatively fast. At the product development department more and more new (product) plans started to be introduced. The number of new projects has increased for each year after the demerger. This changed was described by one employee as: *“It is a huge difference. My department now runs more projects, and we have improved significantly.”*

The sales department became heavily affected by the demerger, which was expressed as: *“We were rather perplexed – what are we going to do now?”* The product portfolio was different—the number of products decreased drastically. It made it possible to put more focus on the products that were left, and it was explained that Cloetta managed to steadily increase the sales volumes during the first two years: *“The increase was also an outcome of the fact that*

*we launched new products as well.*” The employees wanted to show the customers that they could offer new products and that helped the company to develop products, and according to one employee: *“This desire most likely helped to further spur the product development”*. The sales force had to stop working with many of their former friends and colleagues, as one employee put it: *“It was essentially still the same organisation that just had become two new.”* Moreover, the sales department had to renegotiating their customer agreements. The relationship between Cloetta and Fazer became a supplier-customer-relationship, and Fazer then became one of the biggest customers to Cloetta. However, it took nearly a year before anyone at Cloetta took responsibility for the new relationship with Fazer. One employee stressed the reasons to why that happened: *“In a demerger, one does not have the energy and strength to take care of everything at the same time. You prioritise and chose those things that presently seem to be most urgent. The rest have to be solved as time goes by.”* The new relationship between Cloetta and Fazer was discussed by one employee: *“The cooperation worked well, as long as managers further up in the organisation stayed away, and did not introduce new projects.”*

#### *4.3.2.2 Creating togetherness*

Cloetta had a very good corporate brand to base and build the rest of the organisation around, which derived from their long history. The fact that the members of the group management practically had their main roles and titles was expressed by one from the group management as: *“...very developing and inspiring. It has been necessary in this specific process to work in this way, and to use the whole team’s competencies and to support each other...”* In this phase, this “spirit of community” grew stronger and stronger at Cloetta and spread from the group management down to the rest of the organisation. “Together” became, almost a parole when Cloetta worked intensively with “building and shaping” the new Cloetta. The “togetherness” was emphasised by one employee: *“We’re going to solve our urgent situation, but we’re all going to do that together.”* This unpretentious way of operate Cloetta helped the group management to get closer the rest of the company, and to the rest of the departments.

Cloetta aimed to operate as one unified organisation, and the success was described by the employees. However, there was of course elements of anxiousness in the beginning, that later turned into some kind of grieving. Some of the employees felt that they needed to process the fact that they were still employed at Cloetta, while some of their friends and former

colleagues had to leave the organisation due to the demerger. After a while the focus turned into handling the great challenge the demerger actually was, and to manage it properly. One employee explained Cloetta's new situation by saying: *"What a challenge. But damn it, this is gonna be fun!"* There was a latent feeling of this "togetherness" although it continued to further evolve as the new internal structure of Cloetta developed. Overall it went smoothly and fast to create internal team spirit, however, there were differences among the departments. Getting the company together became a larger challenge when it comes to the sales staff due to their geographical dispersion all over the country. One employee discussed this difficulty: *"As a salesperson your colleagues are both your colleagues at the same company, as well as your actual customers and competitors are. It is a particular society and community out there."* It is sometimes harder for the sales persons to feel that they "belong to a company", as they do not spend all their working day at the office.

The group management worked intensively to create togetherness, and to strengthen the feeling among the employees. This was expressed by one from the group management: *"we are now working towards something new, and we're all doing it together."* The initial anxiety turned into togetherness, and acceptance of the fact that Cloetta had demerged and now again became an independent organisation. The togetherness was facilitated by a large upcoming project with a perfect timing. A project which brought the departments and the employees even closer together, since it demanded a close cross-functional collaboration in order to manage the time pressure. The decision fell upon creating and launching a completely new chocolate series in connection with the Swedish Crown Princess Couple's wedding on June 19, 2010. Six new chocolate products were launched with both boxes of exclusive filled chocolates and chocolate bars (Cloetta AB, 2010). Cloetta saw a create opportunity with this project, both in getting the new organisation together as well as supporting a good cause;

*"Given the combination of romantic and festive, together with the foundation's mission to combat exclusion among young people, the choice to develop these products was very easy for us at Cloetta. This is a cause we are more than happy to be associated with. Behind The Official Wedding Series there is a real ambition to do good, and we hope that our products can contribute to this in two senses,"* says Cloetta's CEO, press release 26 January 2010.

Although Cloetta had thought about this project for some months there were basically no specific ideas, at that point of time, of what exactly to launch. This issue was expressed by



one in the group management: *“We had nothing! But we knew when the wedding was going to take place, there really was a set date when we had to have launched our products. There was no possibility for us to extend the time of this project.”* Everyone at Cloetta worked closely together in order to get the project finished in time: *“There was an incredible internal strength”*, as one employee expressed Cloetta’s determination to implement the project successfully. The project spurred an internal feeling of solidarity, and enhanced collaboration between all departments. The project forced Cloetta to have an internal structure that facilitated for internal collaboration in a larger extent than previously. It was not possible to keep the old organisational structure since the time period of this project was significantly shorter than it usually is at Cloetta. One employee expressed the internal strength by saying that: *“this project strengthened the togetherness and enhanced the internal power of the company. We wanted to prove that we could make it!”* The marketing advantages from the project were significant as the project manager stressed: *“That was great”* Cloetta managed to meet new demand by start using new marketing channels and new logistics management. The learnings and positive outcomes of the wedding-project were numerous as stated by one employee: *“We learned so much from this project.”* and *“What first might seem completely impossible, doesn’t have to be so. It’s possible! And it takes less time than first expected.”* Cloetta dared to go all in with this project and the organisation learned a lot from it. The project demanded very much from everyone involved in the project, however, one employee stressed important aspects: *“You get euphoric and full of adrenaline. And when the project is over, it is hard to re-charge and find new energy and motivation. You get drained.”*

