Mergers inside a corporation's structure

A case study of the motives behind merging subsidiaries and the effects it brings

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Abstract

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Titel: Mergers inside a corporation's structure – A case study of the motives behind merging subsidiaries and the effects it brings

Background and Problem: Mergers and acquisitions (M&A) are something that can be read about almost every day and are common in today's business world. Since the 1980's, there has been an upward trend for M&As worldwide and companies have been using M&As to gain advantages. After an acquisition is accomplished, whether new or old, companies are faced with a decision to merge their acquired companies to form one legal entity or to keep their subsidiaries independent. There are both advantages and disadvantages of creating one legal entity such as corporate culture issues, organizational change and the creation of synergies.

Aim of study: This thesis has explored mergers between subsidiaries and the motives a specific corporation had for merging their subsidiaries. The thesis has also explored the financial and organizational effects these mergers have had. Finally, the thesis compares previous merger literature to see if it also applies to merger done between subsidiaries within the same corporate structure.

Methodology: This thesis has explored mergers through a case study at a large Swedish corporation which is currently undergoing this process. Structured interviews have been used to form the empirical chapter.

Analysis and conclusion: In the researched mergers three main motives have been found for merging corporation's subsidiaries. These are Reducing costs, increasing the financial reporting quality and finally increasing the internal control. There have been both positive and negative financial and organizational effects due to these mergers. There has been evidence that previous research correlates to some extent, mainly in the financial effects and the effects on the employees due to the organizational changes.

Keywords: Mergers, Subsidiaries, Synergies, Motives, Organizational change, Corporate culture.

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1. Introduction

The aim of this chapter is to give the reader an introduction of the research subject and also to provide some useful background information in order to give the reader a full understanding of the subject this thesis will explore. Furthermore, this chapter includes a problem discussion, the research questions and the aim of the study. Finally, the delimitations, targeted audience and the disposition of the thesis are presented.

1.1 Background

At the beginning of the 1980s the numbers of announced deals concerning M&As were less than 5,000 per year. By the start of the new millennium the number of deals had risen to over 40,000 per year. The following economic slowdown in connection with the burst of the IT bubble caused the M&A activities to slow down. Once the economy started to recover, so did the M&A activities. The number of deals started to rise again until the credit crisis arrived in 2007 which caused another downturn in M&As (Dong-Hun 2010).

2010 was a slow year for M&A's, but Ken MacFadyen, the editor of Mergers & Acquisitions magazine, thinks that since he now sees that cash is building up on corporate balance sheets, 2011 will be the year that companies put their money to work by acquire companies (MacFadyen 2011). Patrik Tillman, the CEO for Lenner & Partners, a Swedish corporate finance company, also believes that 2011 will be an interesting business year with an increase in M&A activities (Hedelin 2011).

Gaughan (2007 pp. 29-30) identifies three factors why merger waves occur. He argues that there often is a combination of economic, regulatory and technological shocks. The economic factor is related to an increase in demand which companies cannot keep up with. By acquiring another firm a company can expand faster compared to an internal organic growth. A change in the regulatory system also creates new possibilities for M&As. The author uses the American banking sector as an example where earlier there were restrictions with regards to what areas the banks could operate in. Furthermore, changes in technology can create favorable conditions when technological advancements make it possible to improve the current methods used.

There are several reasons why acquisitions are carried out. Acquirers might want to scatter their risk and therefore acquire companies that are not in the same field of business as oneself. Acquirers might also see an unrealized potential in a company and acquire it with the purpose of restructuring. Another reason for acquiring another company might be that the acquiring company sees a possibility to gain competitive advantages through absorbing skills from the acquired company. Finally acquirers can see another reason to gain competitive advantages by sharing activities with the acquired company, typically by using economies of scale (Porter 1988). Acquisitions are also done because the acquirer wants to grow quicker than they otherwise could do. Another common reason is to broaden the business range through economies of scope (Gaughan 2007 pp. 165-166).

After the acquisition is completed the acquirer faces the dilemma whether or not to merge the two companies and form one legal entity. One must keep in mind that integration is not something that is done in a heartbeat, meaning this is a risky and complex thing to do. No merger is exactly like another; all companies have their different ways of doing things and therefore what works for one merger does not necessarily work for another. The variables that

effect mergers are different in most companies. Corporate culture is a good example of this (Gendron 2004 p. 4, pp. 23-24).

The success rate for M&As is low; there is less than a 50 percent chance that a merger or acquisition will become successful. Although growth through acquisitions is risky, companies continue using M&A strategies (Pritchett, Robinson, Clarkson 1997 p. 5). The success rate of mergers indicate that neither academics or management in merging firms fully understand what a merger means for the organization or have understandings for the factors that will determine the success rate (Nahavandi, Malekzadeh 1988).

The definition of a merger is:

> *"The combination or amalgamation of a commercial company, institution, etc., with another, or the consolidation of two or more companies, etc., into one; an instance of this."*

Oxford Online English Dictionary

As the definition states, there are two types of mergers. A merger can consist of two or more companies merging together to form a new company, which is recognized as a combination. It can also be seen as an absorption, where one or more companies merge into a current legal entity. In the latter, the legal entity that remains is seen as the dominant company (ABL 23:1).

This thesis will focus on absorption mergers when conducted inside organizational structures. Today, these types of mergers are a growing trend, where the need for different subsidiaries inside the same country is decreasing. The merging of a corporation's subsidiaries results in both positive and negative effects. The research performed will present the effects which have been encountered in a large Swedish corporation which is currently implementing this type of merger. There is very little written about these types of mergers and the authors hope to contribute with useful information.

1.2 Problem

Once the business is acquired a dilemma arises as to whether to merge the newly acquired company and form one legal entity or to keep it as an independent subsidiary. It is common for new challenges to arise when a company reorganizes itself. Therefore managers need to weigh the positive and negative effects against each other to see if the merger strategy is sustainable.

With the increasing amount of competition that faces today's corporations, new ideas for efficiency tend to spread widely across the globe. Thereby there is a risk that the decisions are not always rational and that they are carried out because others have influenced them. This could create problems since the decision is not always based on the companies' conditions.

Due to the increasing number of mergers that occur and as there are many mergers that are seen as unsuccessful it is interesting to see what effects can be expected from merging a corporation's subsidiaries. Beside the advantages that arise, there are obviously also pitfalls. The thesis will also research the motives of a merger through absorption within a current corporation. Furthermore the thesis will explore the financial and organizational effects of a merger of this kind. The thesis will also explore whether the normal merger literature can be applied to mergers between subsidiaries.

Corporate culture is a pitfall where culture incompatibility is a source of underperformances after a merger. The culture incompatibility between the merging firms could lead to low morale among the employees, poor quality of the work that is performed and altogether poor financial performance. When companies decide to merge or acquire each other they often do so based on strategic fit or other financial advantages. It is common that the cultural fit is not

accounted for when the merger or acquisition decision is taken, even though problems due to different cultures are a source for underperformances in mergers and acquisitions (Cartwright, Cooper 1993).

It is likely that a merger or acquisition will also lead to organizational changes. This is something that could make the integration process more difficult since changes often lead to anxiety or even resistance towards the change. How to cope with the existing cultures to avoid cultural clashes and also how to prepare the organization for the coming changes is something that is a problem area concerning mergers and acquisitions.

1.3 Research questions

- What are the motives for merging subsidiaries?
- Which financial and organizational effects have been encountered from merging the subsidiaries?
- Does the previous research's result concerning the motives and effects of mergers also apply to mergers between subsidiaries?

1.4 Aim of study

The aim of this thesis is to understand what motives there are for merging subsidiaries. Furthermore this thesis will explore both the financial and organizational effects that come from merging subsidiaries. Finally, a comparison to the ordinary merger literature will be done to see if it also applies to mergers between subsidiaries.

The authors of this thesis have not encountered any previous research concerning mergers between subsidiaries. Since there is an ongoing trend for mergers of this kind, the aim for this study is to also contribute with new information and to start a new category regarding merger literature.

1.5 Delimitations

This thesis will not explore the acquisition aspect of the problem. It will merely focus on the merger that occurs between a corporation's subsidiaries from a management accounting view. The thesis will only include the financial and organizational aspects of the problem. Furthermore, because the thesis will explore mergers in Sweden the empirics will be based on Swedish conditions. Finally the thesis will not cover all mergers that will be or have been completed in the Swedish legal entity.

1.6 Target Audience

This thesis is aimed at helping managers in merger decisions by pointing out what effects they can expect to encounter when merging subsidiaries. The thesis is also intended for anyone who takes an interest in the subject and for those who wish to understand the effects of a merger.

1.7 Structure

Methodology	• This section will focus on how the authors have conducted their study.
Frame of reference	• This chapter will reflect different theories and results from previous research.
Empirics	• Conducted interviews will be presented in this chapter.
Analysis	• An analysis will be conducted by compairing previous research with our empirical findings.
Conclusion	• In this chapter the authors will answer the thesis question.

2. Methodology

This chapter describes how the study was carried out in order to answer the research questions. Furthermore the chapter explains how data has been collected and what methods the authors have used. Finally the chapter discusses the credibility, reliability and ethics of the thesis.

2.1 Research Design

The choice of method should depend on what kind of study the authors wish to conduct and the aim of the research according to Trost (1997). The empirical chapter will try to capture the feelings of the participants. A quantitative study would therefore be difficult to conduct as it does not capture all the feelings and emotions as well as a qualitative study would do. The author further argues that a qualitative study is to prefer when you wish to gain a deeper understanding of why people respond or act in a certain way. He also suggests that a research that wishes to explore patterns should use a qualitative study (Trost 1997 pp. 15-16). The authors of this thesis believe that to explore the phenomenon in depth with a few people instead of handing out questionnaires will give a better understanding of the effects a merger has on the organization, as it is our belief that this is a question too complex for a survey to answer.

Trost (1997 p. 30) has built a model based on Steinar Kvale's findings on how a qualitative interview should best be conducted. Seven stages are explained; where the first one is to give information about the aim of the study to the respondents and also inform them about what areas you will come into contact with during the interview. An interview guide should then be designed and conducted. Stage three is to conduct the interviews while stage four is concerned with translating the interview into something that can be used for an analysis. After the analysis is completed a good apprehension about the result should have been achieved, then the empirical chapter can be written. The authors of this thesis have used this model during the interviews.

Structured interviews will be conducted with all the respondents on each side of the mergers. These interviews are carried out by using an interview guide with important general questions or themes that will help guide the interview. Open questions, which do not need to be presented in any special order, are given to the respondent and they can answer the question using their own words (Jacobsen 1993 p. 19).

Jacobsen (1993 p. 19) sees a number of advantages using structured interviews. These interviews are not awfully time consuming, which allows time for a large number of respondents. It also means that the interviews will be comparable between different respondents to a greater extent. This is because the interviews will follow the same guide and therefore will give all the respondents the same questions and possibilities. Furthermore, the structured interview also gives the chance for new information to be revealed. Since the interviews are conducted with open questions it gives the respondents more freedom and the authors of thesis can use follow-up questions actively.

Structured interviews work well in this thesis, since the authors will interview different respondents and want the material to be comparable. Since the reasons behind mergers between subsidiaries are not common in previous research a qualitative case study is suitable for this thesis.

The documentation of the interviews can be done in different ways. One common method is to use a tape recorder. There are both advantages and disadvantages of using a tape recorder during the interviews. A clear advantage is the ability to be able to listen to the interview

repeatedly so that no information is forgotten. It is also easier to concentrate on the interview when the need to take detailed notes is not as important. The disadvantages concern issues such as the loss of the first impression, and body language might arise when relying too much on the tape recorder. Another common disadvantage is that some people do not feel comfortable when they are being recorded (Trost 1997 pp. 50-51). After having weighed the advantages against the disadvantages the authors of this thesis believe that the advantages are clearly greater than the disadvantages and therefore the authors have used a tape recorder during all interviews conducted.

2.2 Data Collection

To gain data for the previous research chapter the authors of this thesis have used the library at The School of Business, Economics and Law at the University of Gothenburg. Data have also been conducted through searches in various databases, such as Business Source Premier and Science Direct. References have also been gathered by searching through other students' theses with similar contents.

The key words used in searches were: Corporate culture, cultural clashes, organizational change, mergers, synergies, subsidiaries and economies of scale.

Due to the lack of previous research about mergers through absorption of wholly owned subsidiary, the chapter on previous research will collect data from the whole M&A field.

For the empirical chapter, the authors have been given the opportunity to explore the effects of a merger between a corporation's Swedish subsidiaries. The Swedish pre-dominant subsidiary is currently implementing this kind of operation and is uncertain about what effects can be expected for their entity. The corporate group is large and active on a global scale. The management of the corporate group decided that there should be as few legal entities as possible in every country in which the corporation is active. This has led to the subsidiaries in each country being merged. The authors therefore chose this corporation and their Swedish subsidiaries to conduct interviews with.

In the thesis the corporate group is called Corporation X. The dominant subsidiary, which is the subsidiary that will absorb the others, is named "Subsidiary A" throughout the thesis and the subordinated subsidiaries have been named "Subsidiary B, C, D, and E". Subsidiary A is the dominant subsidiary and is the surviving company, which will absorb the other subsidiaries. Subsidiary B, C, D, and E. are all previous acquisitions made by Corporation X. A organizational chart can be found in appendix 1, which shows the organization before and after the mergers.

The respondents have been chosen from all the parties concerned, both from the dominant and the subordinated subsidiaries. The interviews have been conducted with key personnel who are affected by or are active in the process. In order to find appropriate respondents the authors have ask our contact within the dominant subsidiary to present a list of people who are either project managers or in some way involved in the merger. Contact has first been made via email and thereafter interviews have been performed either in person or by telephone, depending on where the respondent's office is located. In some cases email has been used for either specific questions or for follow-ups. The interview questions can be found in appendix 2.

2.3 The Respondents

In this section the respondents and their connection to the mergers is presented. The respondents have been given fictive names to hide their identity. The names correspond with subsidiaries where they are active. For example, the first respondent from "Subsidiary A" is named "Respondent A1". If there are more than one respondent per subsidiary the assigned number is changed, for example "Respondent A2".

2.3.1 Respondent X1

Respondent X1 works at Corporation X as a tax director. He is responsible for the tax issues concerning the whole corporate group and he is also the manager for his tax group consisting of four employees. The tax group's duties consist of overseeing the capital structure for the corporation. The respondent reports directly to the corporations CFO. His connection to the project comes from his role of overseeing the capital structure in the organization.

2.3.2 Respondent X2

The respondent is employed at Corporation X where he works as audit director.

2.3.3 Respondent A1

Respondent A1 works as a controller in the Swedish legal entity. Her main work duties concern the closing of the books for the operational part of her division as well as risk analyses. She is also part of the management team where there is a focus on strategic matters both long term and short term. The respondent was part of the project group that brought back the Swedish sales division from subsidiary C into the Swedish legal entity. She is today part of a project group focusing on integrating subsidiary E into the Swedish legal entity.

2.3.4 Respondent A2

Respondent A2 is employed as a project manager for Subsidiary A. She has been the project manager for the mergers of Subsidiary B and D into Subsidiary A. The integration of Subsidiary D was her last merger project and she will now take on new challenges within the corporate group instead of new merger projects.

2.3.5 Respondent A3

The respondent has worked inside the corporate group for several years. Since September 2010, he has been employed at Subsidiary A, where his current position is as a controller. His work duties consist of gathering financial information from the controllers in the subsidiaries and business units.

