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Managing a Demerger Process

A case study of a corporate divorce

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Abstract

With increased M&A activities, and the fact that most mergers fail to meet their initial targets, it is likely that demergers will become more frequent. Since there is no previous conceptual framework explaining the forces and drivers of a demerger process, management has no theoretic foundation for how to approach this phenomenon. This thesis presents a qualitative case study on a disintegration process, and explores and analyzes what forces influence and shape a disintegration process, and how a company can remain competitive during the process. The findings, acquired through interviews with managers and complemented with academic literature, suggest that the demerger process is primarily influenced by market, industry and regulatory conditions, and internal factors such as the history and level of integration and collaboration enables companies to adapt to the enables a company to respond in a particular way

The thesis contributes to the academic literature by providing a scientific analysis of a disintegration process, and lays a foundation for further research within the field.

Key words: *Demerger; Disintegration; Organizational change*

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1. Introduction

1.1. Background

It is widely known that globalization has led to a more rapidly changing business environment. As a result of deregulations and technological advancements, markets are more integrated and competitive than ever before. Furthermore, lower trade and entry barriers have led caused increasingly mature markets. Firms that do not possess the tools to adapt to their environment are pushed out of business (Andrade and Stafford, 2004).

A strategic approach companies can employ when adapting to a changing environment is through merging with, or acquiring, other firms, in so called Mergers and Acquisitions (M&A's) (Weston & Weaver, 2001). A merger occurs when firms of equal size come together and form a new legal entity, based on a balanced mutual interest between owners, and a near to 50/50 split on a board and management level. In an acquisition a leading company acquires another entity, either in a friendly or hostile takeover, and incorporates it into its current structure (Carney, 2009).

Among the reasons companies undertake M&A's, are: expansion into new markets, gaining of strategic assets, and allocation of capital. If done correctly, they increase revenues, profitability and enterprise value (Weston and Weaver 2001; Napier, 1989).

Therefore, M&A's are a constant element in international business management, and the value of cross-border M&A's is, although volatile, increasing in the long run (UNCTAD, 2012). Cross-border M&A's, account for 40 per cent of global total world M&A activity of more than US$ 2 trillion last year (Mergermarket, 2012). Despite that most M&A activities still take place dominantly in developed markets, organizations from emerging markets become increasingly important players, and in the wake of economic integration, both cross-border M&A's as well as M&A's originating in emerging markets are expected to increase (UNCTAD, 2011). Historically, M&A's in the last decades have been aimed at consolidating industry excess capacity, occurring either through technological advancements or supply shocks. In the recent years, deregulation and international competition have been the main drivers of M&A activity (Andrade and Stafford, 2004).

Despite the increased popularity of M&A's as a strategic tool, the outcome of such an activity is hard to evaluate. A measurement of success can be stock price performance, comparison with industry indexes, growth in market share or profitability. However, all evaluations need to be compared and put in relation to the hypothetical alternative of not undertaking an M&A at all. Understandably, an objective evaluation of the success of M&A is therefore hard to conduct, and outcome can be interpreted differently (Schweizer, 2007). Regardless, it is generally agreed that success rates of these activities are rather low. In most research the success rate, depending on the definition of a success, ranges between 20 and 50 percent (Cartwright and Cooper, 1995; Fluck and Lynch, 1998; Bryson, 2003; Salame, 2006).

1.2. Problematization

An often underestimated factor in M&A's is the fact that the blend of two organizations could potentially have deep individual and collective impacts. The reason for the difficulties is that an M&A is an initiative that needs to overcome obstacles regarding organizational, strategic, and human-related issues. Prestige and power struggles between the affected stakeholders - be they employees, managers, or owners – can arise. Internal conflicts lead to organizational inefficiencies and can affect the organization's performance. When the issues obstruct value creation, the merger is considered a failed one (Meyer, 2008).