#### 4.3.3 Evaluating the disintegration experience

The CEO expressed the future situation, after the demerger, as “thrilling and exciting”, and the employees saw the future as a time of great possibilities to create and develop new Cloetta. Many expressed it as Cloetta was entering a new phase, and it was easy to get the organisation to strive for fulfilling the same common goals, and the employees were enthusiastic about the future. The CEO talked about the future as: *“a very nice and enthusiastic period. One is rarely given this opportunity to build a new organisation.”* Retrospectively, the CEO said that they were too enthusiastic at some points, and wanted to do too many things at the same time. However, overall Cloetta managed to create the new company that they wanted to become. The first years after the demerger were described by the CEO as: *“an inspiring period with a positive spirit, rather than a negative and destructive*



*period. We got a reawakening and a positive atmosphere in the company.*” The disintegration process was, on the other hand, described by one from the group management as “a hell”, and wished that no one else have to experience the same process. But when summarising Cloetta’s overall performance during the disintegration process the same person said that: *“I think it has turned out the way we hoped. But it took a little bit more time than we all had thought it would. We succeed extremely well. We created commitment and desire – a common organisational strength.”* The employee further explained what actually succeeded by saying: *“We were good at identifying what we were lacking, and what kind of recruitments we had to do in order to build the new organisational structure.”* When it comes to how Cloetta handled the internal communication during the disintegration it was stressed by one employee that: *“One cannot assume that people can continue working like nothing has really happened. People need to get information about what is happening.”* This opinion was; however, not shared by all, as one employee said the opposite: *“the information given was sufficient and handled well”*.

The aftermaths of the demerger were present in the organisation during the first couple of years. 2011, however, became the year when Cloetta seriously could start to plan for the future again, and not only handle urgent issues. One employee described 2011 as: *“the year when Cloetta entered a new phase. We started to think about our new business plan.”* Cloetta further developed its strategies, the business plan, and the vision. It was necessary for them to improve those, since the ones formulated two and half year earlier had to be improved. After the strategies, business plans, and vision had been reformulated and improved the internal commitment was strengthened. One from the group management expressed this: *“Wow! Now we are new Cloetta – let’s go!”* The previous internal insecurity at Cloetta had faded away. From a severe situation the employees managed to create and develop new Cloetta. The CEO described this transformation as (overall) positive for everyone involved: *“I believe everyone that took part in this journey thought it was an inspiring process even though it was a troublesome one. It was interesting, worthwhile, and the difficult situation turned out positive in the end.”*

## 5. Analysis

The analysis chapter is divided into two parts; first, the most essential challenges in the three phases of the disintegration process are presented, and second, a deeper analysis is provided in order to explain the disintegration process by using three different areas of academic research literature.

### 5.1 Main findings

Emphasised in these following sections, 5.1.1-5.1.3, are the most prominent challenges during the disintegration process presented in chapter 4.

#### 5.1.1 Phase 1 – the pre-demerger phase

The owners' conflicts and their stormy relationship, which lacked trust and commitment to the same cause, obstructed a common bright future for Cloetta Fazer. This became a large challenge to handle throughout the first phase for the group management and the board of directors. One of the major challenges in the Cloetta Fazer relationship was the fact that a hidden agenda existed. This challenge brought internal tensions which were worsened even further when Fazer placed the bid.

Another challenge identified was the unsatisfying balance between cooperation and competition since Cloetta soon became the inferior party, and feelings of distrust and betrayal evolved among Cloetta's employees and it was hard for many to forgive Fazer for their hostile behaviour. The varying integration and cooperation levels between Cloetta's and Fazer's different department was another significant challenge to cope with for the group management. Although it varied heavily at the different departments the overall integration between Cloetta and Fazer was low, the internal cooperation was rarely as smoothly running as hoped for, since few links had been established between departments.

When the demerger decision was a fact the largest challenge of them all started; to handle the demerger process at the same time as still being one firm. It became the hard and difficult task of the disintegration commission when they prepared for the demerger. That complex and dual process was described by those individuals involved in the commission as a schizophrenic experience. Cloetta Fazer did not, however, exactly know initially how the disintegration process should proceed, but the involved employees realised that separating the two companies was going to be an extensive task.

### 5.1.2 Phase 2 – the disintegration phase

Numerous of challenges arose immediately after the public announcement, and handling the employees' emotional reactions was one them. The announcement was met with employee uncertainty concerning what would happen in the future, both on organisational level and on personal level. Most of the uncertainty, however, concerned redundancies and changes in work tasks. Moreover, the announcement was met both with relief, sadness, betrayal and disappointment. The uncertainty was dealt with through appropriate and regular information, and with a strong lead with a clear way forward. Since Cloetta managed to have a clear and honest communication strategy, trustworthy relationships with the employees were successfully built up. Additional urgent challenges to deal with were; the company's lack of new product development plans and upcoming product launches, and the upcoming layoffs.