2.3.6 Respondent B1

Respondent B1 is head of former Subsidiary B's operational unit with 25 employees. He has been with the former subsidiary since 1994. Altogether the new business unit has 35 people employed. He was before the merger a part of the executive group, and was responsible for purchasing and demand chain.

2.3.7 Respondent D1

Respondent D1 worked inside the corporate group between 1990- 1997 and thereafter she came back to Corporate X during 2005. She started working for former Subsidiary D during 2006 as their financial manager. She has a history of controlling and this suited her role as the financial manager since it also implied a lot of controller duties. After the merger was completed she no longer worked as the financial manager and her new role is as a business controller for the new business unit.

2.4 Research Presentation

In the empirics chapter the study which has been carried out, through the use of interviews, will be presented. The authors have chosen to divide the empirical chapter into several sections. The first part will give the reader an introduction to why the corporation is carrying out these mergers. The following sections will be used to explain each of the mergers that this thesis has covered. Furthermore the effects on the dominant subsidiary and the project leader's view will be presented separately.

The authors have chosen to present the information in this way to reduce the risk of misunderstandings and to make it easier for the reader to follow the mergers. Since the authors have been requested to keep all the parties involved anonymous the thesis has used fictional names for the corporation, the subsidiaries and the respondents. It could create confusion due to all the different names if all parties are mentioned at the same time. Therefore the empirical chapter has been divided into each respective merger project. By separating the subsidiaries into their respective merger the risk of confusion will hopefully be reduced.

Each section in the empirical chapter will consist of one respondent. Therefore the authors of this thesis have chosen to not name the respondent in every paragraph. The same respondent will be featured in the whole section. There is one exception for this in 4.2, motives behind the mergers, where both Respondent X1 and X2 are active.

2.5 Reliability and Credibility

The authors of this thesis are aware of the arguments regarding reliability and credibility in books about research methods such as Ejvegård (1996). By conducting several interviews with all the affected subsidiaries the thesis takes a broad view and the problem is observed from several different angles. Due to the fact that the companies, which will be or already have been merged, have different company culture and ways of doing business, the thesis will be able to compare their answers and create a reliable conclusion to the research questions.

Information about what areas the interview will concern has been given to the respondents prior to the interview via email, in order to let the respondents prepare themselves. Furthermore the interviews have been recorded as permission was given by all the respondents to use a tape recorder. This has helped the authors to document the interviews correctly. Finally the documentation from the interview has been presented to the respondents, in order to let them address misunderstandings that might have occurred.

The selection of literature has been made with great attention to its credibility. The articles used in this thesis have primarily been peer reviewed.

This thesis merely explores the mergers within just one corporate group. Therefore our finding cannot be used as a general model of the motives and effects of this type of merger. Furthermore, this thesis reflects the Swedish conditions and therefore not all conditions are applicable in other countries. For example the pension and taxation systems are different between countries.

2.6 Ethics

By request from the company the thesis will not include any information that can lead to the company's identity. To keep the parties identity hidden the authors have chosen to label the companies with fictive names as mentioned above.

The respondents will be completely anonymous also in order not to reveal too much information about the corporation. Even if the respondent had wanted to be public, it is not possible due to the fact that the company's identity can be traced through an internet search.

3. Frame of reference

In this chapter previous research about mergers and acquisitions is presented. The chapter starts by describing the general reasons behind mergers and the financial effects. The chapter then describes the organizational effects and finally factors that improve the chances to succeed with the merger are discussed.

3.1 Different types of mergers

Mergers are performed between two or more companies. Depending on how related the companies' business is the mergers use different names. If mergers occur between companies that are competitors, meaning companies that have the same products or services and supply the same customers, they are called horizontal mergers. If instead the companies have a buyer-seller relationship the merger is called a vertical merger. This occurs with both suppliers and customers. However if there is no relationship between the companies, meaning that the companies are not competitors or have a buyer-seller relationship, the term conglomerate merger is used (Gaughan 2007 p. 13).

3.2 Motives behind and the financial effects

There is a wide variety of reasons why mergers and acquisitions occur. The motives behind are often the same as the financial effects that the companies want to reach. This section will present previous research about the motives and financial effects of mergers and acquisitions.

3.2.1 Gaining Scale and growth

Hunt (2009) identifies a number of drivers. Gaining scale through M&As either through economies of scale or economies of scope can have a stronger effect than is possible for companies to achieve with organic growth. This is done by acquiring or merging with a company that offers similar products, operates in similar markets or has the same customers. If the acquired firm is active in a market which is dissimilar, there could be higher growth opportunities present. In competitive markets it is difficult to gain market shares through internal growth. Acquiring companies can give access to new markets, customers and products with reduced risk. This is because there is a functional organization already and there is no need to start from scratch.

Gaughan (2007 p. 117) describes growth as one of the most common motives for M&As. Growth through mergers could be a faster process than organic growth, but this does not come without risks. An example of this is the risk in having different management styles (Datta 1991). When companies are faced with an opportunity that needs to be acted on quickly, waiting for organic growth is not an option. This is due to the fact that competitors may respond quickly and steal market shares. Therefore acquiring or merging with a company which possesses the resources needed is a common solution (Gaughan 2007 p. 117).

Diversification is another driver, which Hunt (2009) writes about, that is more suitable through M&As for a number of reasons. Core activities can be compromised when increased focus is placed on the new function. This can result in not meeting the growth expectations for the overall business. Furthermore the right management might not be present to cope with the new functions, which could lead to a longer time frame. Guaghan (2007 p. 163) mentions that improving the management can be a motive behind M&As, especially when large companies buy smaller, growing companies. The managerial resources in the small company might lack the knowledge of how to grow and compete in large scale.

3.2.2 Synergies

Acquiring or merging due to synergies, both in operating and financial terms, can have a positive effect for the acquirer. Operating synergies come from the revenue stream, where one sales force can broaden their product range to their customers. Having a better negotiation position against suppliers is an effective way of keeping costs down. Operating expenses such as duplication of corporation staff, sales and investment departments can be reduced. Financial synergies are created through the ability to receive better terms from lenders, which reduces the cost of capital, when the new corporation is larger and has increased security. If the M&A is done with diversification in mind, it can result in a more stable cash flow and a greater predictability (Hunt 2009).

> *"The term synergy is often associated with the physical sciences rather than with economics or finance. It refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than that which the sum of the two operating independently could account for."*

> Guaghan 2007 p. 124

Synergies from the revenue stream come from different sources. Cross-marketing is used to market each partner's products and thereby sell more products and services to their customers. This enables the partners to expand their revenue quickly. Using a partner's well-established brand and its reputation to increase revenue is one way to do it. Another is using a partner's well established distribution network to beat competitors to the market. According to the author, revenue enhancement is often hard to anticipate ahead of time compared to cost reduction synergies, because it is easier to see where duplicates will be created by a merger. Revenue enhancing synergies are in general only discussed in vague terms pre-merger due to the problems to anticipate them (Guaghan 2007 p. 126).

Cost-reduction synergies are often seen as the main source of operational synergies, where economies of scale may be a result. When the unit of products produced rises, the fixed cost per product gets spread out onto more products, reducing the overall cost per unit. At one point the cost starts to rise again, this is called diseconomies of scale. This happens when increased costs and problems arise from running a larger scale operation. Financial economics of scale can also occur in the form of lower flotation and transaction costs (Guaghan 2007 p. 126, p. 135).

Another form of operational synergy is economies of scope, where M&As make it possible to supply customers with a broader range of products. The banking industry makes for a good example, where banks want to supply everything to their customers, not just a bank account and loans, but also economic analysis, stocks and insurances (Guaghan 2007 p. 129).

Financial synergies are created through reduced risk if the merging firm's cash flow streams are not correlated. If the cash flow is less volatile, banks and other capital suppliers may see the company's risk reduced. Therefore if one of the companies faces bankruptcy the other can cushion the impact. As the company grows and fewer fluctuations occur in cash flow, the company can expect to be able to raise capital through issuing bonds at a lower rate. The bond buyers see a smaller risk and are therefore willing to accept the bond of a lower interest (Guaghan 2007 p. 135).

According to a study done of 264 large mergers in the industrial sector, there are three possible sources that might create gains for the shareholders. These are productivity efficiency, tax savings and increased market power. Tax savings have the effect of transferring wealth from the government and other stakeholders, which has created a bit of controversy. The study found that only 1.64 percent came from taxation synergies, which indicated that taxation was not a major reason for mergers. Operational synergies received an

average of 8.38 percent, where the larger part came from mergers between companies which are related. Reductions in investment expenditures, instead of increased operating profit, were the main reason for the gains in operational synergies. The author indicates that market power is the leading reason for mergers (Devos 2009).

Larsson and Finkelstein (1999) have conducted a study in which instead of measuring whether a M&A is successful in financial terms they used the term synergy realization, meaning how well the firms have been able to realize the synergy effects. They believe that three main areas affect the company's ability to realize the potential synergy effects. When studying the three areas, combination potential, organizational integration and employee resistance, they found that organizational integration is what most affects the possibilities whether or not firms will be able to realize the synergies. Their study indicated that how deep you integrate two firms is what most determinates how well the firms are able to use the potential synergy effects. They continue with a conclusion of the subject that merely the potential for great synergy effects is not enough. It is likely that the firms need to make both structural changes as well as changes regarding their processes to be able to exploit the synergy effects that came with the M&A.

Larsson and Finkelstein (1999) also found that the combination potentials, meaning for example operational synergies due to economies of scale, managerial synergies due to replacing inferior managers, financial synergies by scattering the risks, etc, is greatest when the acquired company is of larger size. This is not because managers spend more time and give more attention to the acquired firm if its relative size is larger; it has to do with the fact that there simply are more combination potentials if the firm's size is larger. The findings in the report therefore say that size matters if you are looking to realize synergy effects with the M&A.

3.2.3 Integration

Integration can also be a motive behind M&As, both from a horizontal and vertical perspective. Horizontal integration has effects on the market power of the company by moving from a competitive side towards the monopoly side, resulting in the ability to raise prices. This is due to the fact that there are fewer competitors on the market. Through horizontal integration a company market power can be increased through a larger market share (Guaghan 2007 p. 145).

Alarik (1982) has listed three drivers behind horizontal mergers, which means mergers with similar companies. The first one is lack of resources, which makes it difficult for the firm to perform required changes. The second is demands from financiers of increased growth. Finally slowness to change makes it difficult for firms to change and develop, which causes more resources to be used. Companies exposed to these factors see horizontal mergers as the best alternative. Adapting to the financiers short-term demands, increases risk long-term for the firm (Alarik 1982 p. 180).

Vertical integration occurs when a company buys or merges with another company which is either closer to the supplier or to the end customer. Vertical integration is considered for different reasons. Reducing risk from suppliers through controlling availability, quality and delivery times are presented reasons. Companies that rely on just-in-time techniques can use vertical integration to lower their inventory costs (Guaghan 2007 p. 154).

3.2.4 Efficiency

According to a study of the mergers in the US electric power distribution sector from 1994-2003, there are no efficiency gains after the merger. The buying firms performed poorly before the merger and therefore they have acquired better performing firms. The target firms have then instead shown a loss in efficiency after the merger. The author points to a number of reasons for the poor efficiency effect, where management motives, mistakes in

restructuring and defense to prevent takeovers could be key reasons (Kwoka 2010). Another researcher found, in a study of Spanish banks after the deregulation, that more than 50 percent of the banks did not show any productivity increases. The same authors argue that the effects of mergers and acquisitions need to be measured during a long period of time (Bernad 2010).

3.3 Organizational effects

A merger will affect an organization and it is the intension of the authors of this thesis to give the reader an overview of some of the organizational issues that could arise due to mergers and the organizational changes that it brings with it.

3.3.1 Corporate culture

Culture in a societal aspect is shared values, customs and beliefs that will guide us through our daily choices or on how we respond to our environment (Gancel, Rodgers & Raynaud 2002 p. 7). Corporate culture is basically the same and it is like an invisible force within companies that tells us how we as individuals are supposed to act in everyday situations while we are within our company´s walls. Corporate culture therefore has an impact on the whole company and has an effect on the ways business decisions are taken, how conflicts are resolved and how the individuals within the organization act (Gancel et al. 2002 p. 10).

Trice and Beyer (1993 pp. 1-2) view of corporate culture is that it forms a firm ground in an unfamiliar world. This view is also shared by Schein (2004), who's view of culture is that it is based on a set of shared values, norms, traditions and rituals, but he also adds a couple of features that builds up the term culture. He mentions features such as structural stability, depth, breadth and patterning and integration. Structural stability is one of the reasons why it is difficult to change an existing culture. Within the culture, Schein argues, there is already some level of structural stability in the form of the group identity. The group identity is therefore the stabilizing force for the people within it and this is not something that will be easily changed since the group's values contribute meaning and predictability. With depth the author points out that, although culture is something that can be learned and taught to some extent, it is also something that is not visible and is often an unconscious part of the group. Breadth means that the term will cover all the groups' functions. Finally by patterning or integration the author argues that since we feel anxious when we do not know what will happen we strive for a way to make the world more predictable.

Organizational culture is built upon three levels; Artifacts, Espoused Values and Underlying Assumptions. Artifacts are the shallowest of the three levels of culture. It is what you can see and feel when you are in an organization, which means how people behave towards each other, how they are dressed and if the office doors are closed or open, etc. As you get a feeling towards how things are done in the organization you will not completely understand the culture and by talking to people within the organization a deeper understanding can be achieved. Once you start asking questions you will start to understand the organization's values, and this will take you to the second level, The Espoused Value. If, for example the organization welcomes openness and has an informal hierarchy it could explain why their office doors are always open. The answers to your questions will not give you a full understanding and it will therefore lead to more advanced questions about the organization as you will discover that not all values are coherent with what you have observed. This indicates that there is an even deeper level of the culture that explains why things get done even if they do not fit the values posted by the organization. This leads you to the third and final level, The Underlying Assumptions, which demands that you are aware of, and understand the organization's history to fully understand its culture. The organization's history has through time shaped its culture after the founders or other informal early leaders' beliefs and norms which have led to the firm has being able to survive (Schein 2009 pp. 21-25).

Corporate culture is both learned and taught. There are some things that are learnt by listening to older employees and other things are learnt by observing how others within the organization act. Although the corporate culture forms the employees, one must still keep in mind that there are individuals that work in the organization, which means that, even though the organization as a whole has its culture, there are bound to be people who do not embrace it (Gancel et al. 2002 p. 10).

Culture gets its strength due to the fact that it is based on the shared beliefs and stability of a group. The individuals in this group will grasp certain aspects within the culture and embrace some of the basic assumptions that the group has, so the individuals can claim their "membership" in the group (Schein 2004 p. 63).

3.3.2 Shaping the corporate culture

Schein (2004 p. 84) describes the process of how a new group forms its culture and argues that a culture arises from how the new group deals with and solves issues such as the identity of the individuals within the group, the creation of common goals, how the group solves or manages conflicts. By solving these kinds of problem the culture will arise within the group.

Business unit culture is a complex dilemma for managers in the organization, because when organizations grow and mature there will emerge an overall culture and subcultures within the companies. Subculture is a culture that also has evolved within the companies and it is based on different units or production lines, geography or hierarchy within the organization. It is therefore important to also get all the subcultures onboard and steer them towards the organizational goals. The importance of understanding and having knowledge about the existence of subcultures has grown since at the present time it is more common with M&As than before and these factors are important for success (Schein 2009 pp. 5-6).

