

International Management

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Icelandic Acquisitions in Sweden

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Abstract

The factors behind the success of three Icelandic acquisitions in Sweden were explored from cultural perspective. Two main factors were perceived as critical. The first factor is the fit between Icelandic acquirers' M&A strategies, the structure/type of M&A and the acquirers and the acquired companies' agreement on the mode of acculturation. The second factor is previous relationship between the acquirers and the acquired companies. Previous relationship is believed to make the integration process smoother.

Key words: Merger and Acquisition, Culture, Acculturation, Previous Relationship, Iceland, Sweden.

Preface

We have decided to structure this thesis in a slightly unconventional way. We felt that it is necessary to break some of the rules of traditional thesis in order to make the content and our logic more accessible to readers. We, therefore, think of our thesis as a journey. The structure of the thesis will reflect that. Using this metaphor has helped us to free our minds and brought forth creativity that has made the writing process more fun. We hope the readers will get the same feeling.

On our way we have met good people whom we wish to thank. We especially want to thank our tutor, Gary Kokk, who was also our contact person to Gothenburg Research Institute, Torbjörn Stjernberg for his helpful advices and Sten Jönsson for his assistance in the initial state of this thesis process.

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Preparation for the journey

When planning a journey, one has to have some idea where to go and what to look at. A person might be interested in architecture. S/he might be eager to look into everything that was related to this field. Architecture is, however, very broad subject and s/he might want to limit her/himself to certain aspects within the field. Postmodern architecture could be the choice. Next step for a curious traveler is to find literatures about the subject and choose a country or city that is interesting to go to. One might find it helpful to have some lead questions or riddles that s/he wants to get answer to.

This is similar to how we planned our thesis journey. We knew that we were interested in Mergers and Acquisitions. It is, however, a very broad field and we decided to limit us to the cultural aspects of M&A since we are studying a course in International management. We further decided to look into Mergers and Acquisitions that had happened between Iceland and Sweden. This was a natural choice to us since one of the writers of this thesis is from Iceland. We collected and read literatures about cultural related issues in M&A and soon we found that three Icelandic companies, Landsteinar International, Össur hf. and Bakkavör Group made acquisitions in Sweden in the year 1999 and 2000. With a high failure rate of M&A in mind we wanted to ask us if these acquisitions were successful. If these acquisitions were successful we also wanted to know why.

Our journey goes as following: We take four stops and introduce relevant questions as the thesis proceeds. Before starting the trip we prepare us by describing the case companies and introducing the basic concepts that we are

going to use throughout our discussions. As a point of departure we answer the question if these acquisition are successful.

On Stop 1 to 4 we seek to explain the success of the acquisitions. On Stop 1 we reflect on the possibility if the success is determined by the fact that the acquirers let the acquired companies work very independently on their local markets. Stop 1 is very focused on this problem from the acquirers' side. We, thus, further discuss on Stop 2 that the agreement on the mode of acculturation by both sides is an important factor for successful M&A. On Stop 3 we map the success and draw a picture of what we find on Stop 1 and 2. On stop 4 we further discuss if a previous relationship between the acquirers and the acquired companies is a positive factor for an effective integration. We learned that the two companies (Össur hf and Bakkavör Group), which had previous relationship with the acquired companies, had smoother integration process than the one that did not (Landsteinar). We apply theories of cultural compatibility, cultural awareness and communication to this problem.

In following chapter we introduce the Icelandic companies of the acquirer side and Swedish companies of the acquired side.

Introduction of the case companies

Bakkavör Group hf

Acquirer: Bakkavör

Bakkavör was established in Iceland in 1986 by two young brothers, Ágúst and Lýður Guðmundsson. In its first years of operation, it specialized in processing roe but it also put a lot of emphasis on strategic planning, which has been a platform for their expansion. Bakkavör established its first subsidiary in the UK in 1994. The first company that Bakkavör bought 100% was a French company called Comptoir Du Caviar in 1999. The same year it bought up Lysekil Havsdelikatess in Sweden. In the year 2000, it bought up companies in Poland, England and Chile. Bakkavör Group moved its headquarters from Iceland to Copenhagen in the beginning of the year 2001. The average number of employees was 220 at the end of the year 2000. The size of Bakkavör increased drastically with the acquisition of Katsouris Fresh Foods Ltd. on 21 November 2001. The price for this British company was 1.5 billion Swedish Krona, which is recorded as the biggest acquisition in the history of Iceland. Estimated turnover of the combined companies is around 2 billion Swedish Krona and the number of employees is 1900.¹

Bakkavör is, according to their own definition, “an international Group developing, producing and selling fresh and chilled food products”. This means that they are not only a seafood company, as they were initially. There has been little growth in the consumption of seafood. The seafood industry faces much competition, little profit and drastic up-and-down swings on the raw-material

¹ Morgunblaðið, 21 November 2001

markets. Bakkavör seeks instead to buy healthy companies and focuses on the sectors in the food industry that give the most growth opportunities.²

Acquired company: Lysekils Havsdelikatesser

Lysekils Havsdelikatesser was founded in 1867. Before being acquired by Bakkavör, it was owned by an investor named Atle. Atle's policy was to be active in the companies in which they invested. Atle provided Lysekils Havsdelikatesser with the capital that enabled them to build up the company and make it more attractive to buyers. Lysekils had considerable experience of acquisitions before Bakkavör's acquisition. They had bought up several family companies and smaller companies that fit into their business. Lysekils Havsdelikatesser was, in fact, already looking for a partner in a related business and it was more or less a hit that they found Bakkavör.³ They had, however, known each other earlier. Bakkavör had been Lysekils Havsdelikatesser's raw-material supplier.

Bakkavör bought Lysekils Havsdelikatesser up in June 1999. The primary reason was to enter the Nordic market area. The price was 73 million Swedish Krona and Atle earned 20 Million Swedish Krona. The turnover of Lysekils Havsdelikatesser was 215 Million krona in the year 1998, compared with Bakkavör that had only 75 Million Swedish Krona.⁴ The newspaper *Förenade Landsorts Tidningar* describes Bakkavör as a strong industry player that will give Lysekils Havsdelikatesser a good chance to actualize its Nordic strategy. It further says that Bakkavör will also give Lysekils interesting export

² Morgunblaðið, 8 March 2001

³ Olofsson, 17 October 2001

⁴ Dagens Nyheter ekonomi, 2 June 1999

opportunities in continental Europe.⁵ These intentions have come true. Lysekils Havselikatesser recently put up a new product-line and they let their sister company in France export their new products on the French market.⁶ Lysekils Havselikatesser had an export department that was closed down due to the acquisition. Bakkavör's general strategy is to reach synergies through this type of export activity.

Össur hf

Acquirer: Össur hf

Össur Kristinsson founded Össur in 1971. The company was originally a prosthetic clinic but became later more famous for its design and production of prosthetic liners, sockets and locking systems. The company's mission is to be the "principal source of innovative, quality prosthetic and orthotic products and services – enabling people to lead a life without limitations".⁷ Össur is the second biggest producer of prosthetics in the world and its products are sold in over 50 countries.

During the year 2000, Össur expanded significantly. The number of employees increased from 122 in 1999 to 327 at the end of the year 2000.⁸ The company has been acquiring and merging companies to achieve this growth. In year

⁵ Förenade Landsorts Tidningar, 25 May 1999

⁶ Olofsson, 17 October 2001

⁷ <http://www.ossur.com>

⁸ It bought Flex-Foot in USA for 5,3 billion Icelandic kronur which was reported as the fourth biggest acquisition in the History of Iceland according to Frjáls Verslun 2000.

2000, it developed a new organizational structure. Jón Sigurdsson, CEO of Össur, says:⁹

Through its new organizational structure Össur aims to strengthen its position as a leading force in the global prosthetics market and related sectors in the future. This will enable the company to grow and conceivably integrate more companies from this field smoothly into the Group. Our vision is clear - we want Össur to develop new opportunities in related areas where we can use its talents and organization to grow still further.

The two Swedish companies, Karlsson & Bergström AB and Pi Medical AB, were acquired in the year 2000. These two companies were merged into one company and the name was changed to Össur Nordic.

Acquired companies: Karlsson & Bergström AB, Pi Medical AB

Pi Medical was established in 1988. Its main focus is on producing prosthetic and orthotic components. Pi Medical had 18 employees before it was acquired by Össur Iceland. Pi Medical was, according to their own description, a “wholesaler that first and foremost turns to orthopedic workshops and professional therapists in Scandinavia.”¹⁰ Pi Medical is a service company that develops, produces and sells its own products. They also sell and service products from others.

⁹ <http://www.ossur.com>

¹⁰ <http://www.hi.se>

Karlsson & Bergström was established in 1994. It was a company that bought and distributed tools for orthopedics and rehabilitation on the Nordic market. It had about ten employees and the head office was in Helsingborg. With high technical competences, a good brand name and a high service level, the company offered innovative quality products. The product mix was concentrated on devices that restore to health disabled and lost body parts.

Karlsson & Bergström and Pi Medical were, amongst other things, distributors for Össur before the acquisition.¹¹ Pi Medical had a turnover of approximately 45 million Swedish Krona. Karlsson & Bergström had a turnover of 43 million Swedish Krona.¹² Össur hf in Iceland was first and foremost buying product lines and distribution with its acquisition of Mi Medical and Karlsson & Bergström. It was also buying their extensive knowledge of marketing and selling on the Scandinavian market.¹³

GoPro Landsteinar Group hf

Acquirer: Landsteinar International

GoPro Landsteinar group was established in a merger between the GoPro Group and Landsteinar International in October 2000. These companies had done a number of previous merger and acquisitions. Here is a short simplified description of how they developed before the merger:

¹¹ Frida Johansson, Dagens Industri, 5 December 2000

¹² Meyer, an answer to a e-mail request, 6 December 2001

¹³ Guðrún Björnsdóttir, executive secretary of Össur hf, an answer to e-mail request, 3 December 2001.

- The entrepreneur Guðbjartur Páll Jónsson established the company Landsteinar in Iceland 1995. He believed that it was possible to export his knowledge of the Navison software. On the first years of operation it established a worldwide network of Navison specialists that sold consultancy to companies.¹⁴
- GoPro Group was established in March 2000. It was a combination of Hugvit hf and three Icelandic and two Danish IT companies. Hugvit was established 1993 by Ólafur Daðason, who became later the management director of GoPro Landsteinar Group.