In general, M&A literature has primarily focused on financial aspects of the M&A as a measurement for the success or failure of the merger. More recent researchers also analyze soft values related with the organization, culture and human resource management (Cosh and Hughes, 1995; Bryson, 2003; Quah and Young, 2005; Waldman and Javidal, 2009). This recent shift in research opens up new angles to evaluate M&A's causes for failure, and also the process following a failure. In some failed cases, companies have decided to demerge. In terms of value, demerger activity makes up three percent of total M&A activity (Mergermarket, 2012).

Since it is believed that the difficulties for managers to handle M&A's will remain in the future and given the expected increased number of M&A's, failure rates are likely to increase, and companies will go through the process of demerging.

There is no research on neither the demerger of two previously merged companies nor on the actual disintegration process. As the M&A literature is still under development, most research focuses on how to improve mergers, or establish whether or not success has been attained. This study is interested in knowing what happens in a disintegration process, and will approach the M&A phenomena from a new angle, analyzing the disintegration process of a demerger.

1.3. Purpose and Research Question

In conclusion, given the background that failed M&A's and demergers are likely to increase, the purpose of this study is to explore and explain the disintegration process of a demerger. It is the final process in a failed M&A, and this study explains its relevance in the M&A literature. The research question is:

What forces influence and shape a demerger process?

This study investigates the different processes and phases underlying a disintegration of two previously merged firms. In fact, no single academic article has had as its unit of analysis the disintegration process itself. By exploring not only the topic, reasons and causes, but also the execution and outcome of a demerger, our study will identify the challenges for demerging companies in failed M&A's. Furthermore, it will also suggest what further tracks within the field of a demerger and disintegration are of interest for future research.

Structure of the Paper

The paper is structured in the following manner:

Literature review

The literature review will present different perspectives and areas of study within the M&A field. It provides a backdrop for nine propositions that are developed and later analyzed.

Methodology

The methodology is presented and motivated. The study has adopted a case study approach, following one company in a recent demerger, Fazer Confectionery's disintegration from Cloetta Fazer in 2008.

The Cloetta Fazer merger

A background of the merger and involved companies is covered, in order to provide understanding and background information about the companies involved in this case.

Empirical data

Empirical data from interviews with involved managers is presented in the form of a narrative story following a chronological order

Analysis of propositions

Analysis of the findings, where the findings are put in relation to the propositions that were formulated

Conclusions and Implications

Additional findings are listed, and suggestions for further research are presented.

2. Conceptual Framework

This study uses a theoretic platform derived from the M&A literature as a guideline since there are several aspects in an M&A process which the authors believe affect the development and realization of the following demergers. This assumption is primarily based on the fact that the demerger process is an organizational change which affects and is affected by individuals and their emotional attachment between them and to their organizations. In general, people are expected to experience emotional attachment and impact through occurring changes in the organization (Huy, 2002; Kusstatscher and Cooper, 2005), thus, it reasonable to contrast the phenomena of a demerger to a merger. Uncertainty makes employees confused, less confident and anxious throughout an integration process, and employees are often required to change and adapt organizational or operational changes. He also argues that the mental disturbances occurring through changes, such as uncertainty, fear, lower trust, and inner tensions damage employee productivity, communication, commitment, team working as well as creates power struggles (Pritchett, Robinson, and Clarkson, 1997).

This chapter firstly discusses relevant M&A literature about causes of M&A failure that eventually lead to the disintegration process. Secondly, the study distinguishes problematic areas, processes and functions of a merger, which can be argued to have implications for a demerger. Thirdly, it is reflected upon how these problematic areas could affect the disintegration process, and proposition are developed thereafter. Additionally, this study explores the disintegration process and possible challenges in three phases: the pre-demerger phase, the execution and the post-demerger phase, similarly to how the M&A cases are analyzed by (Appelbaum, Gandell, Yortis, Proper, and Jobin, 2000). Appelbaum *et al* (2000). This is done in order to anticipate and evaluate problems identified in each phase. This chapter also introduces the demerger concept (see *Figure 1*) which primarily serves as guidelines for the semi-structured interviews and helps to understand the structure of the process and distinguish problematic areas.