3.3.3 Changing the corporate culture

Corporate culture is often deeply rooted in the heart of the organization and has been formed by the company´s history. An already existing culture is hard to change since the older employees are often keen on defending it. Therefore this is something that managers need to consider when making a merger decision because if they are going to merge two companies there is a risk that they will run into problems with the existing corporate culture of each firm (Gancel 2002 et al. p. 12).

Schein (2009 p. 107) argues that it is hard to change an existing culture since culture is what a group of people create when they strive for a solid ground and to attempt to achieve some predictability in their lives. To change an existing culture something must happen to shake that solid ground. If the management wishes to change the culture they need to create a feeling that something must change or else something negative will occur. Schein calls this first step disconfirmation.

To create the disconfirmation a manager can articulate a new upcoming threat to the current business, which will require a type of change in the business. It could be all kinds of threats from economy to new technologies. A merger is also something that will upset the cultural elements within the organization and will therefore create a disconfirmation (Schein 2009 pp. 107-109).

3.3.4 Mergers and Cultural clashes

When companies are founded the entrepreneurs have the chance to create the culture they prefer for the new organization. If, however, a company has acquired another company, there already will exist a corporate culture there and this culture will be based on the acquired organization's history and their shared values and beliefs. The acquired company's culture not only expresses what kind of leadership style will be accepted but also what kind of leader

style is expected in their organization. New leaders or new managements must therefore be aware of the existing culture to avoid cultural clashes. If the new leaders are not familiar with the existing corporate culture and the acquired company's organization they will be forced to choose how to cope with the existing culture (Schein 2009 p. 4).

Schein (2009 p. 5) has described a couple of different strategies the new leaders could use to master the already existing culture. The first one is basically to destroy the existing culture and by doing so they will also be forced to get rid of the key defenders of it. Thereafter they have to try to implement the culture desired by them. The second way is to try to convince the members of the organization about the greatness of the new culture that the leader tries to implement and hope that the employees will embrace it. A problem that might arise with that strategy is if the employees do not embrace the new culture, they might just simply sit tight until there is an opportunity to turn back to the old ways of doing things. The third way is just to give in to the existing culture but unfortunately there is a risk that elements of the existing cultures are not for the benefit of the organization and therefore ought to be replaced by new values and beliefs. The fourth and final way Schein sees for new leaders to cope with the existing culture is to evolve it. He argues that leaders should be careful in the beginning and embrace some of the elements that the existing culture is built upon and change the things they do not like over time. The transformation should not be done overnight; it is preferred that new rules and guidelines are gradually integrated. Greenwood, Hinings and Brown (1994) also say that an outcome of a merger could be that the new entity ends up with a blended culture, that is, a mixture of the two merging cultures.

Cartwright and Cooper (1993a) examined a merger in the light of corporate culture. They found that the two merging companies examined by them had similar corporate cultures and that facilitated the creation of a new culture. Since there was already from the beginning a match concerning the corporate culture the new culture that evolved was not that far from the two originals, which helped to get the employees to embrace it. Although there was a match between the two corporate cultures, Cartwright and Cooper argue that the merger was a stressful process from both sides. They also indicate that if there is not a match in the cultures of the merging firms this would lead to the level of stress experienced from the employees becoming immensely high.

Problems and costs of a cultural clash will show up at the start of the merger, usually directly and it is likely to affect the operational efficiency of the two merging firms. The potential benefits of a cultural clash will usually take more time before they are revealed, and they will then mainly affect the fit with the environment (Van den Steen 2010).

To avoid cultural clashes the one thing that seems to matter the most according to Larsson and Lubatkin (2001) is to get the affected employees involved in socialization activities. These activities could be cross visiting, training programs, introduction programs and celebrations. According to their findings such socialization rituals could lead to the development of a joint culture and acculturation. However, it is important that the subsidiaries are allowed to have their autonomy if the "socialization programs" should have any effect.

If, however, the autonomy is removed which is sometimes the case if the acquirer does not believe that the present management has the ability to get the most out of the acquired subsidiary, an increased set of social control should be implemented. These are in the form of informal coordination efforts. The authors also mention, for example, temporary employee exchanges or to getting senior management involved and finally transition teams. Not to pay any attention to these social controls and simply trying impose your own culture on the subordinated subsidiary will likely lead to resistance. Their findings therefore suggest that the removal of autonomy does not have to result in problems with the forming of acculturation as long as attention is being paid to the social controls (Larsson and Lubatkin 2001).

3.3.5 Differences in management style

Management style can be a factor that determines whether an acquisition will be able to give the superior performances the acquirer hopes for. Depending on the level of integration between the target company and the acquirer, the management compatibility has an effect on the post-merger performance. This is due to the fact that different management styles can result in conflicts, difficulties in reaching the intended synergy effects and finally poor performance (Datta 1991).

Performance will also be suffering from the fact that an acquisition often brings with it a high level of organizational changes and if there is a vast difference in management styles this is something that will enhance the anxiety and tension that people within the organization feel due to the changes. This anxiety and uncertainty will probably lead to the management of the acquired company having to struggle to hold on to their own beliefs and their management style which could lead to conflicts (Datta 1991).

3.4 Reason why some mergers fail

One of the most important factors why mergers are hard to conduct has to do with differences in the respective corporate cultures. This is the factor that is most likely to cause problems when the merging firms have come to the implementation stage. One way to facilitate the integration is to overview the organizational fit and not only preview the strategic fit, since this is probably where the merger will run into problems. By being prepared for this less time can be spent on the integration (Greenwood, Hinings and Brown 1994). Badrtalei and Bates (2007) also argue that it is of importance to respect the cultures that exist within two merging firms. The best way, according to them, is to blend the existing cultures rather than change them.

Oreg (2006) argues that faith and trust in the management are factors that can facilitate the change in organizations. If the employees do not have trust in their management it is likely that changes will cause anger, anxiety and that actions against the change will occur.

That employees often feel discomfort and experience an M&A with negative feelings can lead to synergy effects of the M&A being absent. The feelings of anxiety and that your personal careers might come to a halt due to the M&A can nourish hostility and dissatisfaction towards the M&A and also increase staff turnover. The employees' resistance towards an M&A can therefore disrupt the possibility to reap some of the synergy effects that might otherwise have been present in the M&A (Larsson and Finkelstein 1999).

It is of utmost importance that the employees do not feel alienated to the merger if the integration process is to flow smoothly. Employees might feel anxious about their job security, the loss of corporate or personal identity and that the overall corporate culture may change with the merger or acquisition. All these factors can make the employees oppose the merger and if the personnel are not behind the decision and support the merger it will not likely be a smooth transition. Therefore plans should be thought out in advance, to create support from both formal and informal leaders. This is something that should be done in both the acquired subsidiary and in the acquiring subsidiary (Gendron pp. 77-78 2004). Ivancevich, Schweiger and Power (1987) also have found that plans to deal with the stress and anxiety will increase the chance to succeed with the merger. They argue that the stress felt by employees is a base to why some people in the organization view mergers as a failure.

It is important that employees are allowed to participate in the merging process, and that their involvement starts as early as possible. Participation from the employees will increase the enthusiasm about the merger, the dedication to make it successful and help management by

creating creative ideas how they should reach the goals of the merger (Badrtalei and Bates 2007).

Badrtalei and Bates (2007) also argue that great attention should be paid to the way you proceed with the goal to reduce employee costs. It is a common goal within mergers to reduce employee costs but as Badrtalei and Bates argue sometimes it is done to fast and hasty. This is something that should be examined carefully before execution since it could actually end up costing more to reemploy than the gain the company got from the layoffs. Also when the layoff starts it might affect the morale, productivity and turnover among the employees.

The size of the two merging companies seems to matter as to how the employees react to a merger. Cartwright and Cooper (1993a) found that the employees that worked in a smaller company who were about to be merged with a larger one experienced the merger a lot more stressful than their new colleagues.

Managers should be aware that some employees will fear that their career promotion will come to a halt due to the merger. This fear will cause them to appear "merger friendly" and hide their true feelings of the merger. Management can therefore get the impression that the merger is going smoothly but under the surface some employees will be extremely stressed. The problem may first be discovered when staff turnover reaches extremely higher levels than usual (Cartwright and Cooper 1993a).

3.4.1 Executive turnover

After an acquisition is complete there is a great risk that the executives of the acquired firms will leave. This is especially true if they feel inferior to the acquirer or if their status is suddenly reduced. The potential loss of autonomy is also a factor that affects the potential departure of the old executive; this is because individuals before the acquisition were used to great autonomy and afterwards feels that their status is inferior to what it was before. (Hambrick and Cannella 1993)

Another factor that determines the departure rate of executives within an acquired firm is whether the acquisition was hostile or friendly. If the acquisition was friendly the rate was not as high as if the takeover was a hostile (Hambrick and Cannella 1993).

Status also seems to be of importance for the executives since as Hambrick and Cannella (1993) argue; if the executives were promised a job with status they were not as likely to leave. These findings indicate that if the acquired firm wishes to keep the executives it is recommended to not remove much of their status.

If the acquisition was made by a related or unrelated acquirer has an impact on the executive departure rate. If it was an unrelated acquisition the departure rates were higher. This is something to keep in mind as the acquiring firms often wishes to keep the executives in those cases since they do not have knowledge about that business area. (Hambrick and Cannella 1993)

It is common for the acquiring firm's culture to dominate the acquired ones and according to Hambrick and Cannella (1993) finding's, if there exists a large gap between the two firm's cultures it is likely that the executives in the subordinated firm will leave.

There is a high management turnover following a merger or acquisition. Walsh (1988) has found that five years after the merger or acquisition there was a cumulative management turnover of 61 percent. This was much higher than normal management turnovers in companies with similar size that they examined. Walsh argues that a lack of positive results the first years after a merger or acquisition may be due to the fact that there is almost a 50 percent turnover during the three first years, and this of course affects the productivity.

People who have succeeded within an organization were more likely to have negative feelings towards a merger according to Costello, Kubis and Shaffer (1963), who studied a merger between two banks. People who had succeeded feared that this would lead to a halt in their promotions, whilst others who were not as successful where more positive since they saw the merger as a chance to advance and to get a second chance.

3.4.2 Resistance to change

There is more than just the fact that employees in general dislike organizational changes to explain why resistance towards it might build up. Van Dijk and Van Dick (2009) have constructed a model over resistance phenomena which they call "The Identity Based Process Model", and they view resistance as a process rather than as an event that occurs. In this model, change will impact employees' work identity, which will have the effect that they will resist it. How the organizational members impacted each other's work-based identities was central to the resistance process in their report, and the impact was mostly exercised by people in charge of the change. Their findings suggested that there is also an identity factor that influences why people in the organizations oppose changes.

Van Dijk and Van Dick (2009) also found that once employees' work-based identity was threatened they started to conduct self-enhanced strategies to maintain it. One main reason why they felt that their work-based identity was threatened was that they experienced a vast difference as to how they were treated after the merger by the management. After the merger some employees felt as if they were not as valuable as before, since they might have been assembled with a group of lower standards compared to how things were before the merger. This caused damage to their work-based identity and self-image, and led to the start of the promoting of their own groups whilst disparage the other groups. In time this led to the alienation from the new management's norms and values and some of the employees left the firm.

3.5 Improving the chances to succeed with the change

To increase the possibility to successfully manage an organizational change the management might want to have a strategy that pays attention to the factors that give life to the resistance. Trader-Leigh (2001) has identified a couple of factors in an empirical study that causes resistance to arise against changes.

Self-interest is one of those factors, and it means that employees have to see what they can gain to be more positive towards the changes. Psychological impact implies how people experience the merger with regard to issues such as job security, social status in the organization or their professional abilities. Another factor is tyranny of custom, which means that those who have gained positions within the organization or the group which they are satisfied with will be reluctant to change. Other factors were cultural compatibility, retributive effects, destabilization effects and political effects. All these factors should be considered and management should have an understanding about them so that they can handle them in a proper way (Trader-Leigh 2001).

If a company is about to make an organizational change they should think about what kind of change they are about to implement and what effects it will have on the organization. By going deeper than the term "resistance to change" and exploring why there is a possible resistance to the change, a company might succeed with the changes easier than they otherwise would. There are a lot of different strategies that a company can adopt due to problems with resistance to change, but it could be better to really target those areas that will actually change than just accept a common "change strategy". If, for example, the change will lead to a loss of status for some employees the strategy for succeeding should target that area and deal with that issue. It is not certain that the employees resist the change overall since the resistance could have been arising just because it will lead to loss of status. By putting all the

issues for resistance to change together and simply calling them "resistance to change" one might use the wrong cure for the problem (Dent, Goldberg 1999). Cartwright and Cooper (1993a) also found that it was not the change itself that caused all the stress to arise but factors that the stress brought with it, such as fear of what the future would hold.

Oreg (2006) found that certain people are more likely to resist changes regardless of what they are about. Oreg has a hypothesis that a person's personality traits would affect how that person's feelings towards the change would be and that hypothesis was supported. The report therefore suggests that some employees are more likely to resist a change than others depending on their personality. Oreg also found that anticipated outcomes of the change, for example job, power and prestige loss were associated with how the participating employees felt and thought about the coming change. Job security was strongly related to the feelings towards the change, and threat to power and prestige had a strong relationship with resistance associated with negatively thought towards the change.

Social factors are also something that organizations need to consider when they want to change something in the organization. If a person is surrounded with colleagues that oppose the change in mind, they are also more likely to develop negative feelings and emotions towards it (Oreg 2006).

3.5.1 Factors that make the merger more smooth

Gendron (2004 p. 84) argues that it is of great importance to identify the opinion leaders within the organizations who are about to become intergraded. He claims that it is not always the ones at the top of the organization who really are in charge and it is therefore important to get the informal leaders onboard with the idea. It is especially important to be careful not to step on any toes in the subordinated company since they already might feel anxious and have negative feelings towards the integration.

There are three "key themes" for an integration to be successful and these are obviously something that managers need to consider in the integration process. Legitimacy consists of how the leaders are apprehended within the organization, and whether the new organization views the leadership as trustworthy and reliable. Effectiveness consists of how the decisions are taken and how they are carried out but also how problems are solved. Future consists of how the organization communicates goals and visions. It is important for the new board to have knowledge about these themes, implying that they need to develop the new organization within these themes and not stick with their old views that are based on their company culture (Gancel et al. 2002 p. 43).

The theme Legitimacy consists of how the organization views their leaders. Once a merger is introduced to an organization there are bound to be rumors and a lot of different questions among the staff. There is for example a new board or new leaders in the organization which can make some employees feel anxious. It is therefore important that the new leaders are not only a name on the organization chart; they also have to be people that are seen with credibility and authority. If the employees do not get behind the new leaders there is likely to be a crack from the very start in the process (Gancel et.al 2002 p. 56).

Effectiveness has to do with how an organization works. All organizations are different from each other. The way they do things in one business is therefore likely to differ from that of another business. Effectiveness is not just about getting things done in an effective manner, it is also about managing conflict, how to organize yourself, how to delegate and so on. When firms have their own way of doing things problems could be created when they suddenly have to work together with other companies who might not wish to change their ways (Gancel et al. 2002 p 72). Since there are different views of what is perceived as efficient among different firms it is important that the people who are responsible for the merger develop a common process for how decisions should be carried out. These new ways also needs to be

firmly established with most of the personnel. It is also of importance that the employees understand why they need to do things in a different way. If they do not see the advantages with the new ways it will become a difficult task to get it accepted (Gancel et al. 2002 pp. 86-87).