With the merger of GoPro group and Landsteinar International the companies became the biggest software company in Iceland with around 550 employees. Ólafur Daðason says, “that the reason for this merger was that the companies had separately been building up companies in the same countries. This costs a lot. The companies were competing with international companies that were bigger and more powerful. They simply could not go on separately because their units were too small.”¹⁵ The group offers comprehensive solutions in the operation and installation of software and computer systems. It also objectively consults the buyers on the choice of equipment. All new solutions are developed in Iceland and tested in full scale.¹⁶ Subsidiaries make adjustments and modifications on these solutions and make them fit to the markets that they are working on. The subsidiaries are now operating in Iceland, Jersey, England, Germany, Sweden and Denmark.

¹⁴ Guðrúnu Guðlaugsdóttur, Morgunblaðið, 27 June 1999

¹⁵ <http://www.hi.is/~kths/landsteinar.html>

¹⁶ Kristinsson, 10 October 2001

Acquired company: QD Utveckling

Landsteinar Swenska is the name of GoPro Landsteinar group's subsidiary in Sweden. Landsteinar International bought up a company that was called QD Utveckling and changed the name immediately to Landsteinar Swenska. The acquisition took place in February 2000 only 8 months before GoPro group and Landsteinar International merged. Landsteinar Swenska or QD Utveckling is put together from six companies that worked in the computer industry in Sweden. The Swedish media reported that Landsteinar Swenska (QD Utveckling) had a total of 85 employees and 32 million Swedish Krona. Landsteinar International had a turnover of 96.5 million Swedish Krona and 160 people employed.¹⁷

The six Swedish companies were in weak condition and some of them were even about to become bankrupt. The companies had to be reorganized by, for instance, laying off employees. Landsteinar International lost considerable amount of money due to this restructuring. These changes were fully implemented in August of the year 2001 and the Swedish subsidiary is now operating without problems.¹⁸

Landsteinar International bought up the Swedish subsidiary to realize market extension for their Navison solutions. The idea is that Landsteinar Swenska sells, adjusts and installs Navison business operation systems on the Swedish market. It is structured and organized in the same way as the other subsidiaries

¹⁷ Daniel Svensson, Dagens Industri, 1. Mars 2000

¹⁸ Kristinsson, 10 October 2001

of Landsteinar International.¹⁹ Amongst Landsteinar Svensk's customers are Adidas, Sveriges Television and Beckers.²⁰

Summary

In order to give a clearer picture of these companies, we try to summarize and compare them. Some information has not been available or difficult to attain. GoPro Landsteinar Group is, for example, not listed on the Icelandic stock market so their financial results are not made public. The companies are also expanding very quickly. It is, thus, difficult to keep track of the number of employees and so on. Here below is a table that contains information about differences in number of employees and turnover:

¹⁹ Kristinsson, 10 October 2001

²⁰ <http://www.landsteinar.se>

Acquisition made in:	Establishing year	Number of Employees	Turnover (Million Swedish Krona)
June 1999			
-Bakkavör	1986	40	75
-Lysekils Havsdelikatess	1867	120	215
Feb. 2000			
-Landsteinar	1995	160	96,5
-QD Utveckling		85	32
Nov. 2000			
-Össur	1971	122	137
-Karlsson & Bergström	1994	10	43
-Pi Medical	1988	18	45

Table 1: Differences in number of employees and turnover.²¹

It is interesting to notice that Lysekils Havsdelikatesser was three times bigger than Bakkavör and 119 years older. Landsteinar International was two times bigger than QD Utveckling. Össur was around three times bigger than Pi Medical and Karlsson & Bergström if we look at the turnover. Össur bought, however, these companies quite late in the year 2000. Össur had already

²¹ *Information is from interviews, financial reports, requests, homepages and newspapers.*

expanded significantly during this year so the difference in size is rather underestimated in table 1.

Basic Concepts

Culture

After reading the literature on culture, we soon gave up the ambition of trying to give culture a definition. Each definition, which describes culture from one perspective, is inevitably unilateral. To get more comprehensive understanding of culture, we therefore use Martin's (1992) three perspectives of culture: (1) the integration perspective, (2) the differentiation perspective and (3) the fragmentation perspective.

The core of the *integration perspective* is the lure of organization-wide consensus. Members at all levels of an organizational hierarchy are said to share values or basic assumptions. All cultural manifestations (e.g., formal, and informal practices, physical arrangements, stories, rituals, jargon) are interpreted as consistent with espoused values or basic assumptions. Also, culture exists to bring predictability to the uncertain, and to clarify the ambiguous. Cultural members are described as knowing what they are to do and why it is worthwhile to do it. In the realm of clarity, there is no place for ambiguity. A metaphor is that culture is "an area of meaning carved out of a vast mass of meaninglessness, a small clearing of lucidity in a formless, dark, always ominous jungle." (Martin 1992:52)

From the *differentiation perspective*, the apparently seamless unities of the integration perspective mask a series of overlapping, nested subcultures, which co-exist, sometimes in harmony, sometimes in conflict, and sometimes in indifference to each other. The differentiation perspective acknowledges conflicts of interest between groups; therefore, the claims of organization/nation-wide consensus is suspicious. To the extent that consensus exists, it is seen as located primarily within sub-cultural boundaries. A metaphor for culture from differentiation perspective is: “subcultures are islands of clarity; ambiguity is channeled into the current that swirl around the edges of these islands”. (Martin 1992:94)

From the *fragmentation perspective*, both the unity of integration studies and the clearly defined differences of the differentiation perspective seem to be myths of simplicity, order, and predictability, imposed on a socially constructed reality that is characterized by complexity, multiplicity, and flux. When culture is viewed from the fragmentation viewpoint, the integration and differentiation perspectives seem to deepen confusion and misunderstanding by misrepresenting the complexities of living in an inescapably ambiguous world. The fragmentation perspective stresses a context-sensitive approach to examining differences in interpretation. From a fragmentation perspective, culture is “a web of individuals, sporadically and loosely connected by their changing positions on a variety of issues. Their involvement, their sub-cultural identities, and their individual self-definitions fluctuate, depending on which issues are activated at a given moment.” (Martin 1992:153)

When studying international M&A, the choice of culture concept strongly influences the overall theoretical framework and research design. Most importantly, it also affects the implied recommendations to companies involved in M&A (Søderberg 1998). Thus we have to decide which perspective to

choose for our study. To avoid being unilateral we should take advantage of all three perspectives. But due to many limitations²², we are restricted within the integration perspective. Keeping this weakness in mind, when applying certain theory to our case analysis, we try to be critical and get insights from other perspectives.

When two or more parties come together in M&A, their cultures interact. The concept of acculturation developed by Berry (1983) helps us understand possible interactions between two parties.

Acculturation

Berry (1983) defines acculturation as “changes induced in (two cultures) systems as a result of the diffusion of cultural elements in both directions.” In other words, whenever individuals from two cultures come together, for example by working together or through living in a different county, a change takes place whereby individuals adapt or react to the other culture (Søderberg 1998). According to Berry there are four possible forms of adaptation between cultures:

- **Assimilation** is always a unilateral process in which the non-dominant group willingly adopts the identity and culture of the other.
- **Integration** occurs when the non-dominant group maintains its cultural integrity but becomes at the same time an integral part of the dominant culture.

²² See appendix 3

- **Separation** involves attempting to preserve one's culture and practices by remaining separate and independent from the dominant group.
- **Deculturation** happens when the non-dominant group loses cultural and psychological contact with both its own original culture and the dominant culture.

The choice of each form depends partly on the non-dominant group's relationship to both its own cultural identity and to the dominant group, and partly on whether the dominant group tolerates cultural variation (multicultural), or not (unicultural).

Are the acquisitions successful?

There are different ways to measure success of acquisitions. One way is to look into financial results such as profits and increased shareholders' values. A softer way to measure the success is to ask if acquisitions have met the expectations of managers and if the parties can work happily together. In our study, we look more into managers' perceptions of the acquisitions.

All managers that we interviewed have confirmed that the acquisitions have been a success. Bakkavör Group is reaching synergies by closing down export departments and letting daughter companies handle exports on local markets. GoPro Landsteinar Group now has a bigger and stronger network of companies. Össur Nordic has reached better sales and that is purely a result of the integration of Pi Medical and Karlsson & Bergström.²³

²³ Meyer, 12 September 2001

All the Icelandic companies have been successful in their business. Össur hf and Bakkavör group reported a profit from operations for the year 2000.²⁴ The Icelandic stock market has been turbulent from the spring of 2000, but these companies have shown good and stable results and outperformed the general index.²⁵ Landsteinar was 16th on the list of 500 Europe's fastest growing companies for the year 2000. Bakkavör and Össur were on this list as well. All these companies have been awarded with the Icelandic Export Prize that the president gives each year for outstanding export achievements. Össur got the price in 1993, Bakkavör in 2000 and Landsteinar in 2001.

Research in M&A suggests that an M&A often does not generate the expected outcomes (Olie 1994). All three acquisitions in our case are successful. Thus we want to know what is the 'secret' behind that. How did the Icelandic companies handle the integration process, which is often claimed as problematic caused by "culture clash"? When asked this question, all managers answered that there is no such problem because the acquired companies are left operating independently. This seems to be common sense. When two companies work independently with minimal cultural exchange, of course there will be few cultural related problems. Is this (to let acquired company work independently) their 'secret weapon'? Is it the ideal way to handle cultural related problems? One point attracts our attention. All three acquirers, though from totally different industries, chose the same way to handle their acquired companies. Is it a coincidence? What is the driving force behind this choice?

²⁴ Landsteinar is not yet listed on the Icelandic stock market.

²⁵ Financial report of Bakkavör Group 2000 and information on Internet

Stop 1

Why work independently?

Curious to know why all three acquirers chose to allow acquired companies to work independently, we asked top managers the driving force behind this choice. We got almost the same answer. All three acquirers want to locate themselves on the Swedish market. The critical asset for the acquirers is the knowledge of the local market and the relationship with local customers, which are embedded in the employees in the acquired companies. Thus, the acquirers tried to keep employees and allow the acquired companies keep their ways of doing business. Thus we can say that it is the acquirers' acquisition strategies that determine the way in which they structure their acquisition. To get a deeper understanding, it is necessary to look at the possible M&A strategies and how those strategies determine the structure/type of the M&A.