The disintegration commission and the new group management of Cloetta had to quickly adjust to the urgent situation with all the challenges derived from the demerger process. The toughest challenge expressed by Cloetta's members of the disintegration commission was the difficulty to negotiate with former colleagues, and to prepare the disintegration, at the same time as they had to continue working as usual as one common company until the end of the year. This difficult and odd situation was again described as a schizophrenic experience, or as a religious conversion. The disintegration commission had an extensive challenge to deal with during these six months – to fairly divide Cloetta Fazer in order to give the two new independent companies the best possible prerequisites, and Cloetta tried not to rush through its organisational changes in order to avoid mistakes and unnecessarily prolong the process of change. It was, however, a difficult task since the company was in an urgent situation for structural changes as 40 percent of the sales were lost as a direct consequence of the decision to demerge Cloetta Fazer.

Importantly, several additional urgent organisational challenges needed to be solved, such as adjusting the organisational structure to Cloetta's new and rather disadvantageous situation. These challenges concerned; the creation of the new group management, the handling of the disintegration contracts, and hence the reorganising of departments and identification of potential problems the organisation might be facing within its independent departments separated from Fazer. The creation of the new group management was, however, done in an unusual way, by focusing on competences and experiences rather than on specific titles, in

order to create a group with as broad and deep knowledge base as possible. The group management could not have long term plans during this turbulent period, and one of the group management's greatest and most difficult tasks was to negotiate the disintegration contracts. However, the CEO's vision of new Cloetta was a crucial factor in the creation of the new company. All the departments became differently affected by the demerger and its disintegration process, and the largest challenge became the division of the common sales force. The absurdity of that process was talked about as Cloetta's 9/11, since it was perceived as a minor crisis that led to strong reactions, both internally but also externally among individuals with strong connections to Cloetta. The layoffs and the reorganisation brought emotional reactions as well, along with the uncertainty about the future.

### **5.1.3 Phase 3 – the post-demerger phase**

During this phase Cloetta was able to enlarge their time perspective since they did not have to operate on such a short time basis as they had been required to up until January 1, 2009. The group management worked hard to create the new Cloetta, by handling market challenges such as developing a product portfolio better adjusted to the market, and strengthening the Cloetta-brand, as well as by gathering the employees closer together in order to create "togetherness". Since the previous year had been a turbulent and intense period for many of the employees, the first six months of 2009 was a period when they were given a possibility to take a short break and reflected upon what they had gone through, and also to regain energy. Cloetta still demanded a strong and dedicated leader although the company now had become independent again. The CEO and the group management worked hard to establish an organisational feeling of togetherness by reorganising and working closer together than previously, as well as continue keeping the employees informed on regular basis. By doing so the trustworthy relationships between the group management and the employees were improved even further. Cloetta managed to motivate and inspire the employees. Even though the majority of the employees at Cloetta thought of the disintegration process as a great opportunity for creating something new, some thought the layoffs were unnecessary. However, in Cloetta's case the layoffs of personnel can be regarded as a removal of obstacle in the transformation of new Cloetta. Some employees had to be laid off since the creation of new Cloetta would have been hindered otherwise.

Developing the product portfolio was the first priority. The lack of new product launches was emphasized and Cloetta had to work hard for strengthening the poor, existing product portfolio as well as developing it further. Cloetta also had to change the perception of their brands as old fashioned and make them more modern. At the same time the business plan was in urgent need for development through creation of improved; visions, goals, and strategies. Cloetta's long history and the responsibility the company had taken for the local community needed to be emphasized more again. Cloetta managed to strengthen the brands, since new Cloetta was well received among employees and customers, and the sales increased heavily. The joy Cloetta now communicated together with the more modern perception of the brand started to pay off.

The second priority for Cloetta was the unification of the company and all the employees. Organisational adjustments were needed in order to bring the whole organisation and its employees closer together. The marketing department was moved to Ljungsbro, where all the other departments were located, which eased the creation of a tighter organisational structure. The proximity of the departments facilitated closer collaborations between them and the employees then found it easier to cooperate. Cloetta managed to increase sales volumes and expand the brand portfolio, and the employees over all seemed to be relieved and feel that the internal cooperation at new Cloetta has increased thanks to the togetherness focus. Additional relationship ties were cut since the previous sharing of a common warehouse was terminated. Cloetta, however, continued to have production collaboration with Fazer, but to a smaller extent than during the Cloetta Fazer-period. Moreover, as the product development department regained their confidence thanks to Cloetta's independence the department experienced an incremental process of more and more product development-projects. Over the period the organisational focus changed from concerning the daily work tasks to bringing the employees together. The disintegration process went through several stages before it the process was considered to have reached a satisfactory level of successful independent operations.

After having determined what Cloetta should stand for and represent in the eyes of the customers, and after having brought all the departments closer together, togetherness became the guiding star for the new Cloetta. Cloetta's ability to create togetherness was facilitated thanks to their strong brand, which they successfully had been able to strengthened, both

internally and externally, since the demerger announcement. When the employees looked back upon this period of time, they remembered it as an inspiring and fun period with a lot of organisational energy. The creation of togetherness was spurred by a large project, the wedding project, which knitted the whole organisation even tighter together. It was a comprehensive project that had to be carried out in a much shorter time frame than Cloetta was used to. The project contributed with several significant things to the organisation and Cloetta managed to by the new “wedding-products” communicate their new strengthened and improved brand to the customers. It was necessary to make further adjustments to the organisational structure since the work of finalising the project in time required close internal collaboration and cross-functional teams had to be created. Overall, it was a project with the perfect timing since it urged on the creation of Cloetta’s togetherness.