Finally, Future has to do with what will happen after the merger. After the merger decision is announced it is common for the personnel to feel anxious about their own future. The employees' uncertainties often originate in basic thoughts, for example, if the employees will still have a job and how will this affect them. Management should have these answers and inform the personnel about this to avoid speculations. This is seldom the case since the management is preoccupied with technical aspects of the merger and therefore this important aspect is often missed (Gancel et al. p. 93).

During these kinds of changes the management has an important role by communicating the goals and the future for the new organization. It is important that the personnel understand the advantages of the merger well and that all different divisions know what the merger will mean to them (Gancel et al. p. 106).

3.5.2 Participation and information

A study conducted by Van Dam, Oreg and Schyns (2008), who reviewed a merger in the Netherlands and the effects it had on the employees found that there is a strong relationship between three change process characteristics. These were the provision of information, opportunities for participations and trust in those who lead the change, as to how the employees' reactions towards it become. The change process characteristics are fields that will affect the degree as to how large the resistance to change will be.

Van Dam et al's (2008) findings also suggested that those on an individual level in general did not fear a change in their work and were also more open to changes on organizational levels. It also matters how long employees have been on their positions with regard to how they react to organizational changes. If an employee has been at the same position for a long time it is likelier that they will resist the changes since they are probably satisfied with their current work place. Van Dam et al. therefore suggest that companies that are about to make an organizational change should be aware of the employees that have been within the organization for a long time since they are the once who are likelier to disapprove of an organizational change.

Other factors that might help facilitate organizational changes are to give the employees information and allow them to participate in the changes. This will help change projects to gain acceptance by the employees. It is also an advantage if there is trust between both management and the subordinates in the organization. The climate within the organization should also foster developments and continuous changes to ease changes and lower the resistance (Van Dam et al. 2008). Banas and Wanberg (2000) also agree with Van Dam et al. that if organizations allow the subordinates employees to participate the chance to succeed will increase. Participation also help ease some of the stress felt by the employees according to Cartwright, Tytherleigh and Robertson's (2007) findings when they examined a merger between two schools. Cartwright et al. found that in the organization where the employees were allowed to become involved and participate, the feelings towards the merger were more relaxed.

Communication and information is something that can also help facilitate a merger. If the information is clear, based on facts and is up-to-date it could be an important factor to determine if the M&A will succeed. If the employees understand what is happening and have the facts about it, this could help ease some of the stress and anxiety that they would otherwise feel. This could in turn reduce the problems associated with anxiety, such as lower productivity. It could therefore help the merging companies to reach their financial goals,

such as strategic fit and realizing synergies with the merger (Appelbaum, Gandell, Yortis, Proper, Jobin 2000). Cartwright et al (2007), also found that between the two organization's they investigated, the one where management had made an extra effort by giving more information to the employees about what was going to happen and why, was more successful in reducing feelings of stress towards the merger. This supports Cartwright and Cooper's (1993a) findings who conclude that stress was eased by information and communication about the merger. Badrtalei and Bates (2007) argue that there could not be too much information when integrating two organizations and if the senior management are the ones who provide the information, it is less likely that productivity will go down and confusion will arise.

Most changes within organizations are stressful for the employees, and a way to get around this problem is to use communication. It is however important to realize that how it is communicated also matters. The information should be communicated with regard to the feelings of those who are affected by a merger or acquisition. If managers are more empathic and provide their employees with correct information it is likely that this will reduce some of the stress felt around the change that an M&A brings with it. Information and communication therefore seems as a key to making a M&A successful in all three stages of it, before, during and after (Appelbaum et al. 2000). That information is a key to successfully implementing a change is also supported by Banas and Wanberg (2000), who argue that information could help to get a wider acceptance for the change process.

Oreg's (2006) findings are in contrast to Banas and Wanbergs (2000), where Oreg conducted a hypothesis that he thought would support Banas and Wandberg's (2000) view that more information would lead to less resistance towards an organizational change. This hypothesis however was not supported and Oreg therefore found that it depends on what the information contains. Oreg argues that more information would only lead to less resistance if the resistance is irrational and due to the fact that employees do not have facts about the change. If, however, the employees do have something to lose due to the organizational changes it is likely that the information flow will only lead to an increased resistance according to Oreg's findings. Oreg therefore believes that it depends on the content of the information that is given if the resistance will increase or decrease.

Appelbaum et al. (2000) argue that it takes a lot of effort and dedication from the management to make a merger successful. Management should be aware that anything they say during this period of change, no matter how informal, can create rumors that will harm the process. They should also be careful with promises, since if these are not met it will cause anger, dissatisfaction and disappointment which could also hurt the process. It is important that managers have the ability to make the subordinates feel needed and comfortable and relaxed. If this does not occur and employees feel redundant it could lead to resistance or in some cases even sabotage. The management should realize that this is a large transformation and that it is something that is not easily done. Mistakes will be made, people will lose their jobs, and everyone within the organization will not embrace the idea. The way to cope with all this is to listen, empathize and communicate with the employees.

4. Empirics

In this chapter the findings from the interviews are presented. The chapter starts by introducing some background information of the mergers. This is followed by interviews of the merged subsidiaries separated into their own respective projects. Finally the project leader's view is presented.

4.1 History of the project

The idea to merge as many subsidiaries as possible within every country forming as few legal entities as possible came from the Corporation X's CFO who felt that there were too many subsidiaries at that time. The corporate group had at the time over 200 subsidiaries worldwide, and the CFO therefore saw a potential to restructure the group through mergers and liquidations. The CFO appointed a project group where Respondent X1 was given a leading role. Their tasks were to investigate if the idea was suitable to realize. The project group compiled the information they had gathered and presented it to the executive committee, who gave the project a green light in 2005. Thereafter all countries were responsible for investigating the possibilities to merge or liquidate some or all off their legal entities and also to conduct a cost benefit analysis. The findings were thereafter reported back to Respondent X1. If a merger was not sustainable, because of special circumstances or if the cost exceeded the benefits, the merger would not be performed.

According to Respondent X1, there is no clear goal with the project except for limiting the number of legal companies. The best situation would be if there was only one legal entity in each country, but this will not happen in Sweden. In Sweden, there are legal entities that have to be separated from other legal entities, for special reasons.

4.2 Motives behind the mergers

The project group presented three main reasons to the executive committee why the project should be realized. The first reason was to reduce costs by reducing duplication of work which had been spotted mainly in the financial functions within the corporate group. Respondent X1 mentions accounting as a source for utilizing economies of scale, where reducing the amount of financial reports and declarations could reduce costs. It is up to the project group of the affected business units to find other synergies.

According to Respondent X1, there is a lot to be gained by having one large and competent financial department, since some of the smaller legal entities use external companies to help them with the tax returns. Another reason that the project group presented to the executive committee was that the quality of the financial reporting could be improved. Since the group consisted of subsidiaries of different sizes, there were large differences concerning the competence of producing financial reports. Finally the risk of fraud could be reduced if there were fewer small legal entities. The respondent refers to Respondent X2, who is the internal audit director for the corporation, for questions regarding fraud.

Respondent X2 explains that the fraud issues are merely an effect of the stronger internal control that is created by the mergers. The issue regarding fraud, according to him, is at the bottom of the list of reasons why the mergers are carried out. He mentions that there are in general greater risks of errors in the financial reports in smaller organizations. One of the most important reasons for the stronger internal control in large organizations comes from segregation of duties. This means that the same person should not be responsible for the whole financial chain (approval, accounting, payments, control, reporting). If the same person is responsible for the whole chain there will be a lack of necessary controls that could reduce errors. Usually these errors are not from fraud, but arise due to misunderstanding or lack of

knowledge. Due to the size of small organizations, there are not enough employees to conduct the correct segregation of duties. He mentions that it is common, in smaller organizations, to only have one employee responsible for the whole financial department.

Respondent X2 explains that besides the will to commit fraud there also needs to be an opportunity. Therefore by using segregation of duties the potential risk for errors or fraud is limited. When the correct segregation of duties is implemented in the organization there are always others who double-check that everything is in order. Therefore it is more difficult in larger organizations to get the opportunity to commit fraud or to make errors.

According to Respondent X1, there are no taxation effects from merging the legal entities in Sweden. This is because of the taxation laws in Sweden, where the regulations concerning business restructuring are beneficial. The respondent does not see any general effects of creating larger legal entities either.

Respondent X1 points out that there are trends in reducing the amount of legal entities that corporate groups have and that there are other Swedish corporate groups that are performing the same type of mergers. Earlier the trend was for corporate groups to divide their business into legal entities to be able to link the result of each entity more easily. Today, due to new management accounting tools and IT systems there is not the same need to have them separated any longer. Instead of evaluating legal entities, corporate groups have today focus on evaluating each business units separately

4.3 Risks

In terms of risks connected to the merger of legal entities, Respondent X1 sees Sweden as relatively unproblematic due to the pension and taxation systems. The Swedish taxation regulations are designed so that it is easy to conduct restructuring within a corporate group. Lack of resources could possibly become a problem, when Subsidiary A becomes responsible for the new business units. Furthermore the financial reporting could stop working. No greater resistance has been encountered in Sweden, where most affected personnel have seen the advantages of the mergers presented by the group. Possible clashes between the new business groups are unlikely, because most of the legal entities being merged are familiar with the group's principles and routines.

The corporate group does not believe that there will be any loss in productivity connected to the mergers, due to the fact that the legal entities are mostly old acquisitions that have been incorporated in the corporation's principles and routines.

The subsidiaries that were acquired by Corporation X long ago have already been integrated with the corporation's processes and routines. They have for example the same budget process, the same reward structures and so on. Since the older acquired subsidiaries have already been integrated with the processes and routines, Respondent X1 does not think that this merger will affect them too much. The respondent argues that organizational change and all the issues it brings with it, such as cultural clashes, resistance to change and so on, happen at an earlier stage. These matters are related with the acquisition. It usually takes several years to change the existing organizational structure and integrate Corporation X's management control system to an acquired subsidiary.

Corporation X has not been particularly fast to integrate the newly acquired subsidiaries, which can result in more difficulties when merging them than the older acquisitions. Respondent X1 also mentions that an integration project has been started at one of the subsidiaries to more quickly get them to be part of the same management control structure used by Corporation X. They hope to improve the management control systems and routines.

A merger can be stressful and brings with it a lot of work; respondent X1 admits that not all are satisfied with the decision to merge. Even though there has not been too much resistance

towards the merger in Sweden there still have been some who have not welcomed the mergers. A CEO of one of the smaller acquired companies quit his position since he did not agree with the merger decision. Even though there has been some friction against the merger, once the advantages of the merger project were presented most of the subsidiaries have understood them and approved of them.

The corporate group has not given the potential anxiety problems associated with organizational changes much attention; it is up to the dominant subsidiaries in every country to make sure that the mergers run smoothly. No plans in advance have been made to make sure that both informal and formal leaders were behind the project before it started. The way they have handled the potential anxiety problem from corporate group level is to give as much information as possible to the subsidiaries.

4.4 General information about the Swedish process

Corporation X had no standard ways how the projects should be carried out, because it is hard to conduct a standard model due to the differences concerning the legal aspects in every country. The Swedish conditions were easier to overlook since the heads of the corporate group are located there and therefore have a good insight in Swedish laws and conditions. The Swedish subsidiaries were quite late into the project and the main reason was that they did not have the technical possibilities to solve some of the issues concerning the mergers. Respondent X1 compares Sweden with the subsidiaries in the UK, which is one of the countries that have come the furthest with their mergers. However, in the UK, there still exist some problems concerning the compatibility of the IT systems between the subsidiaries. This has led to their financial department has to compile all the data manually from all the different merged subsidiaries which is of course something that is time consuming. Subsidiary A therefore wanted to wait until it was technically possible to solve the problems associated with the communication between all the IT systems. They believed that it would take too much of the company's resources if they needed to compile everything manually.

4.5 Subsidiary B into Subsidiary A

Former Subsidiary B is a former family owned company located in southern Sweden and is in a related industry to Corporation X. They were acquired as a wholly owned subsidiary by Corporation X during 2000. They supply Corporation X and other manufacturing companies in Europe with parts to their products. The products aimed for the after-market, pass through the corporation's central warehouse in Europe. The former subsidiary works together with a partner company in the US and they do not produce their products on sight. No one in their industry is able to produce all products by themselves, so they also purchase finished products from external and internal producers within the corporation, to be able to supply a full range of products. The former subsidiary is in charge of their product line for the whole Swedish legal entity.

According to Respondent B1, former Subsidiary B believed that being acquired by a large corporate group was the right strategic move for the company and were therefore overall positive towards the acquisition. They had come to a halt in their organic growth and did not have enough power themselves to grow in Europe and therefore welcomed the acquisition. Respondent B1 explained that they wanted to be as integrated as possible to the corporation's work routines and processes. The first step was to change their IT systems so it matched the corporation's IT system. This was actually a step backwards for them since the corporation's IT system was older than their own. On the positive side they could easily access the corporation's network.

Previously they had been operating with great autonomy and they had their own customers until the recent merger into the Swedish legal entity was fulfilled. Early in 2010, the former Subsidiary B was officially merged with Subsidiary A, about one year after the integration

project had started. This subsidiary was the first to become merged into Subsidiary A. Today former Subsidiary B has transferred their entire external customer base to Subsidiary A's sales department and only sells internally within the corporation. They are at the present time fully integrated into the Swedish legal entity.

The executive group of the former Subsidiary B consisted of three people; Respondent B1, a controller responsible for the financial department and a HR manager. The Controller left former Subsidiary B in the middle of 2009, and since they knew that they were going to be merged early in 2010 no efforts were made to replace him. The financial reporting procedures would be changed after the merger so instead of replacing him they received support from a controller employed at Subsidiary A. The HR member of the former executive group also left her position since she saw that her role was going to be weakened after the merger. Many of her previous work duties would be handled centrally at Subsidiary A. This was also the reason why the controller left his position. It therefore led to Respondent B1 being the only one from the former executive group left after the merger. The business unit started to focus more on purchasing and that made it logical to give respondent B1 the role as manager over the new business unit.

A new executive group has been created consisting of six people. Due to the respondent's new central role in the business unit the merger has been positive for him. Even though some personnel were strongly affected by the merger, there were also those who were not affected at all. For example the warehouse workers and purchasing personnel have the same work routines today.

The reason that was presented to Respondent B1 why the merger was conducted was to reduce the amount of legal entities within Sweden. The respondent also recognizes that there are a lot of cost savings by this procedure. He feels that former Subsidiary B has been allowed to participate in the project and that former Subsidiary B had an active role in the development of an integration plan.

Respondent B1's own reflection why former Subsidiary B was the first to be fully integrated is that they already were using the corporation's routines as well as their common systems. He believes that the integration with other subsidiaries that lack the same level of integration as they had before the merger could experience more difficulties. He was therefore pleased that they already had done such a large part of the organizational changes before the merger.

There were no clear goals for the project besides that it should be completed on time. Even though he did not get any cost reduction goals presented to him, he recognizes that there in fact were cost savings taken place due to the merger. This because the personnel that left their positions were not replaced and their duties were moved centrally.