M&A Strategies

According to Joseph L. Bower (2001), there are five major M&A strategies: the overcapacity M&A; the geographic roll-up M&A; the product or market extension M&A; the M&A as R&D; and the industry convergence M&A.

The overcapacity M&A

A great many M&A occur in industries that have substantial overcapacity. These tend to be older, capital-intensive sectors, which include automotives,

steel, and petrochemicals. Overcapacity M&A aim at reducing capacity and duplication. This occurs when the giants must be trimmed down to fit shrinking world markets. The purpose is to get a greater market share, more efficient operations and better managers through closing less competitive facilities, eliminating the less effective managers and rationalizing the administrative processes. The industry as a whole, thus, has less excess capacity.

The geographic roll-up M&A

A company expands geographically by rolling up other companies in adjacent territories, which exist for a long time as local companies. Roll-up is designed to achieve economics of scale and scope and is associated with the building of industry giants. Being acquired by a larger company can help a smaller company solve a broad range of problems, such as access to capital, national marketing, modern technology; and competitive threats from larger rivals. For the acquirer, the deal solves problems of geographic entry and local management. Examples of this, are large accounting firms, super-regional banks and many hotel chains.

The market extension M&A

Increasingly, firms are acquiring already established firms as the fastest way to enter a new market. Sometimes it is similar to geographic roll-ups, but it involves a bigger stretch-into a different country, not just into an adjacent city or a state. In addition to being a fast way to acquire a position in a particular market, it is a way to gain entry without adding additional capacity to a market that already may have excess capacity. To protect, maintain, defend, or grow a market position, companies may find it necessary to acquire instead of starting from "ground zero." Through acquisition, companies can buy an existing brand

name, distribution, and customer relationships in a market that is important. This may be particularly important in mature markets. It may make much more sense in a mature market with established brands names to acquire a brand name and the company behind it, instead of trying to grow a new brand name in a market where customer loyalty is hard to change.

The M&A as R&D

Acquisition made under this strategy is a substitute for in-house R&D. Companies use acquisitions instead of R&D to build a market position quickly in response to shortening product life cycles and catch the market opportunities. As John Chambers, Cisco's president and CEO, says, "If you don't have the resources to develop a component or product within six months, you must buy what you need or miss the opportunity." From the target company's point of view, an acquisition is often desirable, since it takes a massive amount of money to build a sustainable company in technical markets, and potential acquirers can easily crush you if you compete with them directly.

The industry convergence M&A

The first four categories involve changing the relationships among a particular industry's players. This final one involves a radically different kind of reconfiguration. It entails inventing an industry and a business model based on an unproven hypothesis: "that major synergies can be achieved by culling resources from existing industries whose boundaries seem to be disappearing. The challenge to management is even bigger than in the other categories. Success depends not only on how well you buy and integrate but also, and more importantly, on how smart your bet about industry boundaries is."(Bower 2001:100)

M&A strategies of Icelandic companies

When looking at the case companies, we find out that market extension or geographic roll-up are the descriptions that fit best the reality. The potential in the Icelandic market is very limited since the population of Iceland is only 270.000 people. Entering new geographical markets is, thus, a logical move. Lets discuss the acquisition strategies of the Icelandic companies.

Bakkavör Group bought up Lysekils Havsdelikatesser that had earlier been buying raw material from them. Lysekils Havsdelikatesser was three times bigger and that story repeated itself when Bakkavör bought KFF in November 2001, which was almost ten times bigger. By working in a group, the companies became stronger and that has meant that it is less troublesome for them to attract capital from investors and so on. Becoming a member of a big company means less competitive threats from rivals. Bakkavör keeps Lysekils Havsdelikatessers brand names and guarantees sale of raw material to them. Most important, however, is the fact that the companies use each other's distribution channels to export and reach synergies through cooperation. Bakkavör's acquisition strategy is, to our understanding, some kind of mix of market extension and geographical roll-up.

Most of all Össur was buying Pi Medical's and Karlson & Bergström's close relationship to costumers and knowledge of the Swedish market. The industry for prosthetics does not consist of so many customers.²⁶ The products are complicated and solutions need to be adjusted to customers need. This requires an intensive relationship with customers, which is difficult to build from

²⁶ Meyer, 12 September 2001

scratch. It can also be argued that Össur is guarantying its sales on the Swedish market since Pi Medical and Karlson and Bergström were earlier distributors. Össur gets the products that Pi Medical produce and control over the distribution channels. We conclude that this is a market extension.

Landsteinar's buy-up of QD Utveking is an example of market extension. It had to gain fast entry into the Swedish market and get skilled people to sell their Navison solutions. The most important thing for Landsteinar was to acquire the knowledge and skills of the local people to deal with their local market.²⁷

How M&A strategy determine structure/type of M&A

When a definite set of strategic goals has been defined for a particular acquisition, these lead in mechanical way to a certain formal structure of the integration (Forstmann 1998). Olie's (1990) model describes four alternative structures/types of M&A.

According to Olie, the choice of structure/type of M&A is determined by two factors. One is *the degree of integration between the two organizations*. The degree of integration ranges from weak to strong. In the case of financial integration, in which only financial systems and reporting relations may be modified, the degree of operational integration is low, thus problems in the post-combination integration process tend to be minimal. Operational integration requires significant changes and a high degree of integration;

²⁷ Kristinsson, 10 October 2001

therefore, it is more difficult to handle the integration process. The second factor is *the kind of cultural exchange*. Olie argue that it varies from cooperation to domination depending on the extent to which the two parties adapt to each other’s culture. Combining these two factors, four main types of M&A can be distinguished.

		Integration:	
		Low	High
cooperation		Portfolio	Merger
	domination	Redesign	Absorption

Figure 1 Different structure/types of M&A

Source: Olie (1990)

Portfolio is characterized by low degree of integration. The acquired firm maintains its corporate identity, personnel changes are minimal, and limited control is exerted by the acquirer. Culture related problems, therefore, tend to be minimal. “This type of acquisition is mostly found in unrelated/conglomerate acquisitions, but this does not mean that this type is non-existent in related acquisitions.” (Lohrum 1996:28-29) *Merger* is characterized as high requirement of operation integration. Since two partners involved have more or less equal strength, the dominant position of neither partner is accepted. Therefore, cooperation is the most feasible choice. *Redesign* is characterized by a clear difference in power. In most cases the top and/or middle management of the acquired company are replaced. The acquirer exerts its influence and forces its way of managing upon the acquired company (Lohrum 1996). *Absorption* happens when operation integration is required

while the acquirer is in dominant position. The acquired company gives up its culture and way of doing things.

How the acquirer deals with the acquired company depends on why they bought them in the first place. As we discussed above, the driving force behind the Icelandic acquisitions is to enter Swedish market. The knowledge of the local market and the relationship with local customers is essential for the acquirers. In addition, Lysekils Havsdelikatesser, PI Medical and Karlsson & Bergström, as acquired companies, have been profitable and efficiently run before the acquisition. In such circumstances, it is reasonable to keep their own operation and culture untouched. Thus, the best relationship between the acquirers and the acquired companies is *portfolio*. The mother companies impose some financial objectives and targets, but the operations remain distinct and separate. The situation is a bit different for Landsteinar. They bought six companies that had to be merged in one. These companies had not performed so well but, after being restructured, they were left operating independently. The reason is that it was important for management of Landsteinar International to let the Swedish company develop a Swedish culture that fits the Swedish market.

Why portfolio is better than merger?

Portfolio is a more desirable alternative than *Merger* if we look at the size, power and structure of the Icelandic companies. Let us first look at the problems with *Merger*.

Lorum (1996:29) in her reflection on Olie's theory, says that "merger is seen as very difficult to implement because it involves two firms of more or less equal

power that have decided to unite their procedural and managerial functions. This means that the two firms are faced to change both corporate identity and organization culture, i.e. they actually have to develop a third culture”. Olie (1994) claims that there are even more obstacles in international mergers. The reasons for these additional obstacles are the lack of single frame of reference and a lack of fit between companies caused by dissimilar national institutional contexts. A single frame of reference can, on the one hand, serve as a coordination mechanism telling people how it is best to act and behave in the most efficient way. Contrasting national institutional contexts is, on the other hand, determined by factors such as different legal systems, management education and industrial relations.

We could ask us how much sense it would make to merge the Icelandic company A and the Swedish company B. Their operations would have to be the integrated. The top management of Icelandic company and the Swedish company make a deal that the product development would be moved to Iceland since there are better facilities there and it is easier to get resources. Production would, on the other hand, moved to Sweden because B has put up new high-tech production line. Employees would be moved around departments and restructuring would be done. It is, however, difficult to see how this could work out smoothly. Cultural related problems would be raised to maximum.

We identified two types of portfolio in the Icelandic – Swedish acquisitions, which can help us see how synergies are achieved. The first one focuses on establishing similar firms and offering identical products on different markets (Landsteinar is an example of this type of portfolio):

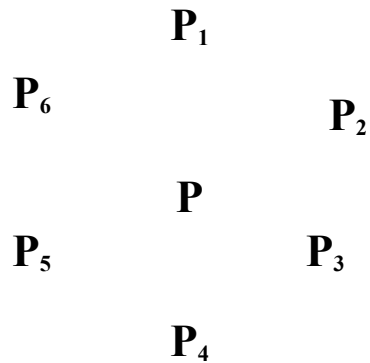


Figure 2: P is the mother company that buys up companies P1 to P6 on different markets to offer identical products. Synergies happen when P1 can go to P4 and get knowledge and experience that can be transferred directly to the P1's local market.

Synergies are reached when an employee in P1 can get assistance from P4, which has already worked out a solution on its local market. This kind of knowledge can be transferred throughout the company. For example, if P1 in Sweden wants to put up a solution for a video outlet then it can get assistance from P6 in the group, who did the exactly same thing in the UK. This means that this is not a pure portfolio, such as when Volvo bought up food companies in unrelated businesses to spread risk during the seventies.

The second type of portfolio is identified when acquirer A buys up firms that produce different products in a related industry. All the companies are working on different markets. Synergy is created when A can let B distribute products for E on its local market (Bakkavör is an example of this type of portfolio).