## **5.2 Analysis of the empirical findings**

The reason for using literature from three various academic areas is that each of these three research streams contributes in different important ways to the analysis of Cloetta’s disintegration process. By using them independently and separated from each other, it is possible to acknowledge a wider range of aspects in the disintegration process since they emphasise different things and contribute with diverse angles to the analysis of the process. If one wants to see the demerger and its disintegration process as whichever organisational change to manage, literature of change management literature is suitable. If one instead wants to specifically look at the disintegration process and everything related to that, it is better to base the analysis upon literature of integration processes since it focuses only on one of the involved parties just like this thesis do. Furthermore, such literature also gives great opportunity to examine whether a disintegration process can be considered to be mirror of an integration process. Relationship literature concerning separations and divorces can, therefore, be a complement since such literature will make it possible to get a more comprehensive picture of the whole process of both parties involved in the process of terminating a relationship. Moreover, the relationship literature also stresses the importance of the human aspect in termination of relationships.

### **5.2.1 The disintegration process from a change management-perspective**

As a consequence of inter-firm activities all existing business relations can lead to tensions since they all consist of elements of both stability and change (Tidström & Åhman, 2006).

Although business relationships are unstable and changeable, companies strive to learn how to successfully cope with new market environment challenges (Kotter, 2007). Since Cloetta already at an early stage was aware of the fact that the disintegration process was going to be very challenging for them it appeared to be a clever decision to appoint the disintegration commissions. Kotter (2007) further states that the majority of successful organisational changes start with creation of a small group of employees working with identifying the company's market position, financial performance, competitive situation etc. At the same time as they took the lead of the implementation of the process, the commission also became a forum where managers together could learn how to cope with all the challenges the organisation was faced with. As emphasised by Kotter (2007) organisational changes and restructuring are complex and difficult tasks to accurately handle. The comprehension of the organisational restructuring during the six months prior to the start of Cloetta's independent operations turned out to be such a demanding period that the whole organisation ended up completely drained during the first months of 2009.

One can see that the actual start of the disintegration was earlier than first expected since Fazer's betrayal of placing the bid on Cloetta, retrospectively, became the starting point of the termination of Cloetta Fazer. The escalating distrust could not be repaired as Fazer's unpleasant and surprising behaviour shocked everyone at Cloetta and severely obstructed further internal cooperation. However, not all unpleasant or disadvantageous events that affect companies are negative for them. Some of them may actually have the possibility to initiate necessary organisational changes (Kotter, 2007). When Cloetta lost 40 percent of its sales, everyone at Cloetta perceived the urgency in quickly reorganising the company in order to adjust to the new challenging and demanding situation they were put in. Severe economic situations are adequate examples of "bad things" that catch managers' and employees' attention and make them realise that drastic actions are needed, and those are needed immediately. Even though Cloetta did not want to rush through the creation of the new organisation the group management did not have any other choice than as quickly as possible handle the most urgent challenges. Kotter (2007) further states that processes of change take place through phases that cannot be rushed through since there will be an immediate risk of failure in that case. Even though changes need to take the time they require, it is hard for organisations to allot all resources and time required for satisfactory carry out an extensive process of organisational change. Cloetta tried to not skip necessary steps in the process of



creating the new organisation, but managers sometimes felt that the owners were impatient and wanted the creation of new Cloetta to go even faster. Since Cloetta, however, rushed too fast with the creation of the organisational structure, it needed additional adjustments as time passed by.

During the stressful, turbulent, and anxious periods the CEO together with the group management were able to stay calm and accurately handle the organisational tensions and changes. Tähtinen and Vaaland (2006) stress the importance of managers' ability to handle stormy business relationships. Cloetta was lucky to have a strong leader that guided the company through the reorganisations and the building of new Cloetta. According to Kotter (2007) such demanding reorganisations as a disintegration process cannot succeed without a strong and dedicated leader. Cloetta would probably not have succeeded with all their demanding changes without their CEO. Moreover, without some kind of future vision a new, reorganised company is likely to end up in "the wrong direction" and not reach its organisational goals (Kotter, 2007). Thanks to the CEO's relative clear visions, ideas, and goals regarding new Cloetta, the company was able to develop and grow. Conclusively, the strengths and knowledge that the CEO possessed was a crucial key for the future of the new Cloetta. Moreover, without the urgency to transform Cloetta together with the CEO's and the group management's hard work one can assume that the actual outcome of Cloetta's disintegration process could have ended up somewhere completely else and taken considerably longer time than it actually did.

Since it is necessary for companies choosing to terminate business relationships to decide how the winding-up of the common business activities should proceed (Alajoutsijärvi, Möller, & Tähtinen, 2000), it was a proper strategy to have the disintegration commission responsible for managing everything regarding the disintegration. There are numerous of termination strategies (Giller & Matear, 2001), and managers in separating companies should avoid to unnecessarily "damage" the organisations during the separation process (Alajoutsijärvi, Möller, & Tähtinen, 2000). Managers do not intentionally choose a definite strategy of how to end a business relationship. Elements and tasks are instead identified throughout the disintegration process and together those tasks in the end represent the termination strategy. Importantly, managers should carefully reflect upon the desired outcomes of their relationship endings, and thereafter specify the strategies for reaching those goals. Although Cloetta's new

visions, strategies, and business goals evolved during a couple of years after the public announcement the group management had, thanks to the CEO's vague ideas, a relatively clear termination strategy. Alajoutsijärvi, Möller, and Tähtinen (2000) use the term "beautiful exit" describing the result of a termination that has been carried out by minimising damages that the disintegration process can cause to either of the previously cooperating business partners. Moreover, when both parties together handle the termination of their relationship it is possible to avoid additional break up costs as well as it is possible to ease the emotional impacts. Thanks to the prioritisations, to the well thought-out compositions of the new group management, and to the CEO's knowledge and future plans, the new Cloetta was given the best preconditions possible. Decisively, the new Cloetta managed with getting a "beautiful exit", and was therefore as prepared as the organisation could be to start with independent operations. Since Cloetta and Fazer shared the break up costs, Cloetta's economic situation was not as severe as it otherwise could have been, and what was left of the organisation on January 1<sup>st</sup> 2009, was what the group management had to start building the organisation from.