Former Subsidiary B closed some of their departments during the merger where an example was their reception. This part of the project is something that Respondent B1 is not pleased with. He feels that the tightening of the organization was done to quickly and he especially mentions the receptionist. He estimates that 5 percent of the receptionist's work duties consisted of answering the telephone and when the telephone switchboard was moved centrally she had to leave her position due to the rationalization. Others were then forced to do her remaining duties and since this occurred during an already intensive period it created problems. The receptionist knew that her position was going to be obsolete and she therefore looked and found a new job which caused her to leave on short notice. Her duties had not been documented and it soon became obvious that her work duties consisted of more than just answering the phone.

The project manager, Respondent A2, was frequently visiting former Subsidiary B during the integration period and worked close to the HR person. Respondent B1 mentioned, that he was pleased by the frequent visits conducted by Respondent A2. He feels that this helped smooth

the merger. However, when the HR person left her position before the project was completed it caused problems due to the fact that she was a key person in the integration. Respondent B1 therefore had to also cover her position in the project group.

Respondent B1 thinks that the rationalization was done much too early in the project. There would be a lot to be gained if they had waited until the project was completed before removing staff and seen how the final personnel demand would be affected. Another problem that was revealed during the project was the lack of resources. This occurred due to the rationalization but also since some in the project group left the company too soon when their positions were obsolete. The lack of resources led to an increased amount of work for the employees who were left in the company. He feels that the lack of personnel was a large problem during the integration.

Respondent B1 fully understands why they were merged into Subsidiary A and sees the advantages that came with it. At the same time he sees a shift of power, especially in the finance and HR departments, from them to Subsidiary A. They have lost some of their autonomy and feels that they are more controlled today. This is something that can be viewed as negative, but at the same time he feels that they belong to the corporate group. He also mentions that he has never felt that Subsidiary A has forced them into actions that they have not seen as legitimate and he sees the overall process as successful. Furthermore he mentions that they have a close connection to the finance and sales department located centrally and he views them as service minded and easy to cooperate with. They still visit each other frequently even though they are located in different cities.

Respondent B1 is pleased with the synergy created in the HR department. Former Subsidiary B has now got access to the central HR department, which he finds very competent. It has after the merger, been a lot easier to attract competent personnel when recruiting, due to the career possibilities created from working in a larger organization. Another synergy effect comes from using economies of scale in the accounting department which has also been moved centrally. A negative aspect of the centralization of the financial department comes from the reduced possibility to be able to control the income statement by using accounting techniques.

Overall Respondent B1 says that former Subsidiary B's organization has been slimmed down greatly after the merger. Even from the start of the integration, noticeable cost savings were seen, especially from the reduced personnel and economies of scale, which resulted in a profit during 2009 that surpassed their expectations. Respondent B1 says that the good result was very much appreciated and it was a good start for the new organization. Although the slim down has reduced costs it also has resulted in a large increase in work duties for some personnel which resulted in the personnel experienced the integration as demanding.

Respondent B1 has not noticed any notable increase in productivity, but mentions that it is hard to measure due to different work routines. In terms of increased efficiency they have conducted some minor changes. An example of this is the installment of an entry phone where visitors can call the contact directly instead of having to go through the reception.

The sales department has also been moved centrally and there are no longer any sales personnel in the business unit. This created concerns as to how well Subsidiary A's sales department would handle their previous external customers, since the corporation's main product was of another type. The central sales division would now also include former Subsidiary B's product in the product range. The concern was that the sales personnel lacked the right expertise to sell and maintain the customers. However the concerns were not justified and Respondent B1 says that they are pleased with how Subsidiary A's sales department is handling their products.

The distance between the two merging subsidiaries is seen as positive with regard to corporate culture. Respondent B1 says that this has allowed them to remain a small company within the large organization and it is something that is important for them since they are a former family-owned company. Former Subsidiary B works actively to withhold their historical culture since it creates a feeling of togetherness. He views their culture as a central part of keeping their business unit going and as long as they produce a good result they are allowed to remain small and relatively independent. There have not been any major conflicts due to their independence from Subsidiary A. He mentions that even though Subsidiary A is much larger, there are many similarities in their respective corporate cultures.

There is now, after the integration, a difference when investing for the former Subsidiary B. This is due to the increased control; Respondent B1 mentions that they have to get clearance from higher up in the organization even for relatively small investments.

From the start of the integration former Subsidiary B's employees were critical to the cuts in personnel that were conducted during the process. The negative feelings changed to the positive after the completion of the integration, but Respondent B1 strongly expresses that it is of utmost importance to try to keep the key personnel remaining in the organization during the project. Large problems arose when employees left early on and he does not feel that they received enough support from Subsidiary A during that period. He further mentions that he wished that there would have been an employee from Subsidiary A who could have stayed with their organization during the whole integration. Overall, he feels that Subsidiary A has conducted the integration well; beside from some of the personnel cuts, and that they are pleased to be a part of the larger organization. He feels that they are important for the organization and that they have been allowed to participate in the development of their own business unit.

4.6 Subsidiary C into Subsidiary A

Historically the Swedish sales division was broken out of the Swedish legal entity and merged together with other European sales division in the 90's. It was done because Corporation X saw tax advantages, economies of scale and believed that the accounting quality would improve. The idea was that a larger entity would create these advantages when all the competent personnel were gathered in the same entity. This would also likely increase the accounting quality when there were more financial experts that could support each other. Furthermore streamlining the accounting processes was seen as an advantage, especially for smaller entities. This led to the creation of Subsidiary C which before the merger was a legal entity where the European sales departments were grouped together.

Subsidiary C was in charge of the accounting and the owner of the European sales division. It was later seen that the tax benefits were no longer present and the corporate group had started working more towards services as well as products. This created problems for subsidiary C with both the accounting and handling, because there were differences between the accounting concerning products and services due to the complexity of the latter. It was now also more important to be close to the market and the earlier economies of scale had disappeared. A decision was therefore taken to bring back the sales divisions to their countries legal entities again. From now on Subsidiary C will only be the part of Subsidiary C that has been merged into Subsidiary A, meaning the Swedish Sales division.

The former Subsidiary C had a separate ledger, which resulted in Respondent A1 having to work in two ledgers; one ledger that consisted of the employees in Subsidiary A and another with the operational sales that belonged to Subsidiary C. The plan was to create economies of scale by combining the two ledgers into one. This was never possible due to the fact that IT solutions did not support it. The two ledgers created inefficiencies and therefore did not meet the goals. This reason combined with tax benefits no longer being present and the move to a more service orientated organization created incentives to move the Swedish sales division

back into the Swedish legal entity. The Swedish integration was completed on the 1st of December 2010. The other European legal entities did the same and Subsidiary C is today only active as a support function for accounting related matters.

Even though the integration is officially completed, Respondent A1 sees that there are still processes that can be more efficient. These processes are related to the closing of the books at the end of the month, since the processes between Subsidiary C and Subsidiary A are not the same. Respondent A1 is still working with Subsidiary C's processes when closing the books. This creates problems in the long term, since the current IT systems are not compatible with each other. This leads to inefficiencies, however, these inefficiencies could be solved by implementing a new IT solution according to Respondent A1

The merger project has taken a lot of effort from Respondent A1 to conduct. From the beginning Respondent A1 was informed that the project would not be too time consuming. However, in reality the productivity concerning her normal duties was affected, because the project stole a lot of time and energy. The project was running during the busiest time for the controllers since it was conducted at the same period as the heavy business plan processes. Therefore, the timing was not optimal, having the yearly closing of the books as well as the first closing in the new structure. The corporate group set a deadline for the project; it needed to be completed before 2011, due to reducing the costs of keeping another financial system alive. The deadline made it difficult to postpone the project.

The merger project has not affected the sales division organizationally, since it has merely been lifted in as a complete finished package into the Swedish legal structure. Respondent A1 still acknowledges that some effects, both positive and negative, might occur. On the positive side, she believes that in the long term a clear advantage will come from being a part of one legal entity with aligned processes and one finance director who is close to the operating units. Having just one ledger is also seen as positive and it makes reporting and analyzing a lot more efficient in all levels of the organization.

A disadvantage is that the merger has led to a lot of temporary solutions, since the legal internal sales were not solved before the merger. The respondent is concerned that these temporary solutions will become permanent. She also feels that the Swedish sales division is somewhat stuck between Subsidiary A and what is left of Subsidiary C, when closing the books. This creates problems, since they are a small player in both structures. The respondent therefore feels the need to find their new role in the organization and ways of coordinating and communicating. Finally, the respondent mentions that as long as they keep focus on solving the existing problems, they will be in a better situation than prior the merger.

4.7 Subsidiary D into Subsidiary A

Already in 2006 there circulated rumors of an integration into Subsidiary A and respondent D1 feels that there has been talk about these mergers since she started working there. Respondent D1's position as the financial manager gave her the responsibility to coordinate the merger from Subsidiary D's side and she was part of the merger project group.

After the merger Respondent D1's position as financial manager ceased to exist, since that position is today upheld by Subsidiary A's financial manager. Today she therefore works as the business controller for the new business unit. Her responsibilities were reduced and her surrounding financial department is today located centrally within Subsidiary A.

She explains that it is merely the accounting personnel that are affected since the accounting function is done centrally. It is easier for a large financial department to handle the tax and accounting issues that arises. There will still be a number of business controllers in the new business units depending on the size of the units, which will control the operational reports to Subsidiary A.

She believes that a reason behind the merger is to get a more efficient financial department by moving it centrally. Thereby the controller can be more focused on supporting the operational parts of the organization. She also sees a positive aspect by using the same processes, systems and routines and thereby making better information available. She believes that the corporate group wants to standardize the report process so that the whole corporation uses the same routines, systems and processes. Other positive effects are being able to use the corporation's centrally negotiated contracts with subcontractors.

The respondent feels satisfied that they have been active in the development of an implementation plan for the merger. Respondent A2 brought along a check list from the merger between former Subsidiary B and Subsidiary A, which they used during the process. This merger differed from Subsidiary B, since there financial IT system was not compatible. They were therefore forced to build a bridge between the two systems. Today, the operational part of former Subsidiary D is still working in their old IT system, Movex, while what is left of the financial department works through Subsidiary A's IT solution. This merger was the pilot case for an integration with none-compatible IT systems and together they created a new checklist for this type of merger, which was also built on the earlier experiences.

Respondent D1 understand why the merger was conducted and she sees advantages of the standardized processes, routines and systems. She reckons that with the same routines, processes and systems it will be easier to compare business units within the corporate group, since everyone has the same possibilities. The merger has led to fewer possibilities to control your own result by accounting measures. She also explains that competence is another important factor. An example of this is once a year when conducting the tax rapport, she felt it was a struggle every year to get it right. It was difficult to keep up with the new rules and regulations in taxation and accounting. She therefore feels that the quality will improve by locating these matters centrally and there is no longer any need to use external consultants and accountants. Although she recognizes the advantages she does not fully understand why a well working financial function needs to be moved centrally.

The merger has not been welcomed from Subsidiary D because of the advantages from being a smaller firm. Respondent D1 points out that their former organization was more flexible and that decisions could be taken much faster. There was also a more informal culture, where everyone sat in the same lunch room. Furthermore Subsidiary D is concerned that their small unit will be forgotten inside the much larger new organization. She feels that the negative feelings have outweighed the positive towards the merger.

Since many duties in the financial department have been moved centrally, there is not the same need for finance personnel any longer. The corporate group will try to find new positions for the redundant personnel. This is something that she is confident that the corporate group will help achieve. During the process she has included and kept the concerned personnel informed about what is going to occur to keep tensions down. These personnel were a part of the project group since Respondent D1 did not want to keep secrets. By doing this she feels that she has limited the risk of staff leaving during the merger due to the uncertainties for their future. Furthermore the former CEO loses his title and becomes the manager for the business unit.

The productivity has been clearly affected negatively during and after the merger. Today the processes are much more complicated than before. Since the former Subsidiary D's personnel worked closely together in the same office and were thereby able to quickly solve upcoming problems. Today they are not working as close together and thereby the productivity becomes negatively affected. The decision making process takes much more time today, since everything needs to be approved at higher levels.

Respondent D1 mentions that she feels that the new business unit is a bit more controlled today, because they are working in the same system as Subsidiary A. This has led to more

questions and follow-up of their financial data. This is something that was not done before. Furthermore, there were no clear goals for the project except for the timeframe and that the first monthly report should be correct.

She also mentions that after the mergers are completed a number of career steps especially in the finance functions will be erased. This is because there are not as many financial functions left in the corporate group. She mentions that the next step for her as a financial manager of a smaller business unit would now be to manage the whole Swedish legal entity. She feels that this step would be too large. If there instead would have been many different subsidiaries of various sizes with their own financial functions the carrier possibilities would be much better.

She feels that it is important to realize that you are dealing with people in these mergers and it is therefore important to listen to concerned parties and their concerns. In this case there was also the IT-solution that needed to be coordinated and this caused some problems. Small problems can easily become large problems when it comes to IT. She mentions that another way to solve the IT problems would have been to implement the corporation's common systems instead. Since their IT-system was something that they used in all of subsidiary D's subdivisions they chose to keep Movex and build a bridge to the group's financial system. After the merger she feels satisfied with the chosen IT-solution, but altogether she explains that it is too early to fully understand the long term effects of the merger.

4.8 Subsidiary E into Subsidiary A

Respondent A1 is also active in another merger project which is just about to start. The respondent sees different degrees of integration from just a legal aspect to a fully operational integration. There is a lot more synergies to be gained from a full integration for the respondents division. These possible synergies are seen in sales, where the company wants to have "one face to the customer", meaning that one sales department supplies all the products and services. The administrative cost could also be reduced because there is a lot of work that is done twice.

The respondent sees synergies in mainly the administration and financial departments and possibly the management functions. She understands the advantages of the mergers and sees them as legitimate. She also recognizes that smaller companies that will be merged into subsidiary A's legal entity might feel anxious about the fit. Smaller companies are used to their autonomy and concerns might arise about how well their processes will fit in the new organization, which often has one process constructed to fit all.

The respondent also indicates that a problem might arise with the mergers since the corporation is built upon a matrix with divisions and legal entities. The problem would occur if the focus on the divisions would be stronger than the legal entities in the countries. The CEO for the Swedish legal entity is also the manager for one of the divisions. This could become a problem if the merging subsidiaries are not active in the same division/cluster as the CEO is manager for. The respondent feels that a key success factor for the merger is that the CEO is able to focus on both the legal entity and the division. It is therefore important for the CEO to be seen as neutral by the merging subsidiaries. She implies that there are no problems regarding this today, but since the CEO has the responsibility for the two there is a thin line.

The subsidiaries that will be merged into the Swedish legal entity are relatively small compared to the dominant subsidiary and are sometimes not active in the same field as the core activities within the Swedish entity. The respondent sees that resistance could arise if all the parties of the organization are not kept in mind when designing the processes. It is thereby important to include all parties to make sure that the processes will fit all. The respondent points out that it is of utmost importance that the legal entity does not forget all the parties who are not included in the historical core activity, manufacturing. The biggest challenge for the merger project is thereby to make sure that the legal entity supports all business areas.

Historically, Corporation X has been focused on manufacturing and products, but today other business areas are growing. One such area is in services and with these new business areas comes new needs.

According to Respondent A1, there are no formal plans in advance to meet possible culture clashes. Operationally, the unit is already a part of the structure, but the local organization remains. However the organizational change that will occur must be handled delicately. An example is that there is only one customer service department in the Swedish Service Division and thereby the merged subsidiaries might in some degree need to adjust their processes and IT-solutions to fit it.