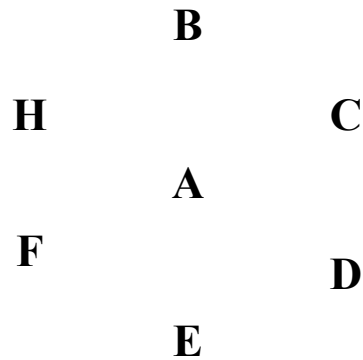


Figure 3: A is the mother company that buys up companies B to H on different markets. All the companies have different product mix but help each other with exporst.

The portfolio model has been more attractive to Icelandic companies rather than the merger model. Portfolio reduces the risk of cultural related problems. It is an alternative that allows companies to cooperate and, at the same time, it does not require dominant behavior from the acquirers, which companies of small size are less able and willing to exercise.

Above, we discuss how M&A strategies determine the type of M&A. So far, we have only discussed this from the acquirer's stance, the acquirers' M&A strategy and their preferred type of M&A. To achieve the acquirer's expectations, it is also important to get cooperation from the acquired company. The integration process can be full of resistance if the acquired company does not agree on the cultural relationship that the acquirer expects. It is, thus, necessary to know which factors influence the choice of preferred type of

cultural relationship for both the acquirer and acquired company. Nahavandi and Malekzadeh's model, which is built on the basis of Berry's conceptual system, sheds a light on this problem.

Stop 2

Preferred type of acculturation

In Nahavandi and Malekzadeh's (1988) model, the acquired company's choice of acculturation mode depends on the extent to which members are satisfied with their own culture and their evaluation of the attractiveness of the acquirer. (See Figure 4)

		How much do members of the acquired firm value preservation of their own culture?	
		Very much	Not at all
Perception of the attractiveness of the acquirer	Very Attractive	Integration	Assimilation
	Not at all attractive	Separation	Deculturation

Figure 4: Acquired firm's preferred modes of acculturation

Source: Malekzadeh and Nahavandi (1988:83)

As the model shows, *integration* is the preferred mode when the employees of the acquired firm want to preserve their culture while at the same time perceive the acquirer as attractive. *Assimilation* is preferred when employees in an acquired company do not value their own culture but regard the acquirer's culture as attractive. When the acquirer is not seen as attractive at the same time as there is a strong desire to preserve the acquired company's own culture, *separation* is the preferred mode. When employees in an acquired company

value neither their own nor the acquirer's culture, *deculturation* is the expected outcome.

When applying this model to the Icelandic-Swedish acquisitions, an interesting contrast occurs. Lysekils Havsdelikatesser, Pi Medical and Karlsson & Bergström obviously value their own cultures and see the acquirers as very attractive. According to the model, *integration* should be their preferred mode of acculturation, but in fact *separation* is espoused instead.

We, therefore, ask ourselves why separation is the chosen option? We believe that when an acquired company values its own culture and perceives an acquirer as attractive, integration is not necessarily the only choice. Separation can also be an alternative choice when the acquired company is allowed to operate independently. This means that we cannot discuss an acquired company's preferred cultural relationship without taking into consideration of acquirer's M&A strategy.

From an acquirer's point of view, the choice of the mode of acculturation depends on the "degree to which the firm is multicultural" and their "diversification strategy regarding the degree of relatedness of the acquired firms" (see Figure 5)

		Culture:	
		Degree of Multiculturalism	
		Multicultural	Unicultural
Diversification strategy: Degree of relatedness of firms	Related	Integration	Assimilation
	Unrelated	Separation	Deculturation

Figure 5: Acquiring firm's preferred modes of acculturation

Source: Malekzadeh and Nahavandi (1988:83)

When the acquirer is multicultural and the merger is with a related company, *integration* will be the most likely mode. When the acquirer is unicultural and the merger is with a related company, *assimilation* will be preferred. When the acquirer is multicultural and the merger is with an unrelated company, *separation* will be preferred. In this case, the acquired firm will function as a separate unit under the financial umbrella of the parent company and there is minimal cultural exchange between the two groups, which function independently. When the acquirer is unicultural and the merger is with an unrelated company, *deculturation* will be the most likely mode.

Another contrast occurs when applying this model to Icelandic-Swedish acquisitions. All the companies are in related businesses. According to this model, the acquirer's preferred mode of acculturation should be either integration or assimilation. As discussed above, the fact is that the acquirers leave the Swedish acquired companies to operate independently on their local market. Little cultural exchange takes place, which means that separation is preferred mode of acculturation.

We believe that this contrast is caused by oversimplification. Malekzadeh and Nahavandi only discuss companies' diversification strategies in M&A. Just taking the diversification strategy into consideration cannot help us understand the Icelandic-Swedish acquisitions. We think it is possible for an acquirer to choose separation even when firms are in a related business. Icelandic acquisitions in Sweden are good examples. Although both acquirers and acquired companies are in related business, acquirers prefer minimal integration with acquired companies due to their market extension strategies. We therefore argue that when discussing the acquirer and acquired company's preferred mode of acculturation, the driving force behind the acquisition should be taken into consideration.

Another weakness is that Barry's modes of acculturation, which are used in Malekzadeh and Nahavandi's model, are too extreme. Such 'ideal' modes of acculturation can hardly be found in reality. We, therefore, believe that it would be more appropriate and useful to regard the modes as not being mutually exclusive, but rather ranging on a continuum in terms of the degree of the integration. (See Figure 6)

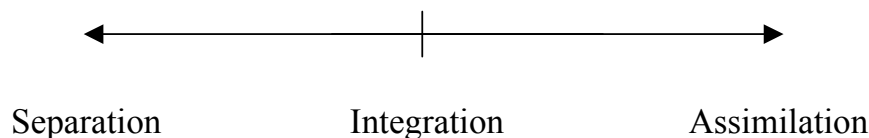


Figure 6: Scale of acculturation.

This scale helps us understand that there is neither total separation nor total assimilation. Even though separation is the preferred mode of acculturation certain extent of integration can take place. The first argument is when

managers from the acquirer and acquired side work together at a strategic level. That requires a high level of integration even though the operation is kept separated. An example from our case is Bakkavör's management meetings. Both managers from the acquired and acquirer's side join these meetings that are becoming famous for their good spirit and joyful atmosphere. The second argument is when companies work on knowledge transfer. An example is when employees in Landsetinar Swenska get help with certain tasks that they do not have experience in from employees from Landsteinar in Jersey. A certain level of integration is required between the employees, even though the companies work separately on their markets.

However, we think that Malekzadeh and Nahavandi's concept of congruence is very important. Congruence means that even if two organizations have considerably different cultures, as long as they agree on the preferred mode of acculturation, less acculturative stress and organizational resistance will result. This happened in the Icelandic-Swedish acquisitions that we examined. Both the acquirer and the acquired companies are happy with the cultural relationship they have. Separation is the mode of acculturation on which both parties agreed. This can explain the rather painless combination of companies that the managers reported.

It is time for us to answer our initial questions: Is the strategy of letting the acquired company work independently on their home market the secret weapon in the successful acquisitions of the Icelandic companies in Sweden? Is this the ideal way to handle cultural related problems in general? We will answer these questions by mapping what we have discovered at Stop 1 (why chose work independently) and Stop 2 (preferred mode of acculturation).

Stop 3

Mapping success

We start by answering the second question, “Is this the ideal way to handle cultural related problems in general?” We do not think that to let an acquired company work independently (that is the characteristic of portfolio) is ideal way to handle cultural related problems in all M&A. As we discussed in Stop 1, the structure/type of M&A is determined by the acquirer’s M&A strategy. *Portfolio* can, on the one hand, be suitable for the market extension strategy as in the case of the Icelandic and Swedish acquisition discussed above. *Merger* or *absorption* can, on the other hand, be suitable for overcapacity M&A. However, the fit between an acquirer’s given strategy and the structure/type of M&A does not necessarily lead to a successful M&A. The acquirer and acquired company must also agree on the mode of acculturation that is suitable for the M&A structure and strategy (as we discussed at Stop 2). This means that a successful M&A requires a fit between the M&A strategies, the structure/type of M&A and the agreement on the mode of acculturation (see Figure 7.)

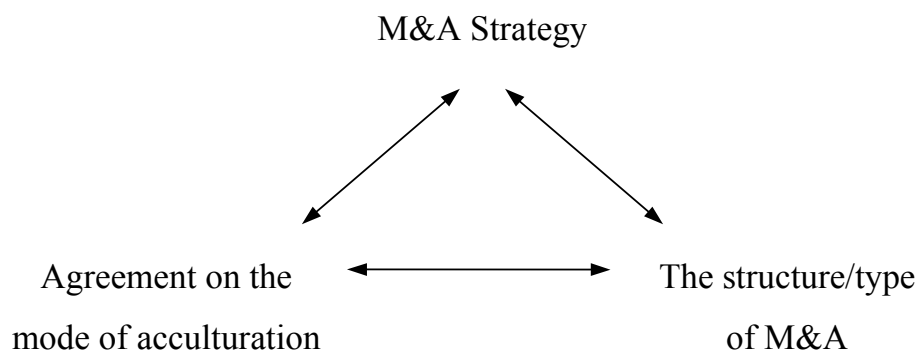


Figure 7: The fit between M&A strategy, structure/type of M&A and agreement on mode of acculturation.

To apply this model to the case of Icelandic acquisition in Sweden, it is easy for us to get clear picture of the reason behind the success of all three acquisitions. As Figure 8 shows, the strategy of all three Icelandic acquirers is to expand on to the Swedish Market. The type of acquisitions that all three acquirers chose is portfolio, which fits their Market Extension strategy. Acquirers are, thus, willing to allow the acquired companies to maintain their own culture and operate independently. The acquired companies also espouse separation. Both parties are happy with this type of cultural relationship. The success of all three acquisitions, in our case is not simply the result of acquirers' choice of Portfolio, but the fit between acquirers M&A strategy (market extension), the structure/type of acquisitions they choose (portfolio), and the acquired company's agreement on the mode of acculturation (separation). Our answer to the first question, "is the acquirer's strategies of letting the acquired companies working independently the secrete weapon of successful acquisition" is therefore no.