Most employees was patient and realised that creating and developing new Cloetta was going to take time and that all the hard work eventually would pay off. Kotter (2007) emphasises the importance of not become satisfied too early during a change process. Declaring victory too soon can be catastrophic for the company. Managing process of change is a dual process in which managers should try to change the old, existing relationship at the same time as keeping it steady (Tähtinen & Vaaland, 2006). When the disintegration commission started to operate the members had dual roles in the organisation – prepare the disintegration process at the same time as continuing with their usual daily working tasks. Many of those who worked with the extensive reorganisation had a hard time separating these two significantly differing missions, which caused absurd and schizophrenic feelings. However, personal involvement in one's professional work can sometimes be hard to exclude (Halinen & Tähtinen, 2002), and it showed that in this particular case some found it hard when they suddenly were put in a position where former colleagues and friends became their opponents – their "rivals".

Alajoutsijärvi, Möller and Tähtinen (2000) state that the largest issue with all human as well as organisational communication, is the actual interpretation of the messages. No matter how carefully the sender in advance considers the chosen communication strategy there is always a risk of misinterpretations by the receiver. The group management's decision to always give

completely accurate information helped to reduce the uncertainty within the organisation, and the risk of spreading false rumours was decreased too. If Cloetta had given false information and promises impossible to keep to their employees it would, according to (Tullberg, 2008), have been hard for the group management to create trust, and build up togetherness since employees would then have found it very hard to trust the managers. Since the group management behaved consistently with what they communicated after the public announcement, which is a crucial determinant during organisational changes (Kotter, 2007), the internal organisational ties were strengthened at Cloetta. This organisational trust laid the foundation for the creation of togetherness. During organisational changes it is of huge importance to openly communicate with employees if the restructuring should turn out successfully, at least does open communication facilitate the transformation significantly (Kotter, 2007). Even if Cloetta Fazer had wanted to inform the employees about the decision to demerge prior to the public announcement, it was not legitimate since Cloetta Fazer was a listed company and had to strictly follow certain rules regarding both internal and external communication. One can, however, state that the lack of communication prior to the announcement was “compensated” with regular and accurate information afterwards.

According to Kotter (2007) organisational changes require cooperation of everyone involved in order to succeed. Without motivation and presented reasons for the changes, employees find it hard to work in an organisation that is going through extensive changes. Moreover, Kotter stresses the difficulty to motivate for employees why job losses sometimes are included in the process of changing an organisation. To get understanding and support for layoffs is hard for managers and group management. In order for organisational changes to turn out as successful as they are planned to, organisational obstacles might have to be removed. The group management worked intensively to motivate, support and present reasons for everything that had to be done internally. They succeeded since togetherness was established and the majority of the employees at Cloetta, retrospectively, consider the creation and development of new Cloetta as an inspiring and exciting period.

### **5.2.2 The disintegration process from an integration-perspective**

Since integrations and disintegrations are processes containing at least two parties, these processes share some common features, but the question is whether it is possible to state that a disintegration can be seen as a mirror of an integration.

Tidström and Åhman (2006) argue that cooperation and competition in business relationships must be balanced, otherwise the end of them will come fast. Since there was no balance between cooperation and competition, Cloetta soon became the inferior party, an outcome that, in numerous aspects, got negative consequences for Cloetta. The level of cooperation decreased over the years; fewer relational ties were established, fewer common projects were launched, and few new Cloetta-products were developed. This gradual degradation of Cloetta placed them in their disadvantageous position. Prior to the establishment of an integration companies need to identify potential factors that negatively can affect the relation and lead to its termination. Maybe the owners of Cloetta respectively Fazer did not carefully evaluate each other, and just looked at the business related advantages of a merger. Conclusively, the choice of business partner is of crucial importance for the future of integrated companies. According to Tidström & Åhman (2006) Cloetta and Fazer should have considered the risks involved in their relationship more carefully prior to the merger because cooperation with a competing partner might end up as one's biggest competitor. Just like Cloetta and Fazer did. If chosen a "bad" partner it will negatively affect the future of the integrated companies, and a bad relationship will soon terminate (Medcof, 1997). One can speculate that if Cloetta had evaluated Fazer as a suitable partner more carefully it might not even have led to a merger in the first place. However, the negative outcome of Cloetta Fazer supports Medcof's idea that a poorly chosen partner will "destroy" the common future of cooperating companies. Moreover, poorly chosen partners are costly since repairing infected and damaged business relations is basically useless since it only "eats up" valuable resources. Partners have to be aware of and understand one another's strategies if they should manage to cooperate. However, since it showed that the owners had hidden agendas there was no possibility for them to be aware of and understand the intentions of the other which actually also badly affected the internal organisational situation and led to problems with distrust and impeded common future plans.