The respondent explains the importance of involving the subordinated subsidiary personnel in the project group. The current CEO of the subordinated subsidiary will lead the project group with his CFO. From the dominant side respondent A1 and one person from customer services are included as well as the sales unit manager. Other parties such as central finance must be involved in the project for the legal financial integration.

The company's employees have already been moved to the Swedish legal entity, which means that the employee contracts and conditions comply with the Swedish legal entity's conditions. In this case the conditions were improved seen from the bonus and incentive programs. The employees were therefore satisfied with the new conditions.

Subsidiary E will be fully integrated into the Swedish legal entity and the organization. This means that the whole subsidiary will be affected by the merger, where processes, IT and organizational changes will be present.

4.9 The effects on Subsidiary A

The subsidiary has been active for over 20 years and is considered a large company according to Swedish standards. Subsidiary A therefore meets more than one of the following requirements for two years in a row, that is, more than 50 employees in average, the total balance sheet exceed 40 million Swedish krona or the net sales exceeds 80 million krona (Årsredovisningslagen 1:3§). The Subsidiary is delivering their products and services around the globe and they are therefore active on a global scale.

The merger projects have greatly affected the daily service, due to the amount of time that needs to be spent on the mergers. Respondent A3 mentions that his system administrator, who is working under him, has suffered from a large increase in workload. This is because the system administrator is active in all projects concerning the IT compatibility issues. This has led to the system administrator not giving the same amount of service, due to the lack of time. In the short term, the workload has been extremely high especially during the integration periods. This is due to the increased number of tests and system changes that need to be conducted during the merger processes.

Respondent A3 feels that there have been too many ongoing projects at the same time. There has not been sufficient time for them to catch their breath, because after a merger has been completed there has always followed yet another merger project. After the integration of Subsidiary E, there will therefore be a pause in the mergers for the personnel to get back to normal service standards. Since he started, there have always been large ongoing merger projects and he has therefore not seen the normal state of affairs.

In the long term, Respondent A3 does not believe his workload will increase much. If the entities he is responsible for increase from 30 to 32, the workload will not increase that much. He mentions that he might receive some more questions, but that is all. Therefore, the respondent mentions that there currently is no immediate need to recruit controller personnel to Subsidiary A. In the long term, however, this might change depending on how many subsidiaries will be integrated and their sizes.

He is not directly involved in the integrations, but he is affected by them. During the mergers he needs to be flexible with his day-to-day assignments to adjust them to the increasing entities. The respondent needs to give support to the new entities during and after the integration and therefore he receives more questions.

Respondent A3 does not clearly see the advantages that the mergers will bring. He feels that the mergers cost more than the benefits that can be gained. He mentions especially Subsidiary D, were the costs for this integrations has probably cost a lot, both in time and money. Subsidiary D has been running Movex as their finance IT solution, but has after the merger been forced to use Subsidiary A's older IT solution. Movex is a much newer IT solution than the one used by Subsidiary A. The routines and processes in Subsidiary D were built around Movex so they needed to be changed.

He also feels that the corporate group should have informed them more clearly about the effects. Up until now the motives and the effects are not clearly defined in advance for the subordinated subsidiaries. Since these subsidiaries no longer produce their own financial reports, Respondent A3 sees possibilities to reduce the amount of financial personnel. He questions the motives behind these mergers and what positive effects will be created from them. He furthermore feels that the follow-ups of the projects are not sufficient and he has not seen any cost reductions so far. For example former Subsidiary C still purchases financial services from the internal financial consultant entity that they were earlier a part of. Today, former Subsidiary C buys financial services from both the consultant entity and Subsidiary A.

The respondent has not seen any clear overall synergy effects, due to the mergers. For his part, he can see that synergies exist, since it does not matter that much if he handles a couple of more entities or not. On the other hand the controllers are still present in the former merged subsidiaries also. Respondent A3 has taken over some of their assignments and wonders how much the other controllers are doing. He feels that he cannot give a straight answer about the synergies, since he has no insight in how the subsidiaries used to work before the mergers.

Respondent A3 is feeling fed up with these projects now and he feels that their department's point of view has not been listened to, especially when integrating Subsidiary D. He mentions that the organization was not ready for that integration, since they were currently in another ongoing project. He looks forward to the coming pause in the integrations so that there will be a possibility for them to organize and get back to normal for a while.

A positive aspect of the integrations is that the network within Subsidiary A expands and Respondent A3 especially mentions the new contacts and business as interesting. The respondent sees future mergers more difficult from a cultural perspective. This is due to the much larger size of some of the future mergers that might be performed.

The financial department at Subsidiary A has been affected by the integrations, where there has been an increase in work duties. The respondent has not noticed any staff turnover in relation to the mergers. He mentions that there is a risk for increased staff turnovers if the workload continues to be too high even after the mergers are completed.

The control over the operational processes is not affected at all according to Respondent A3, since the subsidiaries still report within the same hierarchy. The respondent feels that his services to the ordinary business units are affected negatively since he does not have enough time to support them. He also feels that the improvements within controlling that he wishes to implement has had to wait because of the mergers projects. Finally Respondent A3 mentions that a lesson to be learned is not to have too many of these projects in close range to each other. It is important to find a normal state in between projects. Otherwise the quality for all concerned parties will suffer.

4.10 The project leader's view

The project groups have consisted of a number of personnel from all concerned parties. From the corporate group, Respondent X1 has been involved by performing the legal aspects of the mergers and liquidations. Respondent A2 has been responsible from Subsidiary A, and besides them there have always been some members from the subordinated subsidiaries. All the different parties have been involved in making the mergers as smooth as possible from their respective sides. Respondent A2's roll in the mergers has been to be a bridge between Subsidiary A and the corporate group and to inform the subordinated subsidiaries which new routines they need to create to fit in the new organization.

Respondent A2's daily duties have not been affected by the mergers since she has been the project manager and worked fulltime with the mergers. However, she explains that others in Subsidiary A's financial department have been affected. She mentions that merging the subsidiaries will result in an increased workload for the financial personnel at Subsidiary A, but that some of the effects are merely that larger transactions that occurs. In the beginning of the merger there are bound to be a large increase in work duties due to errors as a result of new routines, system changes, etc. In the long term these errors will have been corrected and therefore the work duties will be normalized.

The respondent feels that Subsidiary A has had some flexibility from the corporate group concerning the timing within a certain timeframe. Concerning of how the implementation should be done they were given free hands from Corporation X to develop their own plans. This is something she feels could have been done differently since there are common financial systems and processes within the corporate group. Much could have been learnt from earlier mergers around the world and a guide could have been developed from the corporate group to facilitate these and future mergers.

She feels that it would be a good idea to sit down with all parties involved in the merger projects and together with the corporate group's common processes department document the merger process. This is important so that others can learn from their experiences. They have not used the experiences from other countries that have already performed their mergers to facilitate the Swedish mergers. She feels that this could have been done differently and mentions that the whole corporate group is lacking in the exchange of information.

The respondent believes that the two mergers that she has been managing have been the right move for the corporate group and therefore supports the decision. She understands that there are advantages by having one financial manager who makes sure that everything is done in a proper and comparable manner. She also feels that there is no need to have accounting and taxation experts on all subsidiaries since the quality cannot be as high as when it is centralized. They have since the mergers made some adaptions of the reporting in the subordinated subsidiaries to follow Corporation X's rules. The quality is now therefore better.

Some immediate synergies which are created by the mergers are fewer external accountants and membership costs to different industry specific groups. In the subordinated subsidiaries there are no longer financial managers, since the positions are now upheld by the financial manager at Subsidiary A after the mergers. Another synergy that has arisen due to the mergers is to be found in the other central service functions such as the HR-department. There is no longer a need to keep a HR manager in the former subordinated subsidiaries. The HR synergies were not something they had expected and they thought that the synergies would only be in the financial functions. In the merged subsidiaries there are now only controllers left and there is no longer a need for accounting personnel, since the accounting is moved centrally.

There are no goals how much the mergers are allowed to cost; the goals that have been set up are merely the time frame. However, the respondent does not see any external costs

associated with the mergers. The cost of the new IT solution is however not something that the respondent associates with the merger, since the corporation strives for a common IT solution regardless of the mergers.

She explains that the question whether or not the project should be undertaken is not something that is discussed in the financial department at Subsidiary A. However there are finance personnel that are concerned that the mergers will result in an increase in the amount of work. No extra resources have been added to the department after the mergers. She compares these feelings with a consultant company who think it is positive to get more assignments and where the staffing is planned after the assignments. In a central service organization however, this is not the case.

Something that could be a negative effect by being a larger organization is that the CEO of the Swedish legal entity now has the legal responsibility for a lot larger organization. The CEO must delegate more of the duties and it could be difficult to have a holistic view. The respondent also recognizes that a problem is arising due to the disappearing of career steps within the organization. She mentions that a concern is who would be suitable for the position as financial manager for the Swedish legal entity in the future, now that there are less ways to grow into the position by climbing the career ladder. This is a problem that could possible concern the HR-department as well, since they have the same problem with less career steps.

A problem that arose when merging former Subsidiary B was that key personnel left their position during the process. This caused problems since they were the ones who would smooth the merger from their side. This was learnt and taken into account when merging former Subsidiary D. It is important to not make the rationalizations before the merger is completely finished since there is an increase in the workload during the process.

A lot of the experiences gained from the merger of former subsidiary B could be used when merging former Subsidiary D and the respondent had a checklist made before merging the subsidiary. She feels that her experienced should have been much better taken care of and documented to be used in future projects. To document the experiences gained through the mergers is something that she feels should have been included in her work duties, and she suggest that this should be done in all countries that undertake these projects to create a best practice.

The respondent feels that the internal control has improved since the merger. All business units have the same routines now and this is something that will result in less auditing. Another result of the mergers that is important to keep in mind is that some personnel loss their former title for example the CEO and the CFO.

5. Analysis

In this chapter the authors have analyzed the findings from the frame of reference, with the findings of this thesis's empirical chapter. The chapter is divided into three main sections which correlate with the research questions. In the first section the motives behind mergers will be analyzed. In the second section the financial effects will be analyzed. Finally, in the third section the organizational effects will be analyzed.

5.1 Motives behind mergers between subsidiaries

Cost reduction synergies were presented as the main reason for why the mergers within Corporation X were performed, according to Respondent X1. He saw the reduction of duplicate work duties, especially in the financial functions, as a way to reduce costs. This thesis can therefore support both Hunt's (2009) and Guaghan's (2007) findings that cost reduction synergies are motives for conducting mergers.

Besides for the cost reduction synergies, Respondent X1 also mentioned the increased financial reporting quality and internal control as reasons behind the mergers. Since many of the subordinated subsidiaries were small, they did not have the possibility to keep up with accounting standards. By moving the financial functions centrally, Respondent X1 believed that the financial quality would improve, because the experts were then gathered in the same place. Furthermore, by moving the financial functions centrally, the risk for errors and fraud was believed to be decreased. Respondent X2 added that the risk for errors and fraud were reduced through the use of segregation of duties. In smaller financial departments it is hard to keep the duties separated, since there is often only one person responsible for the entire department. Increased financial reporting quality and internal control have not been found in previous research as motives behind mergers.

Previous research has found a number of reasons for why companies merge. Both Hunt (2009) and Guaghan (2007) mention that growth is one of the most common reasons. This happens by acquiring and merging with companies who offer the same products, operate in the same market or have the same customer base. However, in the studied mergers in this thesis, growth has not been a motive for why the mergers have been conducted. Respondent X1 did not mention growth at any time being a reason for the mergers. Neither was diversification, which is another motive, presented in previous research by Hunt (2009).

Integration, both in horizontal and vertical terms, are brought up by Guaghan (2007) and Alarik (1982) as reasons behind mergers. In this thesis researched mergers there have not been any information presented that integration was a motive for the performed mergers. Furthermore, Respondent X1 mentioned that tax advantages were not present when merging subsidiaries in Sweden. In Sweden the taxation system does not treat companies or subsidiaries differently, as long as they are within the same corporate group. This correlates with Devos (2009) findings and this thesis can therefore give support to the findings.

5.2 Financial effects of mergers between subsidiaries

There is a risk involved when merging unrelated businesses viewed from Hunt's (2009) earlier research. Hunt states that a reason for acquiring a business in an unrelated field is, for example, to gain new markets. Another large advantage comes from not having to start from scratch. When analyzing the three mergers conducted by Corporation X, former Subsidiary D is in an unrelated field. They were also the ones who were furthest from Corporation X with regards to a smooth merger, since they needed to change both IT system and their processes. Respondent D1 says that after this merger was completed everything is much more complicated and takes more time in the financial department. This merger has led to that the

personnel in Subsidiary D feels that much is now more complicated and slower than it used to be. According to Respondent D1, former Subsidiary D was a successful business and they had routines that worked well for them. The merger has upset these routines and their well working operating unit is now more complicated and inflexible. As Hunt argues, there is much to be gained by not having to start from scratch and this merger has to some extent led to a need to change the processes and routines in the new business units.

Larsson and Finkelstein (1999) argue that the degree which organizations integrate is what mostly affects if the merging organizations will be able to realize the potential synergies. Larsson and Finkelstein also state that to be able to reap these synergies, organizations need to change their processes and make organizational changes. The integration of Subsidiary D has been both substantial and has led to the change of processes. Based on Hunt's previous research, Corporation X could miss out on the advantages from having a functional organization and not having to start from scratch when acquiring a business that is unrelated. At the same time when the merger decision was taken it is important to integrate to a large extent to be able to reach synergies according to Larsson and Finkelstien.

This thesis can support Larsson and Finkelstein's (1999) which conclude that to be able to reap the synergies organizational changes has been a necessity and they have required a substantial integration. In Subsidiary B where the synergies have best been exploited the integration has been substantial and synergies have been achieved in the HR-department, financial department and their sell organization. Respondent A1 concludes that there will be more synergies when merging Subsidiary E than what was gained when merging Subsidiary C. This because the integration will be to a larger extent than what was done in Subsidiary C. The integrations done so far are of smaller firms compared to the dominant Subsidiary A. Larsson and Finkelstein argue that there are larger synergies to gain if the merging firms are of larger sizes but this thesis has encounter that even if one of the merging companies are small there do exist large opportunities for synergies.

Even though the integration of the sales division from former Subsidiary C has been completed there are still organizational changes that need to be done if the synergies are to be fully exploited. Respondent A1 expresses concerns that temporary solutions will become permanent. Also in Subsidiary D there has been a necessity to change the organization so synergies could be gained. They have reached the same synergies as Subsidiary B but needed to make larger adjustment since they were not technically ready for the integration.

According to previous research, synergies are common in connection with mergers. Hunt (2009) and Guaghan (2007) both present cross-marketing or economies of scope as a common synergy, where the sales department gets access to a wider range of products and customer base. This synergy has been realized in the researched mergers, where the corporate group is focusing on "one face to the customer". Respondent B1 and D1 mention that their entity's sales department was moved centrally. This will also be the case when merging Subsidiary E, according to respondent A1. In Subsidiary B, this first created concerns about how well the centralized sales department could handle the products which were not the corporation's main product. These concerns were not justified and Respondent B1 feels satisfied of how their products are handled towards customers.