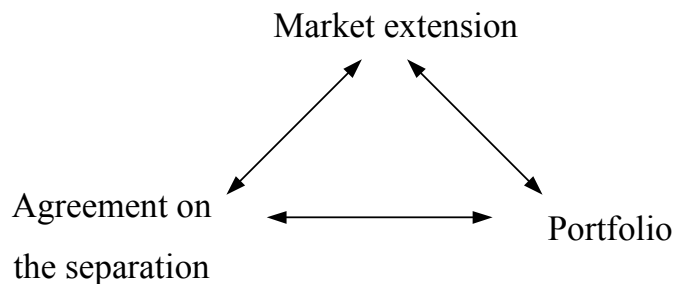


Figure 8: The fit between M&A strategy, structure/type of M&A and agreement on mode of acculturation in the case

Although all three acquisitions are perceived as successful by the top managers, the process ran smoother in the acquisitions made by Össur and Bakkavör Group than Landsteinar International. Are there any other factors that affect the integration process? What are they? How do they affect the integration process?

One of the differences between three acquirers caught our attention. Both Össur, Bakkavör Group had previous work experience with their acquired companies. Karlsson & Bergström and Pi Medical were distributors of Össur. Bakkavör in Iceland was the raw material supplier for Lysekils Havsdelikatesser. Landsteinar International did not have any previous interactions with the company/companies they acquired before the buy-up. Thus we ask ourselves “Is a previous relationship with acquired company a positive factor for an effective integration process?”

We tried to find theories that describe how a previous relationship between acquirer and acquired company affects the integration process, but we did not find any ready-made theories. There are some researchers for instant Cartwright and Cooper (1993) that recommend companies to have interaction with their potential acquired companies before doing a M&A. However, such a suggestion is sort of common sense without theoretical back up. We, therefore, decided to explore this field.

Three theories are going to be used in this part. They are about cultural fit (Cartwright and Cooper 1993, 1996), cultural awareness (Larsson 1998) and communication (Watzlawick 1968). We first address the cultural compatibility theory. Then we discuss how a previous relationship between the two parties in a M&A affects the analysis of cultural fit and, thus, how previous relationship

affects the integration process. Finally, we apply it on our case. The same structure will be followed in the other two theories.

Stop 4

Is a previous relationship a positive factor for an effective integration process?

Marriage as a metaphor is going to be used throughout this section. This metaphor helps draw our attention to the inter-relationship between two parties, especially in terms of their mentality.

Previous relationship and cultural fit analysis

Marriage terms and potential challenge

In civil marriage, when two people with different personalities come together, their different habits, different tastes and different ways of doing things interact. Cartwright and Cooper (1993) see culture as being as fundamental to an organization as personality is to the individual. In context of M&A, it implies how a cultural dynamic occurs when two previously independent parties with unique cultures come together. Cartwright and Cooper classify marriage terms in M&A into three types in terms of the extent to which the cultures are integrated. They are open marriage, traditional marriage and collaborative marriage.

- Open marriage: The essence of the open marriage is non-interference. The different personalities of husband and wife are accepted and respected by each other. Neither of them tries to impose his/her way on the other. Both husband and wife keep their personalities as they were before the marriage. In M&A, an acquirer only has control over the

‘household budget’ by integrating reporting systems and procedures. There is little managerial or wider scale cultural integration imposed on the acquired company, whereby the acquired company is left operating independently and maintaining its existing culture.

- Traditional marriage: The essence of the traditional marriage is radical and wide-scale change. In this type of marriage, either the husband or wife has to give up her/his way of doing things and adapt to the other. In M&A, the acquired company totally adopts the practices, procedures, philosophy and culture of the acquirer.

- Collaborative marriage: The essence of the collaborative marriage is shared learning. The husband and wife respect each other’s personality and see the differences of personalities as complements instead of conflicts. It is believed that both husband and wife can improve through learning from each other. In M&A a partners’ equality is recognized. Differences between corporate cultures are seen as potentially adding value to the partnership. The integration of operations or exchange of technology or expertise is regarded as mutual benefit. The “best of both worlds” culture is created.

Due to the different degree of integration that each marriage term requires, the challenge of managing the M&A varies. Given the non-interference characteristic of an *open marriage*, few problems in the integration process are expected. However, an open marriage can start to falter if financial results decline, or the existing management changes. The acquirer, thus, begins to lose trust and confidence in the acquired company. It is likely that the acquirer decides either to sell the acquired company or to revert to a more traditional form of relationship. The success of the *traditional marriage* depends upon the

willingness of the acquired company to adopt acquirer's culture. Difficulties increase when the acquired company, which is expected to conform, resists or seeks to renegotiate the marriage terms. When this happens, the acquirer usually responds with a 'heavy hand', and starts to fire people. The potential problem of *collaborative marriage* is that the acquired company rarely recognizes this marriage term. The employees in the acquired companies assume and respond as if it is of a traditional type. Successful integration then depends upon the ability and speed with which senior managers act to diffuse any feelings of threat, which exist between the two merging workforces, and move to facilitate meaningful cooperation between the two. (Cartwright and Cooper 1996)

Cartwright and Cooper (1996) claim that successful organizational marriages are not 'made in heaven' or purely a matter of chance, but are the outcome of the cultural dynamics of the combination. Therefore, the outcome of the 'marriage' is potentially predictable.

Cultural compatibility

In spite of the strategic fit and financial fit, which are often outweighed in selecting a suitable target company, Cartwright and Cooper (1996) stress the importance of taking cultural compatibility into consideration. They argue that the likelihood of a successful 'marriage' can be increased by choosing a compatible partner. The cultural type of both parties plays a crucial role. They adopt the classification of corporation culture proposed by Roger Harrison (1972): power oriented, role oriented, task oriented and person-oriented culture.

- **Power culture:** A power-oriented organization attempts to dominate its environment and defeat all opposition. It is unwilling to be subject to any

external law or power. It has voracious appetites for growth. Within the organization, those who are powerful strive to maintain absolute control over subordinates.

- **Role culture:** a bureaucracy, where logic, rationality and efficiency have the place of pride. Functions are important rather than people. The division of labor is highly specialized. There are many rules and clear limits for work areas and authority. The hierarchy is formalized and clear to all.
- **Task culture:** the achievement of the super-ordinate goal is of the highest value. The organization's structure, functions, and activities are all meant to contribute to the super-ordinate goal. Authority is considered legitimate only if it is based on appropriate knowledge and competence. There is little hesitation to break rules and regulations if task accomplishment requires that. Emphasis is placed on rapid, flexible organizational response to changed conditions.
- **Person culture:** the organization is egalitarian and the structure is minimal. The growth and development of the individual is regarded as the most important factor. Decisions are made collectively and all information is shared. Person cultures are often non-profit organizations.

Cartwright and Cooper (1993) argue that some corporate cultures are more compatible than others. However being compatible does not necessarily mean being alike. As in civil marriage, the marriage between individuals with similar personalities can turn out to be a failure while a marriage can work between individuals with very different but complementary personalities. They admit that these four corporate culture types are pure or 'ideal' types, which are not

likely to be found in practice. It is, therefore, more appropriate and useful to regard the types as not being mutually exclusive, but rather ranging on a continuum in terms of the degree of constraint they place on individuals. The individual constraints are supposed to be the highest in power culture and the lowest in person culture. (See Figure 9)

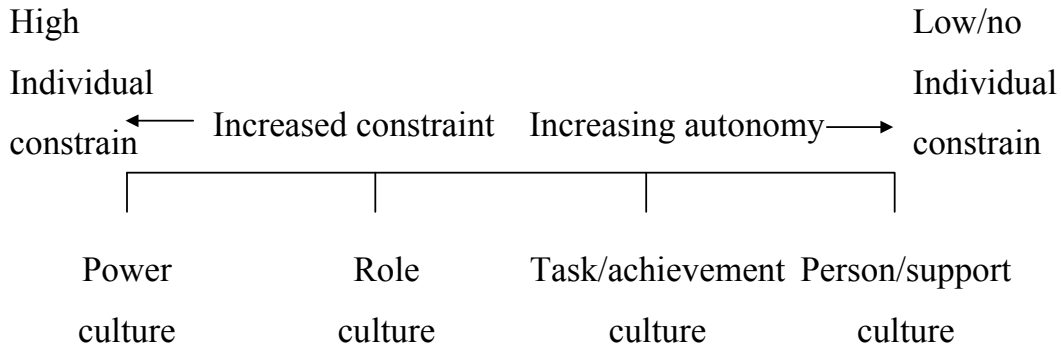


Figure 9: The relationship between cultural types in terms of the degree of restraint they places on individuals

Source: Cartwright and Cooper (1996)

In the traditional marriage, the acquired company is expected to adapt the acquirer's culture. Thus the important thing in a traditional marriage is not the difference between the cultures, but the question of the direction in which personal freedom is affected. If the employees experience their freedom being increased, things will go well (e.g. power culture is acquired by task culture). Conversely, a reduction in the freedom of the individual creates problems (e.g. person culture is acquired by role culture). Cultural similarity is not a prerequisite to the success of traditional marriage. All collaborative marriages are potentially problematic because integration requires compromise. It is, therefore, important to the success of collaborative marriage that the partners, if

not exactly matched in culture type, are of adjacent types (e.g. 'role' with 'task').

Questioning cultural analysis

Since the prediction of the cultural compatibility is determined by the corporate culture that each party has, the practical usefulness of Cartwright and Cooper's model depends on whether the culture classification they adopt can be used to characterize the companies involved in a sufficiently precise way. It is also necessary that the cultural analyses suggested can realistically be carried out before the merger or acquisition. (Søderberg 1998)

Cultural analysis can be conducted by investigating cultural manifestations such as dress code, formal, informal behaviors and the values. However, the reliability of such analysis is questionable. Taking our lived experience as an example, the judgment on a person by observing how he/she dresses, what kind of music and books he/she likes, how he/she behave in certain situation does give us certain impression about a person. A marriage built on such judgment causes 'shocks' when the person is not like what he/she looked like before the marriage. The reason for the shock is not because the person really changed but rather because the judgments are superficial.