Creating synergies are a main reason for integrations, but when those are decreasing in numbers in a business relationship that will likely become the beginning of the end of that business relationship (Tidström & Åhman, 2006). Cloetta Fazer hoped for synergies when they merged, but from Cloetta's perspective synergies failed to come off, in for example product development, due to the inferior position. The inferiority led to the fact that employees avoided raising their voices and coming with "Cloetta-ideas" since they perceived it as useless because the possibility of being rejected was large. Conclusively, Cloetta did not

gain as many positive synergies as hoped from the integration, rather the opposite since the company was put in a very inconvenient and disadvantageous position.

Reasons for disintegrations can be external, relational, and/or organisational, just like reasons for integrations can be. In this sense a disintegration process mirrors an integration process well (Tidström & Åhman, 2006). The reason why Cloetta Fazer's relationship ended can be stated to be relational since it was the owners that had difficulties to get along, and their strained relation negatively affected basically the whole organisation. Tähtinen and Vaaland (2006) stress the importance of the role of managers. Managers should continuously reflect upon companies' business relationships and consider whether or not to continue with them. Attention needs to be paid to the future of ongoing business relationships since some of them might not be worth continuing with because they might be too costly or not as advantageous as they once were. Cloetta Fazer's future was regarded as a dead end by the owners, as well as by many of the managers and employees, which led to the radical decision to initiate the demerger.

Halinen and Tähtinen (2002) stress the importance of knowing how to properly handle an end of a relationship, and not only how to establish one in the first place. Just like integrations, disintegrations need to be handled in good manners by managers in order for the termination of the relationship to turn out well. If experiencing an integration process companies are aware of how extensive such process is since it requires numerous resources, both in terms of time and knowledge. Since Cloetta prior to the decision to demerge from Fazer did not have any previous experiences or knowledge of disintegration processes it was naturally to start terminating the relationship by cutting the majority of the inter firm-relationship that had been established when they integrated.

According to Tidström and Åhman (2006) an ending of a business relationship is complicated and multidimensional since many partners are involved in those processes. Moreover, termination of business relationships starts with identifying reasons for the termination, and thereafter such process are divided into different stages that must be completed before the disintegration can be regarded as accomplished. Cloetta Fazer's merger took several years and so did also the demerger and its disintegration process. The disintegration process went through numerous steps before it was considered to have reached a satisfactory level where Cloetta could operate as a successful independent company again. Tidström and Åhman

(2006), talk about business relationships as processes that evolve through different phases, starting with the establishment of the actual relationship up until the definite end of it. Demergers are complex and difficult to handle properly just like mergers are. A disintegration process can, therefore, be assumed to take place stepwise too, just like an integration process does. When companies start to cooperate numerous links are established between them (Tähtinen & Vaaland, 2006), however, between Cloetta and Fazer few links were established during the nine years the companies operated as one single entity. Moreover, the links created were not always as good and beneficial as they initially were intended to be. Although, Cloetta Fazer was one and the same company, internal cooperation between the different factories and departments were rarely as smoothly running as hoped to be when the companies merged.

In integrations employees simultaneously act as two persons; a private one as well as a professional one (Tidström & Åhman, 2006). In this sense a disintegration process actually mirrors an integration process since it shows that it is difficult for involved persons to separate their private persons from their professional persons during these kinds of extensive organisational changes. As emphasised by the employees; people are not more than humans and therefore act as such no matter if it is in their private or professional lives, and when creating a new business relationship there are many aspects and factors to consider. New routines and procedures have to be established, supplier agreements need to be specified and decided upon (Tähtinen & Vaaland, 2006). When Cloetta and Fazer demerged they laid the foundation of a new kind of relation between them. Relations need to be specified and handle properly, and when Cloetta Fazer demerged Cloetta needed to consider what kind of future relationship to have with Fazer. Halinen and Tähtinen (2002) describe an ending of a business relationship as a procedure where ties are cut and companies, step by step, become separated from one another. The disintegration commission handled this procedure in the same way, by separating Cloetta and Fazer bit by bit, and during the disintegration process Cloetta became incrementally disconnected from Fazer. The authors further state that disintegration processes constitute different stages in which the companies undertake different activities and make all decisions concerning the end of their relationship, and that was the task of the disintegration commission. Integrations and disintegrations are each other's mirror images in this sense, since links are created in the first one whilst in the second one those are disestablished.

### 5.2.3 The disintegration from a relationship-perspective

It is easy to, in several aspects, draw parallels to marriages and divorces when explaining Cloetta Fazer's relationship. The companies dated for several years before they finally decided to marry in 2000, but they decided to divorce less than a decade later. Like many marriages, Cloetta Fazer had a bumpy road with several conflicts. Halinen and Tähtinen (2002) state, that if a strong and healthy relationship is created already from the beginning it will later on play an important role in preventing the relationship from ending. Although Cloetta dated Fazer for many years their relationship was stormy, lacked trust and commitment to the same cause. At some point, at least one of the parties finds it pointless to continue such destructive relationship and applies for divorce. When levels of commitment and cooperation are low, the ending of a relationship is near since it then is difficult, almost impossible to repair internal damages. There were low levels of commitment in Cloetta Fazer's relationship, and the disintegration became a fact. Just as in many divorces (Tähtinen & Vaaland, 2006). According to Tähtinen and Vaaland (2006) relationships reaching an end often show signs of low cooperation and low investments into the relationship. Cloetta Fazer showed signs of low cooperation as well as low integration levels, even if it varied heavily between the different departments. Moreover, the level of commitment to continue the relationship was low. Business relationships with severe problems rarely function smoothly (Harris, 2004). Cloetta Fazer's extreme problems affected employees and they could not find enough reasons to work towards the common Cloetta Fazer faith when the parents were fighting.