By relocating the sales department centrally, cost reduction synergies have also been realized. There are no longer any sales departments located inside the former subordinated subsidiaries. Guaghan (2007) mentions cost reduction synergies and the use of economies of scale to reduce costs. By moving certain departments centrally the work duties become contained to a limited amount of personnel. The financial- and HR departments have both been moved centrally in the researched mergers. The former subordinated subsidiaries no longer need accountants and HR personnel since their work duties are done from the dominant legal entity, Subsidiary A. Respondent A2 and A3, mention that the financial personnel inside Subsidiary A, which have taken over the financial duties from the

subordinated subsidiaries, have received an increase in the workload. However, this increase is seen as a short-term problem and both respondents believe that in the long term the affects will be limited.

Hunt (2009) mention that there are synergies by having better negotiation positions against suppliers and by receiving better terms from lenders. Respondent D1 confirms this, since after the merger they have been using the corporation's centrally negotiated contracts. Respondent A2 further mentions that membership fees to industry specific groups can be reduced.

According to Respondent X1 some of the smaller Swedish subsidiaries used external accountants to help them with the accounting and taxation questions. Respondent D1 confirmed this since she remembers that they had problems with the taxation every year. The cost reduction comes from the synergy of creating one financial department who can work fulltime with accounting and taxation questions and thereby the need for external help is reduced. This has led to an increased quality in the financial reports since all the experts are gathered centrally and it is easier to keep up with changes in accounting and taxation rules and regulations. Respondent A2 mentioned that this synergy has been realized in the mergers she has managed.

The centralization of certain departments has created additional positive effects for the corporate group which have not been encountered in previous research of mergers which the authors of this thesis have used. In the financial functions, these effects come from a higher quality in accounting and taxation matters. This is because the personnel within financial functions have a stronger possibility to keep up with changes in accounting and taxation standards. Furthermore, the centralization of the HR department has been viewed as positive and Respondent B1 mentions that he is pleased with their competence. He also says that it has become easier to employ competent personnel since they are now a part of the large corporate group, where future career possibilities are larger.

However, Respondent A3 is skeptical about how well the synergies are being realized. His position as controller for Subsidiary A has had an increase in work duties, while the same numbers of controllers are still active in the former subordinated subsidiaries. Therefore, he feels that there could possibly be a chance to reduce the number of controllers. Respondent D1 mentions that even though the financial function is moved centrally, there still needs to be business controllers in the former subordinated subsidiaries to control the operational rapports. Respondent A3's negative feeling can be associated with the increased workload in the dominate Subsidiary A and correlates well with Respondent A2's indication that more work causes less satisfied employees. The negative feelings towards the new assignments arise because no further support is given to the department.

Large organizational changes leave marks and everyone will not welcome the decisions that have been made. When viewing the mergers from a corporate perspective in terms of synergies and cost reduction there are advantages from merging the subsidiaries. However, the costs associated with the mergers have not been measured and therefore the costs of conducting the mergers are hard to apprehend. Even though some units have been easier merged than others, in the long term there will likely be positive financial affects with the reduction of personnel. Respondent B1 points out that after the merger, former Subsidiary B has been slimmed down greatly. This resulted in a profit that exceeded their expectations during 2009. The use of economies of scope and cross-selling could create positive effects in terms of revenue driven synergies in the long term.

Guaghan (2007) mentions, that revenue enhancing synergies are hard to anticipate in advance, while cost reduction synergies are easier. This correlates well to the researched mergers, where cost reduction was one of the three reasons behind the decision to start merging subsidiaries worldwide. Respondent X1 had, during the first presentation to the executive committee, suggested the reduction of duplicate work duties in the financial departments.

Even though the reduction of personnel was not a goal according to Respondent X1, merging subsidiaries led to the amount of financial reports that needed to be created decreased and thereby a reduction in accounting personnel has been possible. Additional synergies were from the corporate group given to the different project groups to find and realize. The centralization of the HR-department and sales are examples of this.

In Devos (2009) study, he found that taxation synergies were very limited in mergers. This correlates with this thesis finding, where Respondent X1 concluded that there are no tax effects except for the competence being gathered centrally in the Swedish mergers. There are not any differences between being one legal entity or several legal entities as long as they are within the same corporate group.

The mergers have not affected the operational duties within the former subsidiaries; therefore no synergies have been realized in the operational departments. A reason why the operational duties have been unaffected is since they are unrelated and do not produce the same type of products as the operational functions within Subsidiary A. Therefore, there have not been possibilities to integrate the operational functions to take full advantage of all the economies of scale. Thereby there has neither been a need to relocate the former subordinated subsidiaries to Subsidiary A's geographical location. However, in the future there are subsidiaries which can be integrated operationally. Subsidiary E is one of these subsidiaries where the merger will affect routines, processes, IT and the operational duties. This integration could therefore result in larger merger problems, since cultural and organizational affects can become present.

From Corporation X's view, there are no concerns that the productivity will be affected negatively by the mergers. However, from the Swedish subsidiaries these feelings are not shared. Respondent B1 mentions that the productivity is hard to compare since the work duties have changed. Respondent A1 feels that her productivity towards her normal assignment has been greatly affected, because the mergers have taken a lot of her time. She had earlier been informed that the mergers would not result in too much increased workload. The time period in which the mergers were active was a key to these feelings since the busiest business planning process was running at the same period, according to Respondent A1. Respondent A3 feels the same in terms of the timing, since his department was going through another large project at the time of merging Subsidiary D.

Respondent D1 adds that the productivity in Subsidiary D has been negatively affected by the mergers. She mentions that their processes are much more complicated today and not working in the same office creates delays when problems arise. Furthermore their decision making process is affected negatively since higher levels need to put their approval on decisions. It clearly has affected productivity more than anticipated by Corporation X.

This thesis finding gives support to both Kwoka's (2010) and Bernard's (2010) research confirming that the productivity is affected negatively by mergers. Kwoka introduces a number of reasons where management motives and mistakes in restructuring could have played a role in the research mergers. According to Respondent X1, Corporation X had three motives in mind for the mergers; reducing costs, increasing the accounting quality and limiting fraud. In order to achieve these goals there has been some negative effects in terms of productivity and efficiency. This was not a concern from Corporation X, according to Respondent X1. Furthermore, mistakes in the restructuring have been observed, especially during the first merger. When merging Subsidiary B key personnel quit their jobs and they fired the receptionist too early, which had negative effects on the productivity. This was learnt and taken into consideration in the following mergers, by using checklists and having plans for the employees who were affected by the mergers.

Bernard (2010) adds that affects from mergers need to be measured during a long period of time. Respondent A3 mentions that his system administrator and himself have seen a large

increase in workload due to the mergers. However, Respondent A3 sees this increase as short-term effects and do not believe that Subsidiary A will need to employ more personnel in the long-term. This study can thereby relate to Bernad's findings. There are always problems that occur when implementing new systems and processes. It takes time for the employees to find their new roll and how to work with new systems and processes. Furthermore it takes time to find and correct all the faults that arise from these types of problems. Respondent B1's view of their merger correlates to Bernard's research, were his view of the merger has become more positive after seeing the synergy realization. Respondent A3 adds that the system administrator and his daily service have been negatively affected in the short-term. However in the long-term he believes that his workload will fall back to normal and thereby he will be able to give better service again.

5.3 Organizational effects of mergers between subsidiaries

Even though the interviewed personnel from the subordinated subsidiaries reckon that the mergers are the right strategic move, not everyone welcomes them. Respondent D1 has clearly mentioned that she dislikes the idea of disrupting a well-functioning organization. Even though Respondent B1 was negative at the beginning of the merger, this changed during the process. Schein (2004) argues that group identity could be the reason for the negative feelings. Former Subsidiary B and D were earlier small firms that enjoyed great autonomy and this has changed since the merger. They fear to lose their group identity as a small firm since they are now a part of a much larger organization. The mergers have upset the structural stability for the subsidiaries even though all the respondents feel that their corporate cultures are similar to that in the dominant Subsidiary A. Since their identity is their stabilizing force they oppose the merger by that reason.

This has most clearly been noticed in Subsidiary D where some of the personnel still are negative towards the merger. Respondent D1 explained in her interview that she misses the feeling of being able to take quick decisions and to work closely together with her colleagues. Subsidiary B and the employees there were already from the start more positive towards the merger although they were critical towards all the rationalizations. They are however after the project is completed very satisfied with the result.

All firms have their own corporate culture and when merging subsidiaries the corporate culture will change since this leads to changes of their processes and how work is conducted. In Subsidiaries B and D, this has been mostly encountered since they earlier were independent from corporation X. Subsidiary C has always been within the corporate structure and therefore worked with their routines. Schein's (2004) view of culture is that it is based upon three layers, Artifacts, Exposed Values and Underlying Assumptions. Artifacts and Exposed Values are what are immediate threatened by the mergers. New routines and processes may upset the culture and spread uncertainty since the employees are no longer in their safe zone that their culture has embedded them in. One might expect that this would occur in this case, since the mergers have led to new ways to conduct the work duties and a lot of organizational changes, but this has not been the case.

The cultures of the merging firms have been similar. This is something that could have eased the potential cultural clashes. It would therefore give support to Cartwright and Cooper's (1993a) finding, that if the merging firms have similar corporate cultures it makes the mergers easier to conduct. Their findings also suggest that the stress levels and the anxiety will be lower if there already from the beginning is a compatibility of the corporate cultures between the merging firms. This has been the case in the researched mergers were all the respondents have mentioned that their culture is similar to Subsidiary A's. Respondent B1 mentions that Respondent A2 frequently visited them during the merger and that they had a controller from Subsidiary A to support them during the merger. Larsson and Lubatkin (2001) argue that these kinds of socialization activities is also a source to reduce the potential cultural clashes

and that they could lead to acculturation. Respondent B1 expresses that he feels that the visits made by Respondent A2 have been important to make the merger smoother.

Subsidiary B had already also started their harmonization to the dominant Subsidiary before the merger by changing their IT-systems so that it matched Subsidiary A's. They also changed their processes, especially in the finance department, to fit Subsidiary A's soon after they had been acquired. Subsidiary B also reckoned that this was the right strategic move for their business and therefore were positive from the start to be a part of Corporation X. This is surely factors that have made their integration smother from a cultural perspective. Subsidiary C was already inside Corporate X's structures and therefore their integration did not experience any larger cultural effects. Nor have there been any larger cultural effects in the merger of Subsidiary D.

There has not been any plans in advance how to deal with the match of the corporate culture and there have not been any larger cultural clashes in any of the researched mergers. To lack plans in advance can lead to more difficult mergers according to Greenwood, Hinings and Brown (1994), but in these mergers it did not.

Subculture

When merging all these different subsidiaries and forming new business units there is clearly a risk that they will form subcultures based on their former companies cultures. It is a possibility for subcultures to emerge and it is therefore important to make sure that all merged subsidiaries are aligned with the goals and the culture from the dominant subsidiary. Previous research from Schein (2009) indicates that management must consider that there exists other cultures and deal with these matters from the beginning. In the examined mergers, the cultural aspect has been overlooked and although it has not lead to great problems in these three mergers it could become problems for future mergers. If there are not any plans in advance to integrate the culture, Gancel et al (2002) has shown that there in the future might become more difficult to handle these matters. This since the corporate culture is by then deeply rooted in the heart of the business unit.

Schein (2009) argues for the need to deal with the corporate culture issues before integrating and also to consider what culture they desire to have in the new business units. Subsidiary B has worked well in this aspect. They have since they were acquired changed slowly and were therefore culturally and organizationally ready when the final integration came. To change slowly over time is what Schein recommends. Although they are still keen on defending their identity as a small company, they have accepted that they are a part of a much larger organization now and evolved a mixed culture consisting of their own and Subsidiary A's. In Subsidiary C this was never a problem since they were already inside the corporation. There is clearly a larger risk of subcultures to evolve within Subsidiary D since they still view the merger as somewhat negative. There could be a risk that they do not want to embrace the new processes created there since the synergies have not been present from their perspective, according to Schein.

Differences in management styles are something that could lead to conflicts. In this thesis researched mergers, Subsidiary B and D have reported that they feel more controlled today and that the merger has affected their opportunities to affect their result by accounting measures. Although this is viewed as a negative effect by them, the authors have not seen the effects that Datta (1991) encountered in his report. Conflicts have not been spotted yet due to differences in management styles, since there is a great respect towards each other's organizations.

Resistance to change

The changes have not gone by without any resistance. The most obvious resistance that has been encountered is that some employees have left their positions. This thesis can support Van den Steen's (2010) findings which states that the cost of a cultural clash will show up at the start of the merger. During the merger of Subsidiary B some personnel left their position due to the merger. If this is due to cultural clashes or personal reasons is difficult to tell since the affected persons have not been interviewed. However, based on Respondent B1's answers these encountered cases occurred because of the loss of identity.

The "the identity based model process" conducted by Van Dijk et al (2009) explains why some personnel left their position after the merger decision. It seems that some employees have lost their work identity when the mergers were completed. In one case the CFO left his position and according to Respondent X1 this could be traced back to the fact that he no longer after the merger was a CFO. The former CFO would become manager over a business unit and the loss of status and their work based identity therefore seems to be an important reason for why people leave their positions. This thesis therefore also finds support to Hambrick and Cannell's (1993) finding that loss of status matters to people.

It is not just the CFO's who loses their identity, since former financial managers within the subordinated subsidiaries lose their titles and becomes business controllers. With this loss of rank, a lot of the responsibilities also disappear and in Subsidiary B this resulted in that their financial manager left his position. He was disappointed and felt that his role in the company disappeared according to Respondent B1. In Subsidiary B their HR-manager also left her position due to the weakening of her role in the company. Therefore these cases correlate with Van Dijk's et al (2009) model. This also supports Oreg's (2006) findings that job security and threat to power and prestige has an impact on the way a person feels towards an organizational change.

The findings in this thesis also give support to Traider and Leigh (2001) findings which conclude that resistance of change can emerge due to that the employees will look after their own interest. In the examined cases some of the employees have lost their jobs, their titles, and their responsibility. This led to resistance that revealed itself by the personnel leaving their positions. Based on Dent and Goldberg's (1999) research, Subsidiary A should in future mergers make up plans in advance for how to handle those affected of the merger. Dent and Goldberg has concluded that companies need to examine what effects the changes will bring and make sure to solve those problems. Also Gendron (2004), Ivancevich, Schweiger and Power (1987) stresses the need to make plans in advance to ease the stress and anxiety felt by employees during the merger. This thesis can support both Dent and Goldbergs findings as well as Gendron's and Ivancevich et al's. In the merger of Subsidiary B the problem that arose was that some personnel lost their role in the companies. This led to that they left their position during the merger which caused an increased workload to those who were left. In the merger of Subsidiary D the affected personnel was always kept in mind and simultaneously with the merger Respondent D1 worked with plans for their future and they stayed during the merger process.

Out of the three themes that Gancel et al (2002) have presented, Legitimacy, effectiveness and Future, Legitimacy and Future is what is most important in these cases to get a smooth merger process. The respondents have expressed an understanding towards the decision to merge and they have been confident with the leadership from Subsidiary A. Future was most important since when the employees saw and understood what the mergers would mean for them they were less anxious. This could be seen when comparing Subsidiary B and D where there were better plans to handle the effected employees' future in the merger of Subsidiary D.