The situation is even more complicated for companies in M&A. First, the necessary people-based data is hardly available at early stage of the transaction. The management will only allow an in-depth cultural fit analysis after the closing of the deal (Forstmann 1998). The insufficient data gathered and the hasty investigation conducted due to time pressures might mislead the understanding of acquired company's corporate culture. Second, the assumption that company has one corporate culture is unrealistic. Different

groups with different interests create sub-cultures that can be overlapping, nested or subdivided with each other (Martin 1992). Therefore, Cartwright and Cooper's theory of cultural compatibility based on unification perspective might lead to unilateral understanding of company's corporate culture, which could result in the choice of a "wrong partner". It, thus, raises the question of who has the competence to identify organizational cultures and make an analysis of them. (Søderberg 1998) Third, under the circumstance of M&A, only the importance of analyzing acquired company's culture is stressed. The acquired company is put in a passive situation. It is even more difficult for the acquired company to have a clear view of the acquirer's culture. The risk is that the acquired company would express 'wrong' reaction due to the 'wrong' understanding of acquirer's culture. This brings potential problems when integrating.

Previous relationship helps overcome the risks of cultural analysis

In civil life, people always like to have certain extent of interaction before getting married. For example, date each other or live together for some time. The understanding of each other's personality based on such interaction is more reliable when predicting if two persons can get along well or not after getting married. For example, when realizing that the girl is very independent and views her career as very important for her life, the boy who expects to have a housewife should either change his idea of marriage or look for another person.

It is the same in a marriage between two companies. The three risks of cultural analysis discussed above can be easily avoided when two parties in M&A have previous relationship. There is enough time for both parties to get to know each other and the understanding of each other's culture based on practical interaction is well-rounded and, thus, more reliable. Such understanding can

help predict the difficulties in the integration process of the acquisition. When the acquirer's strategy requires a traditional marriage in which the acquired company is expected to give up its' own culture, the acquirer can predict the acquired company's reaction based on its understanding of the acquired company. If previous experience shows that the acquired company has very strong leadership, it would be better for the acquirer to seek an alternative company, since the conflicts in the assimilation process could be very severe. When collaborative marriage is required, the acquirer can judge if the two parties' cultures can be complementary and if it is possible to create a 'third' culture. For an open marriage, in which the cultural interactions are minimal, the understanding established through previous interaction is also important. As we discussed before, once the acquired company cannot make a profit, the acquirer might not allow it to operate independently anymore. An acquirer can make different decisions according to its understanding of acquired company's culture. Selling the acquired company is a better choice when the acquired company's culture is very strong, and thus difficult to be integrated or assimilated. Conversely, an acquirer can revert to redesign or assimilation.

Case application

As we discussed above, all three acquisitions in our case can be seen as an open marriage, which are characterized by a low degree of integration in both operational and cultural levels. When applied to our case, it is easy to understand why the difficulties in handling acquisitions differ.

It is possible to say that Össur Iceland and Össur Nordic created a good relationship between each other through previous cooperation. They are familiar with each other's way of doing business. Both Pi Medical and Karlsson & Berström have been very successful before the acquisitions. Their

knowledge and close relationship with local customers are valued very much by Össur. There was no layoff of personnel when Pi Medical and Karlsson & Berström combined. Össur Iceland is also appreciated by Össur Nordic. The manager in Össur Nordic emphasized the cultural similarity between Iceland and Sweden. A lot of values are shared and the leadership styles are seen as being very alike. For instance, leaders trust people, encourage people to try, and tolerate the mistakes they make. The similar values are believed to be one of the most important factors for the effective combination of Össur and Pi Medical and Karlsson & Berström. Both parties accepted an 'open marriage' as the terms of marriage contract. Össur Nordic works very independently. The acquisition between Össur Iceland and Össur Nordic was painless. As a manager from Össur Nordic said, "I do not think it is a coincidence that you find a partner who has been working with you for 20 years and do it successfully."²⁸

There has been a lot of cooperation between Bakkavör Group and Lysekils Havsdelikatesser. Bakkavör is raw material supplier on Iceland and Lysekil processed these raw materials and distributes on Swedish market. A good relationship was established through their early working experience. Through the interaction, both parties have been aware of the cultural differences. Lysekil was founded almost 120 years earlier than Bakkavör. Lysekil has an 'old' culture in which stability and a down-to-earth attitude are appreciated. Bakkavör, with a 'young' culture, has more sense of risk-taking. Bakkavör Group accepts and respects such differences and sees Lysekils Havsdelikatesser's corporate culture as suitable for the Swedish market. Lysekil Havsdelikatesser also appreciates the leadership of Bakkavör and praises their ability to build up a good relationship between different companies in different countries. Both Bakkavör Group and Lysekil Havsdelikatesser

²⁸ Meyer, interview 12 September 2001

agree on an ‘open marriage’. Lysekil operates independently under Bakkavör’s financial umbrella and they cooperate with their export synergies. Managers in Bakkavör see a previous relationship with acquired companies as very important. As the management director of Bakkavör Group said, “We have, in all cases, been familiar with the companies that we have bought. We have never bought up companies that we have never heard about”.²⁹

Differ from the situation of Össur and Bakkavör Group who acquired their former distributors, Landsteinar International acquired six Swedish companies, which could have been potential competitors. They did not have any previous relationship with each other. Because of this, Landsteinar expected support from the investor from whom they bought the companies. Landsteinar put their trust in the investor but the result disappointed them. Landsteinar complained that they did not get any help from the investor. This is partly the reason that Landsteinar had more troubles during the acquisition.

Previous relationships and cultural awareness

Cultural awareness

Larsson and Risberg (1998) point out the potential importance not only of how culturally different the firms coming together may be, but also how aware they are of these differences. Larsson and Risberg conducted an in-depth case study of 62 M&A, of which 17 were cross-border combinations. The samples are divided into four groups: domestic M&A with similar corporate culture; domestic M&A with different corporate culture; cross-border M&A with

²⁹ Guðmundsson, interview 12 September 2001

similar corporate culture and cross-border M&A with different corporate culture. These four sub-samples were compared in terms of their achieved level of acculturation, employee resistance and synergy realization.

The reasonable expectation is that it is more difficult for a cross-border M&A than a domestic M&A to achieve productive acculturation and realize synergy, since cross-border M&A are cross-cultural, not only at the organizational level but also at the national level. Such dual-level cultural difference constitutes additional barriers for the achievements. (Larsson and Risberg 1998)

The findings of Larsson and Risberg's study contrast to the expectations above. They found that cross-border M&A with different corporate cultures had the higher level of acculturation than the other three sub-samples. Both domestic and cross-border M&A with different corporate cultures encountered higher employee resistance than combinations with similar corporate cultures. Still, cross-border M&A had lower employee resistance than domestic M&A with different corporate culture. Also cross-border M&A with different corporate cultures had higher synergy realization than domestic M&A.

Larsson and Risberg (1998) argue that the possible explanation for these counter-intuitive findings is the different level of attention paid on cultural awareness between cross-border M&A and domestic M&A. It is possible that parties involved in cross-cultural interaction at the national level are more aware of potentially impeding cultural differences. Domestic M&A may neglect corporate culture differences because of the apparent "surface" similarities entailed by being part of the same society. Such a lack of cultural awareness increases the risk of taking mutual understanding and other cultural issues for granted. More obvious cultural differences at the national level prompt a greater cultural awareness and sensitivity, and thus greater efforts to

bring about acculturation. This is supported by additional data in Larsson and Risberg's study on socialization efforts. Notably higher efforts are put into social activities such as introduction programs, training, and joint "get-together" in cross-border M&A than in domestic M&A. Those additional socialization efforts also contribute to the reduction of employee resistance and more synergy potentials are realized through these efforts.

Larsson and Risberg's study draws our attention to cultural awareness. As long as acquirers are aware of the differences and put enough attention and efforts into smoothing out the combination, cultural differences are not necessarily the direct threat to effective integration process.

Previous relationship increase cultural awareness

Larsson and Risberg's study stresses the importance of being aware of cultural differences in advance in order to be ready to handle the difficulties of the integration process. It is easy to understand if we take civil marriage as an example. When two people only see the similarities between them (for instance both are crazy about the same band and fond of outdoor activities); once the unexpected differences arise after getting married, they might experience 'shock' or even feel cheated. Due to the lack of preparation for handling conflicts, their reactions might be 'unhealthy', such as blaming each other. For people who have been aware of their differences before the marriage, when conflicts occur in the marriage, they are ready to face them and handle them. They, therefore, can sit down and try to solve the problems by constructive communication.

Companies might neglect the differences between cultures because of some superficial similarities, such as working in the same business, coming from same country or having similar organizational structures and technology. When combining two companies, the dissimilarities beneath the surface arise. It will be more difficult and time-consuming if there is a lack of preparation for dealing with them. Being aware of the differences, more efforts might be exerted. This is also supported by Söderberg's (1998) study. She found that the employees in a company that was first acquired by an English and then by a Korean company experienced cooperation with English managers and employees to be much more difficult than cooperation with the Koreans. She said that one possible explanation could be that greater efforts are made to be able to communicate with people belonging to a culture that is felt to be 'distant', which is why there is also greater tolerance for the difficulties that can arise in such intercultural communication processes. In cooperation with a company that is perceived as "close", there may be a tendency to expect communication without friction and effort. Minor cultural differences are disregarded, which may cause unexpected difficulties in communication and cooperation.

Obviously, a previous relationship can help increase such cultural awareness. Take the marriage example again. When the couple has been living together for some time before the marriage, they have already been aware of the differences between each other. It is reasonable to expect that the conflicts might become even more severe in marriage due to the closer and more frequent interactions. With such a realization, if they still decide to get married, it means they are ready to face the potential difficulties and tolerate the differences between each other.

The expectation of being similar or different is a not problem for companies that have had previous interactions. Such expectation can only exist when companies do not know each other well. Through practical interaction such expectations have been either supported or rejected. Companies know how they differ from each other. Both parties, therefore, realize the importance of managing cultural related issues properly. They are willing to put more effort into the integration process; for instance, organizing more social events, creating project teams, appointing integrators to facilitate the communication between two parties, and so on. Their previous experience in dealing with cultural difference is very valuable.

Case application

In our case the problems due to the lack of cultural awareness can be seen clearly in Landsteinar's acquisition.