Trust is an essential part in all relationships regardless if it is a professional business relationship or a personal one, however, trust is difficult to establish, but easy to destroy (Tullberg, 2008). The trust weakened already in the beginning of the Cloetta Fazer-period due to all the disagreements concerning ownership structure and share of stocks, since Fazer's behaviour made Cloetta suspicious. Hence, the trust in the relationship did not expand over the years, rather the complete opposite. When one party starts to doubt the other party's commitment to the relationship it leads to a range of negative feelings; distrust, betrayal, sadness, and resignation. According to Tullberg (2008) declining trust is a common problem in many relationships today. The ever-present risk that one of the persons in a relationship do not follow or behave "in accordance" to what have been agreed upon can, in fact, decrease the trust between the partners. In the Cloetta Fazer case they could not trust each other, and if



trust is not given it will neither be reciprocated, there will not be any happy relationship (Tullberg, 2008). In this case, the distrust escalated over the years. Fazer showed lacking commitment to the relationship when they placed the bid since the bid showed that they had other objectives. The bid was seen as very hostile among employees at Cloetta, and decreased the trust even further.

Vaaland (2006) stresses that conflicts are common in relationships, especially if strategic business parties, with large amount of resources are involved. All conflicts in Cloetta Fazer's relationships strained the internal atmosphere; however, the trigger for the actual decision to demerge was the bid. Giller and Matear (2001), state that rarely is a specific event the only trigger causing termination of a business relationship. The overall status of the relationship does also impact, whether the outcome will be a definite termination or not. When the bid came the relationship between Cloetta and Fazer had already started to become unstable, which also was a significant determinant in the demerger decision. The bid caused heavy reactions at Cloetta, and Fazer did not seem to try to restore the strained and infected situation. However, forgiveness is a crucial element, and can restore damaged relationships, and in business relationships it has shown that the partner, who has behaved badly, can restore the damaged situation by correcting and compensating for previous mistakes (Tullberg, 2008). Cloetta did not forgive, and Fazer did not try to correct and compensate, and that can be seen as a potential determinant too to the end of their relationship. Conflicts are often the final determining factor for termination of a relationship (Vaaland, 2006; Tidström & Åhman, 2006), which was exactly the outcome of the different strategic objectives stated to be the reason for Cloetta Fazer's disintegration decision. The division of the sales staff was perceived as one of greatest challenge. The employees can in this case be seen as the children of Cloetta Fazer's relationship, a relationship in which the parents were fighting. The question of what will happen to the children is always an inevitable and difficult issue to handle regardless if it is a business or personal divorce (Harris, 2004).

The time often comes when owners decide that they no longer wish to work together (Harris, 2004), as was the case with Cloetta Fazer. The stated decision to demerge was, however, shown not to be the only issue involved. Another factor was the superiority of Fazer which negatively affected the relationship in the sense that it was difficult for Cloetta to develop their products and to get their business ideas forward. The factors which lead to the ending of

a business relationship can be rather complex and hard to define. However, when both parties have a mutual understanding it is easier to terminate the marriage (Tidström & Åhman, 2006).

Economic issues are often spurred by years of increased anger and resentment towards conflicts (Harris, 2004), however, in the case of Cloetta Fazer, the emotions were more a consequence of the issues and problems related to the actual conflicts. The difference with a business demerger compared to a personal divorce, lies in that there are more legal, strategic, technological and financial issues, in business divorces than personal ones (Giller & Matear, 2001; Harris, 2004). For Cloetta, there were many emotions to handle; the uncertainty needed to be met with accurate information and a strong leadership with a clear vision of the way forward. Giller and Matear (2001) state that the termination of a business relationship can cause stress, which also was seen at Cloetta. The influence of human behaviour was naturally present during the whole disintegration process, since it is difficult for employees to separate their personal beliefs from their professional opinions and emotions regarding the disintegration. The issue of the dual processes of collaborating and fighting during a business separation is described as one of the most difficult tasks (Harris, 2004). It is important to minimise potential damages caused by the termination on both parties (Vaaland, 2006), which was the disintegration commission's task to manage. Moreover, since Cloetta needed to decide what kind of future relationship they wanted to have with Fazer, Cloetta had to simultaneously cherish and terminate it. Otherwise there was a huge risk the relationship would be "lost" forever (Giller & Matear, 2001; Tähtinen & Vaaland, 2006).

Happy divorces are sometimes seen as illusions (Vaaland, 2006) but in the case of Cloetta Fazer's demerger, it seems to be rather the opposite. Although the disintegration in many aspects were a sad and difficult task with reactions of; betrayal, distrust, and failure, the organisational changes were soon instead perceived as inspiring and exciting. After the public announcement Cloetta has thanks to hard and intensive work successfully managed to improve its brand image, expanded the product portfolio, and steadily increased sales volumes. These outcomes prove that the demerger process was a worthwhile experience for the whole company since Cloetta was given great opportunities thanks to the demerger decision, and can now draw conclusions and learn from those. Cloetta's experiences and learnings of the disintegration might become very useful in future organisational challenges.