When it comes to the merger of Subsidiary D, there were plans to take care of the employees. There were also better information given to the effected personnel, and respondent D1 included all the people affected of the merger in the project group. This was done to make sure that they understood was what going to happen. They also tried to find new jobs and responsibilities to the employees during the process. This thesis can support Van Dam et al (2008) that information and participation affect how employees react toward organizational changes. Participation did not work as well in the merger of Subsidiary B since as Traider and Leigh (2001) argues self-interest is an important factor for resistance to change. Dent and Goldberg's (1999) research implies that plans need to be made in advance for the affected personnel, which was missed in the merger of Subsidiary B.

Badrtalei and Bates (2007) argue that it is common to reduce the amount of employees in connection to mergers. It happens that these reductions occur to early in the merger and it is important to carefully examine the possible affects first. This was something that was noticed when Subsidiary B was merged into Subsidiary A. The receptionist lost her position early on, since it was believed that her work duties consisted of answering the telephone. When the telephone calls became routed through the corporation's Swedish switchboard, her position was no longer needed.

When she had left her position it was suddenly clear that her work duties consisted of more than just answering the telephone. The remaining personnel had to do the receptionist work duties which caused problems in an already hectic time. Respondent B1 mentions that the rationalization was done too early and says that they should have waited until the merger was completed to see what personnel demand they had then. This is something to bear in mind when integrating Subsidiary E.

In the long term a negative affect that both Respondent A2 and D1 mentioned is that the possibility to have a career within the corporate group has declined. This relates especially to the finance and HR- departments where some career steps are erased. Due to that the duties are moved centrally the number of financial and HR- departments are reduced, therefore the possibilities to take a higher ranking position is decreased significantly. Respondent D1 mentions that the next step for her as a former financial manager would be to become the financial manager for Subsidiary A. This step is too large and she wishes that there were more steps in between to grow and develop into a confident leader.

The control has become tighter where it is today possible to use segregation of duties to limit the risk of errors and fraud from occurring. When viewing previous research about the drivers behind mergers, this is not brought up. Both Subsidiary B and D feel that they are today more controlled and their possibilities to use accounting measures have been restricted. Since the financial department is moved centrally the internal control gets stronger automatically since there are better possibilities to use segregation of duties in a large financial department. Respondent D1 mentioned that since they are active in the same financial system today, they receive more questions regarding the financial data. Therefore the control has been strengthened.

Previous research has stressed the need for information and participation when companies conduct in organizational changes. Van Dam et al. (2008), Banas and Wanberg (2000) argues that participation and information is something that will help develop a smoother transition. The respondents in the subordinated subsidiaries feel that they have been able to participate in the mergers. The project group has for example always consisted of employees from both sides. The participation in the project is something that the respondents are satisfied with. However the information from Corporation X has been lacking. Both Respondent A2 and Respondent A3 expresses that they lack information from Corporation X.

Respondent A2 expresses that she wishes that a guide describing how to conduct the mergers would have been given from Corporation X. Respondent A3 does not fully understand why

these mergers are conducted and the lack of information seems to have played a large role in his negative feeling towards the mergers. After the integration of Subsidiary B the project leader, Respondent A2, learnt a lot and did her best to keep the personnel calm at the merger of Subsidiary D. Respondent D1 also made an effort to not keep any employees in the dark and gave the affected personnel information and let them participate in the merger. Cartwright et al's findings (2007), that information about the organizational changes helps to smooth a merger is therefore supported. The thesis also gives support to Appelbaum et al's findings (2000) that it takes a lot of dedication and effort from the management to make a merger successful.

By informing the personnel in Subsidiary A about the effects the merger of Subsidiary B has had from a corporate perspective the negative feeling might have been reduced. The employees would therefore see what their efforts has resulted in. Respondent A3 does not understand why these mergers are done and this can be traced to the lack of information about the effects. If information would have reached him and others at his department this might have motivated them more. Surely employees still will not welcome an increased workload with open arms, but the negative feelings might be reduced.

This thesis also gives support to Oreg's (2006) findings that not all information leads to a smooth merger. In Subsidiary B the information lead to that some of the personnel left since they understood that they would be redundant in the organization. Although information and participation are important factors to make the organizational changes smoother, self-interest (Traider and Leigh 2001), loss of status (Hambrick and Cannellas 1993), plans for those who are affected (Dent and Goldberg 1999) seems to be more powerful forces than simply information and participation.

Furthermore, there has not been any information spread between the different countries in terms of these mergers. The UK was one of the first countries to merge their subsidiaries, but there has not been anyone on corporate level who has gathered this information to help other countries who are going through the same process.

Surely there are differences between countries but this could still help to understand what effects should be expected and what pitfalls could be avoided. Respondent A2 feel that there has been a lack of this type of information. She has completed two mergers now, both Subsidiary B and D, but has not been asked to document the mergers. She is moving on to different work duties and will not be project leader for the remaining mergers. This results in all the knowledge she has learnt being thrown away more or less. It seems unnecessary that the next project leader should have to start from scratch and possibly do the same mistakes again. Respondent A2's new position is still within the corporate group and she says that she can help in future mergers, but her new position could have been outside the corporation and then the knowledge would have been lost.

6. Conclusion

In this chapter the authors of this thesis have presented their findings. Furthermore, suggestions for further research will be presented, which is followed by the authors own reflections about the thesis.

6.1 Conclusion

❖ *What are the motives for merging subsidiaries?*

From the beginning there was a wish to reduce the amount of legal entities within every country which the corporation was active. The organizational restructuring was supported by three main reasons that could result in positive effects when merging a corporation's subsidiaries. The reduction of cost, which was the strongest motive, was mainly associated with the duplication of work duties being present at the time. The corporation saw that this synergy was present especially by moving the financial departments centrally and thereby reducing the number of departments. Furthermore, increasing the financial reporting quality within the corporation was the second motive mentioned. The increased quality would arise since all the experts would be gathered centrally and they would after the merger be the one who conducted the financial reports. Finally, the internal control would be strengthened in the financial functions of the organization after the mergers. Since the centralized financial department after the mergers would have greater opportunities to use segregation of duties it would lead to less errors and fraud being committed.

❖ *Which financial and organizational effects have been encountered from merging the subsidiaries?*

There have been a lot of synergies spotted after the mergers. The main realized synergy comes from the reduction of personnel in the financial and the HR- departments. This has been possible since both the financial and HR department's work duties have been moved centrally. There is therefore no need for these two departments in the new business units. This synergy has also been spotted in the sales department which has also been moved centrally. There clearly has been a use of economies of scale in these departments; were the same amount of personnel in Subsidiary A do all the earlier departments work duties. Furthermore the centralized sales department has also used economies of scope and cross marketing to supply Subsidiary A's customers with all products within Subsidiary A's product line. Another financial effect that also falls under the category of economies of scale is the use of centrally negotiated contracts. In the researched mergers there have not been any operational synergies since the subsidiaries were unrelated to each other. These mergers have merely been on the legal entity level and thereby the production and the warehouse functions are completely untouched.

The productivity has affected both the dominant and the subordinated subsidiaries negatively due to the increase workload, especially during the projects. In one subordinate subsidiary the productivity is still after the merger affected negatively since the processes are more complicated and therefore takes longer time. However, this merger was recently completed and previous research show that productivity should be measured in the long term to give a correct view.

There has been a match regarding the corporate cultures in the merging subsidiaries. This has led to relaxed mergers among the employees. However, the group identity from being a small company is important to the subordinated subsidiaries. They have expressed that they still

wishes to be a small company, with all that implies, within the large organization. The mergers has led to that some employees have lost their previous status, for example, the CEO and the CFO. In one case, this resulted in key employees leaving their positions too early in the merger process which caused a more difficult merger. Not having plans for how to deal with the affected personnel has caused difficulties during the Swedish merger process. The mergers have led to some personnel feeling uncertainty for their employment and therefore saw to their own best and tried to quickly find new positions.

The rationalizations were done to quickly in the first conducted merger which caused distress to the project. This mistake was taken into consideration during the following mergers and thereby this effect did not repeat itself.

By reducing the number of financial and HR-departments the number of career steps is significantly reduced. When these departments are moved centrally four out of five departments of different sizes are removed. Before the mergers a CFO could build a career by taking on new positions in larger departments to build up the competence. Today this possibility is heavily reduced since the step is now much larger.

❖ *Does the previous research's result concerning the motives and effects of mergers also apply to mergers between subsidiaries?*

In these mergers only cost reductions synergies has been found in previous research as a reason for why mergers occurs. Therefore increased financial reporting quality, the reduction of errors and fraud are something that the authors of this thesis have not encountered when conducting the frame of reference chapter. Thereby the reasons behind ordinary mergers only apply to some degree in this case.

The financial effects that have been spotted in this thesis frame of reference chapter correlated with the researched mergers between subsidiaries to a large extent. There has been evidence from the researched mergers in this thesis that economies of scale, economies of scope and the loss of productivity during the process occurs when merging subsidiaries. These effects have all been presented in previous research about mergers between companies that are not within the same corporate group.

Previous research has pointed out that corporate culture is an important key to succeed with mergers. This has not been the case in this thesis research on mergers between subsidiaries. What has differed in these mergers compared to the ones in the frame of reference chapter is that the organizational effects have affected a limited number of employees. Since there have been a limited number of people that are affected the cultural effects has not been substantial. The corporate culture has also been similar to each other; this is also something that has eased the cultural tensions. Previous research and this thesis have shown that similar cultures will reduce organizational tension in connection to mergers.

Mergers are stressful for the employees and some feel anxious about their future in the organization. Previous research has shown that this could lead to an increase staff turnover and this occurred in one of the mergers this thesis has researched. Loss of status is also something that previous research has presented as a reason for staff turnover associated with mergers. This has also happened when merging subsidiaries in one specific merger.

6.2 Further Research

It would be interesting to see if this thesis finding fits other corporations that have conducted the same type of mergers between their subsidiaries. Since there is an ongoing trend to conduct these corporate restructurings, this thesis findings could be a start for further research within the subject. The results in this thesis along with future findings could then possibly serve as a model for the motives and the effects of merging subsidiaries.

This thesis researched mergers have all been newly completed. It would therefore be interesting to see how the effects of these types of mergers evolve in the long-term. This would be interesting since there are bound to be problems in the beginning of a major organizational change and the synergies could become even more noticeable in the long-term.

This thesis has not researched fully conducted mergers meaning that the operational parts of the merged organizations have been kept out. The operational parts are still working in the same factories with the same routines and have not been affected much from the mergers. It is merely a limited number of employees, especially in the financial and HR departments that have been affected by the researched mergers. Thereby, it would be interesting to see what effects a full integration merger between subsidiaries would have on an organization.

6.3 The authors own reflections

The authors of this thesis understand why these mergers have been conducted. There are clear advantages by having fewer legal entities, such as the spotted financial synergies from the use of economies of scale. Furthermore, there has been an increased internal control and it is easier for the corporation to compare and evaluate the different business units when they use the same processes and routines regarding accounting. The centralization of the financial department has led to a higher financial reporting quality and there is a less need for external consultants to help with the accounting.

However, the mergers have led to reduced career possibilities because there are fewer departments of various sizes left. The authors believe that this can create problems in the future because competent employees might leave when their next logical career step does not exist within the corporation. This problem mainly concerns the financial departments. This could also lead to that the corporation is not as appealing to competent personnel when hiring, since there are not the same career possibilities any more.

It strikes the authors that Corporation X has not documented the information or experiences gained during the mergers around the world. Even though there are large differences between the regulatory systems in the countries that are implementing these mergers, some problems could probably be avoided by sharing information. For example to have prepared plans for the affected employees' future is an important experience gained in the Swedish process and this experience is something other countries could have use for. It would therefore be of interest for the corporation to collect all the experiences so the same mistakes do not repeat themselves in other countries. There would be a lot to gain if the positive aspect were also documented so the project leaders could have an understanding about what synergies could be gained from each merger. If this information is not documented there is a clear risk that the knowledge gained by the project leaders around the world will be lost. Respondent A2 has pointed out that she learnt a lot from the first merger and she did not make the same mistakes when conducting the second. If the project leaders would leave the corporation the information would be lost.

The authors of this thesis also feel that the information to the personnel in the dominant subsidiary has been limited. Respondent A3 expresses that he does not understand why the mergers are done and what effects they have. He only sees his increased workload. It would probably help understand the mergers more if information about the effects was presented to the personnel in Subsidiary A and thereby the feeling might be smoothed.

Both Respondent B1 and D1 mention that a negative aspect from the centralization of the finance department is that there are decreased possibilities to use accounting techniques to control the income statement. However, this can be a positive affect for the organization as a whole, since the corporate group can use these accounting techniques for the whole corporate group instead. Corporation X has a better understanding for the strategic plan of the entire corporation. Even though the respondents are negatively affected, the overall affect could

very well be positive. This makes it easier for Corporation X to compare the different business units' results since they now use the same processes, routines and systems for their accounting.

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Respondent X2, Email (March 30, 2011)

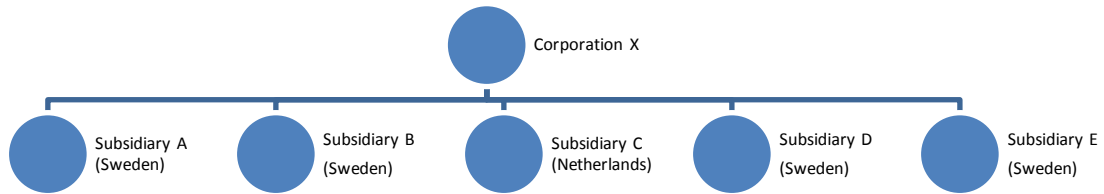Respondent A1, Corporation X (March 22, 2011)

Respondent A2, Subsidiary A (April 27, 2011)

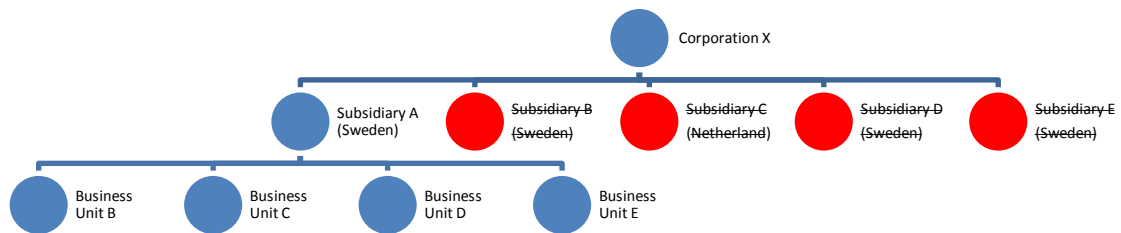Respondent A3, Corporation X (April 21, 2011)

Respondent B1, Telephone (March 24, 2011)

Respondent D1, Corporation X (April 21, 2011)

Appendix 1 – Organizational structure

Figure 1. Affected organizational structure (pre-merger)

Figure 2. Affected organizational structure (post-merger)

Appendix 2 – Interview questions

- Could you introduce yourself and tell us what your roll in the organization is?
- What is your connection to the mergers?
- Are you affected by the mergers?
- Can you tell us about the merger?
- What goals are there for a successful merger?
- What motives do you see behind the mergers?
- Which positive and negative effects have you seen from the mergers?
  - Financial
    - Synergies
    - Productivity
  - Organizational
    - What feeling did you have towards the merger? Did your feeling change?
    - Have you noticed any increased personnel turnover?
    - Which cultural risks do you see with the mergers?
    - Has the implementation gone as planned?
- What have you learnt from the mergers?