Landsteinar International had a great deal of experience with domestic acquisitions in Iceland. Landsteiner assumed that they could gain help from those previous experiences when making acquisitions abroad. However, this was not the case. Cultural differences between Iceland and Sweden are blamed for the difficulties in acquisition in Sweden. One manager, who has been very much involved in the acquisition, admits, "We do not understand them (Swedes) very well. And, therefore, we have not discovered what the mystery of doing business with the Swedes is. It is something that we still have not learned."³⁰

³⁰ Kristinsson, interview 10 October 2001

Another thing expressed by Landsteinar is that they learned too late about the Swedish labor laws. Landsteinar suffered a lot when they laid off employees. The manager expressed great surprise at the labor laws in Sweden, which from his point of view, made the process of layoff very complicated. The process was even more complicated because Lansteiner Swenska was combined from six Swedish companies. It took Landsteinar International much more time than they planned to reorganize Landsteinar Swenska, make things more efficient and get a control of the business.

Landsteinar claims that all the difficulties have been overcome now and the acquisition is viewed as successful. We believe that it is 'open marriage' that compensates for the problematic integration process. It is reasonable to assume that if the term of marriage was 'traditional marriage' or 'collaborative marriage', Landsteinar could suffer more because of the lack of awareness of Swedish culture.

Previous relationship and Communication

Communication and its context

Communication is one important method that facilitates the integration process by reducing employees' tension, strain and discontents (Buono 1989). However, the importance of communication is always stressed without taking into consideration the context in which the communication is held. Watzlawuick's communication theory sheds light on the relationship between communication and the context from identity creation perspective.

“People, as well as organizations, are constantly trying to establish some meaning in the world they live in. This emphasizes that not only

do we, together with others, create the world around us; we create ourselves in a public effort with others. Our identity is therefore not a question of what we are, but of what we become as we try to make sense of the world in general, and of the particular situation at hand.” (Kleppstø 1998:150)

Social identity is a question of membership and exclusion, demanding separation from some groups and linking with others. Individuals, as well as groups, need to be recognized by others. They constantly compare themselves with relevant others, thereby seeking recognition of identity. As long as recognition is received and the recognized identity is acceptable, nothing happens. In other cases, an intensified conversation takes place in order to ensure recognition of the desired identity. In a situation of crisis, turmoil and change, the applicability of previous understandings decreases and comes under debate, and the need for a (re)negotiation of meaning, identity, and relation increases. This is what happens in M&A integration. (Kleppstø 1998)

It is through communication in the broadest sense of the word that we develop and redevelop our relationships and identities (Watzlawick et al. 1967). According to Watzlawick, one of the principles that communication is based on is that all communication involves the simultaneous passing of messages at two levels. One is the content level, which conveys the information proper. The other is the relationship level, which is about negotiating the relationship between the actors involved. The later level contains information on the communication itself, and is therefore often called meta-communication. As Watzlawick et al. (1967:52) point out:

“to avoid any misunderstanding... we want to make it clear that relationships are only rarely defined deliberately or with full

awareness. In fact, it seems that the more spontaneous and ‘healthy’ a relationship, the more the relationship aspect of communication recedes into the background. Conversely, ‘sick’ relationships are characterized by a constant struggle about the nature of the relationship, with the content aspect of communication becoming less and less important.”

When two parties’ identities and relationships are established and accepted by both, meta-communication becomes less important. As the relationship aspect was not foregrounded, content-level communication is not distorted, and the misunderstandings were fewer. When identities and relationships are not established and accepted, the meta-communication is given much more weight. What people said and did was less important, what it implies about the relationship was more important. It seems as if most messages, no matter what the intention of the sender, are received as relationship messages. In this context it was easy to point to the cultural differences between parties. (Kleppstø1998)

If we take civil marriage as example, when husband and wife accept and respect each other’s personality communication between them is a constructive way of exchanging thoughts and ideas. The differences between husband and wife are seen as complements. The critiques from husband/wife are seen as frank advice, which helps the other to improve. When this situation is ‘sick’, the same critiques can be interpreted as a malevolent sarcasm, which in turn make the situation even more ‘sick’. In such a situation, different habits or personalities are not regarded as complementary anymore but the source of the conflicts. The differences also tend to be exaggerated and used as excuses to escalate the ‘war’.

In M&A, for example, the process of taking a decision on the name of the new company and the location of headquarters can be very different in different situations. In a 'healthy' situation, in which both parties' identities are identified and accepted, the decision largely depends on the consideration of marketing strategy and the need of convenience. However, in a 'sick' situation, in which identities of parties especially acquired party are not identified and accepted, the decision of which name to be used and which place is chosen become a fight for the equal status. Strategic needs or convenience becomes less important.

The practical consequence of this is that it is a very important task to establish a healthy relationship. Communication might eventually break down all together, and in severe cases, it can no longer be used to solve the problem, since communication itself is part of the problem. The differences existing between parties are not problems in and of themselves. In a 'sick' relationship, the fight for an acceptable identity and relationship increase the need to find differences and load these with values. Differences, thus, are used as arguments or material to create and legitimize identities especially when the process of identification does not run smoothly. (Kleppstø 1998)

Previous relationship helps establish a 'healthy' communication context

We argue that when companies have a previous working experience with each other before acquisition, it is easier for them to build such a 'healthy' relationship. When a husband and wife knew each other well before the marriage, each person's personality has been identified and appreciated. When conflicts occur and communication is needed, both the husband and wife can focus on the problem itself without thinking about 'the meaning behind the words'.

For companies who had a previous relationship, certain roles and identities of each party were clear and accepted by each other. Although in an acquisition new roles and identities are required, especially for acquired firm, it is easier for them to be recognized and accepted by both parties based on mutual understanding. The effort of communication, thus, can be put into the content level without being distorted. It is more difficult for companies who do not know each other before the acquisition to build such 'healthy' relationship after the acquisition has taken place. In an insecure and confused situation that M&A brings to them, people need to recreate their identities and it takes time for those identities to be accepted by other parties. In such circumstances, effective communication is hard to achieve because meta-level communication is given more weight.

Case application

When applied to our case, we notice a very interesting contrast between the acquisition made by Bakkavör Group and the one made by Landsteinar International.

There are many cultural differences and changes in the acquisition between Bakkavör Group and Lysekils Havsdelikatesser. Lysekils Havsdelikatesser is three times bigger than the acquirer Bakkavör. The corporate cultures are viewed as 'young' vs. 'old', and Lysekils Havsdelikatesser had to close down its export department after the acquisition. Those differences and changes could have been viewed as the source of conflicts, but in fact they are regarded as positive factors in this acquisition. The combination of 'young' and 'old' cultures is seen as a 'healthy mix' for both parties, and the decision of closing down the export department is regarded as necessary to realize the synergy of

the whole group. Being part of Bakkavör Group, Lysekils Havsdelikatesser now can produce products directly for the sister companies in different countries. Such a positive attitude towards the differences between the parties and the changes is generated from the good relationship and based on the mutual understanding built through their previous cooperation between each other.

In the interview with the management executive in GoPro Landsteinar Group, cultural differences between Iceland and Sweden were mentioned a lot with an obviously negative attitude and were blamed as the reason for the difficulties that occurred in the restructuring of the six acquired Swedish companies. One possible reason that can help explain Landsteinar's negative attitude, which apparently contrasts to Lysekil's positive attitude, is that this manager has had 'unhappy' working experience with Swedes before. Such an experience might affect his attitude when working with Swedes, which makes the context of communication 'sick'. In a 'sick' context, the communication tends to be more difficult to be handled properly. This might be a possible explanation of why the communication between Landsteinar and the investor went so badly. Landsteinar complained that the investor helped with nothing. This, in turn, made the 'sick' situation even worse. It is, thus, easy to understand why cultural difference is blamed as the source of conflicts and difficulties when working with Swedes.

So far, we examined 1) how a previous relationship between companies in M&A provides more reliable understanding of each other's culture than the understandings based on cultural analysis, whose reliability is quite questionable. With a good understanding of how different two companies are, the acquirer can react properly in order to decrease the difficulties in the integration process. 2) Mutual understanding through previous interaction also

decreases the 'shock' due to the 'wrong' expectations of the other's culture. Being aware of the differences between cultures, two parties can purposely put more effort into the integration process. 3) New identities and roles in M&A can be easily recognized and accepted in good relationship built on previous cooperation. The content of communication between two parties is less likely to be distorted, which facilitates the process of integration in M&A. We, thus, conclude that a previous relationship is a positive factor for an effective integration process.

Reflection on the journey

Cultural differences are very often blamed for being one of the major reasons for the failure in M&A. Through investigating the acquisitions between Iceland and Sweden we discovered that it is not necessarily true. Cultural differences are not of so much relevance in the case of the three companies studied. Cultural differences are managed by letting the subsidiary work independently on their local market and both parties accepted such a cultural relationship. Little cultural integration takes place at the operational level and cultural related problems are minimal. Other companies can, however, not copy the solutions that the Icelandic case companies have used to overcome cultural problems. Every company must think about their context. Companies must know first and foremost why they bought up the company, find out the structure/type of acquisitions that fit the M&A strategy, and reach an agreement on the mode of acculturation that a certain structure requires. If the acquired company does not agree on the mode of acculturation, the acquirer has to either have the ability to make it work or choose an alternative partner. Having a previous relationship with an acquired company is another factor behind the success of the Icelandic acquisitions in Sweden, which can be applied to other companies. This implies that establishing interactions with potential acquisitions before doing M&A, if possible, should be considered as a strategy to achieve successful M&A.

Appendix 1: Method

We gathered empirical materials from three sources: interviews, newspapers and the Internet.

The interviews were conducted in the time period from 10 September to 17 October. The interviews were made in the name of the Gothenburg Research Institute and a question guide from the INNOM study was used as a base for our interview questions. Doing the interviews in the name of Gothenburg Research Institute gave us a trustworthy and reliability image that made it much easier for us to get into the interviews. In general, we expected to get stories from critical incidences that would give us deep insight into cultural related issues but these stories were not always possible to obtain. We got, however, much more insight into the strategy and the structure of these acquisitions than we expected and this has been of great value.

To gain understanding of the background of the case companies a lot of secondary material was found in Swedish and Icelandic newspapers and business reviews. The reports in newspapers either gave us another view on events or supported our beliefs. The Internet was also extremely helpful for us. Historical facts and financial results are usually attainable from the companies' homepages. Interviews with the management directors and managers of the case companies were often to be found both on the Internet and in newspapers and that has been of great value, since we were not able to do as many interviews as we would have liked.