## 6. Conclusion and managerial implications

The question stated in the beginning of this study was; *How does a disintegration process unfold in a demerger, and what are the main challenges for the inferior party?* The demerger and its disintegration process of the inferior party Cloetta from superior Fazer can be seen as a three phase-process. The first phase ranged from the time of the merger in 2000 until the public announcement of the demerger on 16<sup>th</sup> of June, 2008. The second phase started immediately after the public announcement was made, and up until December 31<sup>st</sup> 2008, when Cloetta started to operate as an independent firm again. The final phase ranged from 1<sup>st</sup> of January 2009 until 31<sup>st</sup> of December 2011. There were many challenges seen in the unfolding of the disintegration process and its phases. In trying to understand the disintegration process and its challenges, three streams of research were used. Used independently; the change management perspective sees the demerger and its disintegration process as whichever organisational change to manage, the integration perspective looks at the disintegration process and the involved parties, and relationship literature concerning separations and divorces looks at the whole process of both parties involved in the process of terminating a relationship. By using all three perspectives to understand the unfolding of the disintegration process and its challenges, it was possible to get a more comprehensive picture.

The first phase's stormy relationship contained several conflicts which can be understood by looking at divorce literature. The stormy relationship contained challenges such as distrust and lack of commitment, which usually also is a tendency in pre-divorce stages of marriages. Hidden agendas created uncertainty, lack of trust and commitment, which led to low cooperation which also can be seen in marriages just before the decision to divorce. The bid that revealed the hidden agenda can be seen as the start of the disintegration process, since change management literature explains that conflicts are when the change starts. Cloetta Fazer tried to solve their issues and conflicts to the very end of their relationship, which is common in many marriages too. The low cooperation between the companies' departments shows similarities to the divorce literature as well, since the cooperation between the partners can be a sign of an upcoming divorce. The signs of low cooperation can also be understood by looking at integration literature, since in an integration processes inter-firm links are created whilst those instead are destroyed during disintegrations. In this sense, these two processes mirror each other. Similarities can be seen to lie within the reasons for implementing integration or disintegration processes; since they can both derive from external,

organisational, and/or relational factors. Prior to both integrations and disintegrations the reasons for establishing or ending business relationships are identified, and in this sense both processes share significant similarities. Both processes also show similarities in strategy creation before the decision to integrate/disintegrate since both processes share challenges such as deciding about how to handle the process. Another challenge during the pre-demerger phase was the how to inform the employees about the reasons for the demerger. The challenge is different from in a merger in the sense that in a merger; the reasons were provided beforehand in order to facilitate for getting the employees on board of the idea of creating a new common company, whilst in a demerger of a public firm the reasons cannot be given before the announcement because of the laws of communication and information spreading. Moreover, communication and information spreading was also an important challenge to accurately handle in the pre-demerger phase and was a tool used to decrease the uncertainty among the employees. This shows similarities to the change literature in regards to the importance of giving information in order to decrease uncertainty.

In the second phase, the public announcement was met with various emotional reactions from the employees. Uncertainty concerning the future, relief, sadness, but also a positive feeling of been given a great possibility to start create something new and exciting were present. One of the greatest challenges was to create the group management responsible for managing the comprehensive organisational restructuring, which was handled by basing the group management on competences and experiences. This decision was proven to be wise since it decreased the group management's uncertainty. This can be explained by the change management literature which stresses that changes start with creation of a small group of employees working with key questions. Another challenge in this phase was for the disintegration commission to negotiate the disintegration contracts. Negotiation the disintegration contracts at the same time as continuing with common daily business operations created a schizophrenic feeling for those involved, since it was hard to simultaneously work with Cloetta Fazer operations and on terminating the relationship. Another challenge was for Cloetta to determine what kind of relationship to have with Fazer in the future, and it was decided that cooperation should continue between their production and logistics departments. However, establish this new relationship was not prioritised immediately since more urgent issues needed to be handled first. Depending on how well integrated the departments were, it affected what kind of challenges they had to deal with

during the disintegration process. Some departments were basically not affected at all by the decision to demerge, whilst other found it problematic to disintegrate. Managing layoffs and the negotiations concerning them was also one of the largest challenges during this period. It was a difficult task since many believed that the layoffs were unnecessary and mean, because of Cloetta's strong embeddedness in their local community.

In the third phase, the creation of what the new brand should represent and express, together with the development of the new product portfolio became Cloetta's major challenges. Bringing the departments together and create togetherness among the employees were also a challenge in focus. The togetherness challenge was facilitated by the large project and by the re-location of all departments to the same location. This can be explained by change management literature which emphasises the importance of close cooperation of the whole organisation in order to successfully manage organisational changes.

Although the disintegration process's three phases included many challenges for Cloetta the demerger still had a positive outcome when these challenges were overcome. Interestingly, a happy outcome of a divorce is often stated to be an illusion, but in the demerger of Cloetta Fazer this seems rather to be the opposite. This means that the findings of this study not only creates a deeper knowledge about the unfolding of the disintegration process, but also about what potential challenges a firm can encounter and how these challenges can be met. By being aware of these challenges managing future disintegration processes can be facilitated, since managers easier can decide how to allocate their resources most effectively.

This study can be seen as the first step towards theory building on the demerger phenomenon in general and the disintegration process in particular, drawing from similarities and differences explained by the three research fields; divorce literature, integration literature and change management literature. These three research fields succeed in explaining challenges of a disintegration process and future studies are therefore recommended to proceed in this direction. In order to continue to build theory on disintegration processes one has to examine demergers from the both involved parties' perspective in order to get a more comprehensive understanding of the phenomenon. Also other influencing factors need to be taken into consideration in order to fully understand the disintegration process.

For Cloetta, with a strong embeddedness in the local community, the effects of the demerger seemed to remain for a long time in the memories of the community's inhabitants and the company's employees. It was hard for many of them to "forgive" the company for this comprehensive organisational change. One can, therefore, speculate whether the disintegration process and its challenges would be the same in a demerger of two non-family owned companies.

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## Figures

Figure 1. The disintegration process