Appendix 2: Writing process

The process of writing this thesis has been hindered with obstacles that have been a challenge to overcome. We soon realized if we were going to reach our destination we had to split the work based on what we were skilled and interested in. Many practical reasons, such as long and expensive travels, language of the empirical materials and so on meant that it was logical for one team member to do most of the empirical work, while the other party would focus more on the theory. Separating the work like this has caused difficulties in combining the theory and the empirical materials but we have tried to overcome these difficulties by using tools such as leadership and brainstorming to facilitate the writing process. We have had one year of training in leadership and we tried as much as we could to reflect on our role, make it explicit who had the leadership role and when. We tried to show support when leadership was taken. When this did not work, we tried to brainstorm and find creative solutions to our problems. When neither leadership nor brainstorming worked we handed our thesis to our tutor or our program coordinator and got another perspective on our work.

Appendix 3: Delimitation

Exploration of cultural related issues in M&A is a very broad topic and there are many approaches to the study of it. Due to time limitations and other obstacles, we could not manage to get sufficient data to touch on issues such as ‘cultural clash’ or employees’ feelings and reactions in the integration process of acquisition. With the limited data we got from the interviews with top managers, we choose to stay on the management level and focus on how potential cultural related problems can be decreased by managing cultural differences to fit the company’s strategic objectives and how a previous relationship between acquirer and acquired company can be a supportive factor.

Appendix 4: Foreign investment of the Icelandic economy and foreign investment in Iceland from 1989 to 2000

Total foreign investment of the Icelandic economy grew rapidly from the year 1989 to 2000, while investment in Iceland has been comparatively much lower. Icelanders invest³¹ at average four times more abroad than foreigners are ready to invest in Iceland.

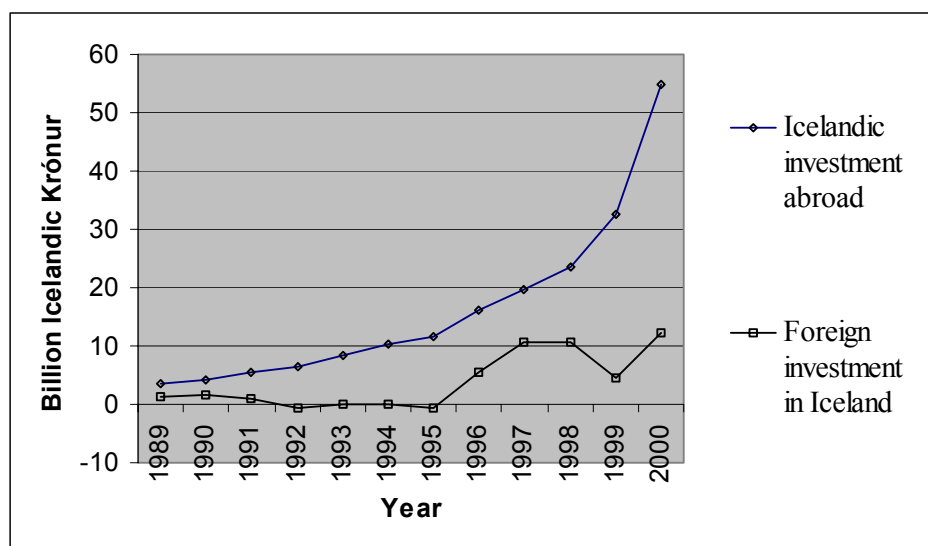


Figure 10: Total foreign investment of the Icelandic economy and total investment in Iceland.³²

Icelandic investment abroad increased 68% between the year 1999 and 2000 (the increase in foreign investment is usually on interval between 10% to 30% on the year 1989 to 1999). This 68% leap can be partly explained by double-

³¹ According to the information from Central Bank of Iceland

³² Source: Sedlabanki Íslands (Central Bank of Iceland)

increased investment to the USA (from 6.9 billion Krónur in 1999 to 13.0 billion Krónur in 2000). Included in this number is Össur's acquisition of Flex-foot, which is recorded as the fourth single biggest investment in the history of Iceland.³³ Investment to Luxemburg tripled between these years. It increased from 3.4 billion Krónur in 1999 to 10.8 billion Krónur in 2000.

Foreign investment in the Icelandic economy varied from even being -0.7 billion in 1992 to approximately 12.4 billion in 2000. Investment from Luxemburg was 70% of the total investment in Iceland in 2000 or 8.3 billion Krónur. It was more or less Icelandic holding companies operating in Luxemburg because of tax facilitation that invested in the Icelandic economy. This looks like a foreign investment in the reports from Central Bank of Iceland.³⁴ Icelandic companies also pay with shares in the mother companies when they acquire foreign companies. That influences the numbers for foreign investment in Iceland. The most recent example of this is when Bakkavör Group acquired the British food company Katsouris Fresh Foods on 21 November 2001. Bakkavör Group paid Katsouris 2 billion Krónur share in the mother company and that will influence foreign investment for the year 2001.³⁵

³³ Frjáls Verslun 2000. The buying price was 5,3 billion Krónur.

³⁴ Svanfríður Jónasdóttir, Morgunblaðið, 9 November 2001.

³⁵ Morgunblaðið, 21 November 2001.

Appendix 5: Total investment of the Icelandic economy in Sweden and investment from Sweden

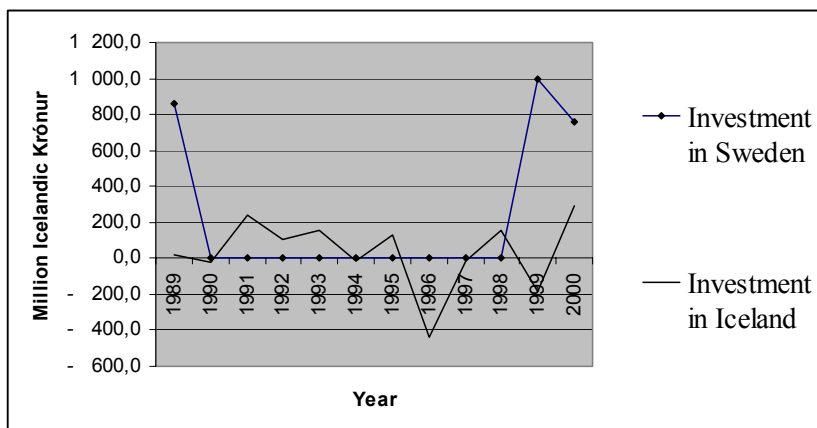


Figure 11: Icelandic investment in Sweden and foreign investment in Iceland from Sweden, 1989 to 2000. All numbers are in million Icelandic Krónur.³⁶

Icelandic companies have not invested anything in Sweden during the time period 1990 to 1998. The examples of Bakkavör, Össur and Landsteinar are included in the numbers from 1999 and 2000. Swedish investment in Iceland is around 20 million Swedish Krona per year. Minus investment comes about when a Swedish company (or another investment) is sold, as happened in 1996 and 1999.³⁷

³⁶ Data for 1999 were updated on 20th June 2001. Data for 2000 is based on collected figures from 1st June 2001 and might change. Source: Sedlabanki Íslands (Central Bank of Iceland)

³⁷ Sigurðsson, Pétur Örn at Central Bank of Iceland

Appendix 6: Icelandic investment in the Nordic region

	Sweden	Norway	Denmark	Finland	Faeroe Island	Total
1989	863,5	0	34,5	12,2	0	910,2
1990	0	0	43,9	0	0	43,9
1991	0	3,2	51,8	0	0	55
1992	0	2,9	62,5	0	0	65,4
1993	0	3,6	15,6	0	0	19,2
1994	0	0,8	24,7	0	64,5	90
1995	0	8,4	24,8	0	189,7	222,9
1996	1	-4,2	102,7	0	343,2	442,7
1997	5,6	218,6	347,4	0	634,4	1206
1998	0	528,9	417,9	0	843,7	1790,5
1999	997	1047	684	0	650	3378
2000	762	793	1267	-5	594	3411
Total	2629,1	2602,2	3076,8	7,2	3319,5	11635

Table 2: Foreign-direct investment stocks in Nordic countries, 1989-2000. All numbers are in millions of Icelandic Krónur.³⁸

Icelandic companies have, in the time period of 1989 to 2000, invested in stocks for around one billion Swedish Krona in the Nordic region. Around 23% of this sum is related to Icelandic investment in Sweden. The buy ups of Össur, Landsteinar and Bakkavör in Sweden are included in the numbers from 1999 and 2000 (these numbers together add up to 15% of the total investment in the Nordic region from 1989 to 2000).

³⁸ Data for 1999 was updated on the 20th June 2001. Data for 2000 is based on collected figures from 1st June 2001 and might change. Source: Sedlabanki Íslands (Central Bank of Iceland).

Appendix 7: Nordic investment to Iceland

	Sweden	Norway	Denmark	Finland	Faeroe Island	Total
1989	22,9	-150,5	198,2	0	0	70,5
1990	-18,6	- 68,0	93,3	13,1	2,9	22,8
1991	236,8	- 146,0	22,0	7,8	5,6	126,2
1992	105,7	- 170,2	77,2	-1	1,1	12,9
1993	154,8	160,6	-6,9	-23,3	19	304,2
1994	-14,7	82,6	97,1	1,8	-96,2	70,6
1995	128,6	158,4	325,0	9,7	0,5	622,3
1996	-439,6	231,8	152,5	28,7	0,6	-26,0
1997	-14,5	1 090,6	183,5	25,1	-0,2	1 284,6
1998	158,9	174,6	354,0	27,5	0,3	715,3
1999	-180	1 771	2 632	-22	1	4 202,2
2000	288	187	925	76	3	1 478,5
Total	428,2	3 321,4	5 053,4	143,4	-62,4	8 884,1

Table 3: Investment in Iceland from Nordic countries, 1989-2000. All numbers are in millions of Icelandic Krónur.³⁹

Nordic countries have totally invested around 888 million Swedish Krona over the years 1989 to 2000. Three numbers are most interesting and value 62% of the total sum. It is an investment from Denmark in 1999 and investments from Norway the year 1999 and 1997.

³⁹ Data for 1999 was updated on the 20th June 2001. Data for 2000 is based on collected figures from 1st June 2001 and might change. Source: Sedlabanki Íslands (Central Bank of Iceland).

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