2.1. Reasons to demerge

In order to properly analyze a demerger as a phenomena, it is relevant to discuss the causes and implications of the reasons for a demerger, in other words, the reasons the merger did not meet its expected outcome.

Whereas some authors focus on the M&A's inability to reach profit goals and financial synergies (Fluck and Lynch, 1998; Quah and Young, 2005), others discuss soft issues such as lack of cultural and strategic fit, cultural clashes, inadequate communication and planning, lack of human resource involvement, training, talent and key employee retention as well as ownership issues (e.g. Cartwright and Cooper, 1995; Schuler and Jackson, 2001; Bryson, 2003; Fang *et at.*, 2004; Waldman and Javidal, 2009). Additionally, the human capital is described not only as an essential asset of an organization, but also as the most difficult part to integrate in an M&A process (e.g. Marks and Marvis, 1992; Björkman and Soderberg, 2006; Richey *et al.*, 2008). In an integration process like in any major organizational change, the human and cultural related issues are sometimes underestimated (Appelbaum *et al.,* 2000; Reus, 2011) and if not addressed, they might not only become an obstacle for a successful integration, but also contract the shareholder value (Belcher & Nail, 2000). In addition, scholars often underline the impact of the post-merger integration (PMI) process on the success of an M&A and issues arising in PMI such as human resource, national and corporate cultural management (De Noble, Gustafson, and Hergert, 1988; Quah and Young, 2005; Weber, Rachman-Moore, and Tarba, 2011). Additionally, Habeck, Kröger, and Träm (2000) focus on the success of an M&A and distinguish seven rules in order to prevail: vision, leadership, growth, early wins, cultural differences, communication and risk management. Epstein (2004) listed seven reasons for M&A failure such as strategic vision, strategic fit, deal structure, insufficient due diligence, pre-merger planning, post-merger integration, and external environment. Fang, Fridh, and Schultzberg (2004) point out causes for failure such as disparities in strategy, organization, corporate finance, international business, negotiation, culture, history, diplomacy. Duncan and Mtar (2006) concluded that the success of an M&A activity also depends on the prior acquisition/merger experience as well as strategic fit combined with a focus on the core business, cultural fit and the integration process.

2.2. The Pre-demerger stage

Appelbaum *et al* (2000) defines the pre-merger stage as the start of a merger just when decision to merger is made, but no public announcement and no legal actions take place, shaping this stage as being a preparatory phase. The planning challenges in this stage include choice of future corporate culture, job loss, employee dissatisfaction etc. (*ibid.*). In the pre-combination stage, Schuler and Jackson (2001) distinguish the main implications on HR including knowledge management, leadership, team composition, due diligence of all areas, cultural assessment, planning and creating practices for learning and knowledge transfer.

This study defines the pre-demerger stage as the period before the official public announcement of the demerger was made. It is expected that in the pre-demerger stage the management is primarily involved in demerger planning activities, which in itself requires a lot of efforts in order to foresee upcoming challenge related to the disintegration.

In general, M&A success is determined by measuring whether the companies have succeeded in achieving planned goals (e.g. Hanbeck *et al.*, 2000; Epstein, 2005; Cai and Sevilir, 2012). However, it is argued that planning activities can draw managerial focus from daily operations that are essential for the functioning of the organization (Salame, 2006). Commonly planners fail to address serious HR issues as well as leave out people at the operational level, thus, despite a clever and structured plan, the employees at the operational level will experience difficulties executing it (Cartwright and Cooper, 1995; Salame, 2006). The results achieved by merging companies should surpass any possible alternatives; however, integration plans often overestimate expectations and goals that might exceed the organizational capabilities (Salame, 2006). In addition, the success of a merger should include measurements which are aligned with a predetermined merger strategic plan and vision in order to define and articulate merger goals, problematic issues, drivers for the success, and evaluation indicators, whereas the evaluation metrics should be developed by the integration team, business units and functional areas, and should include both financial and non-financial measures (Epstein, 2004).

A demerger constitutes a major organizational restructuring, similar to a merger. Thus, it is expected that a demerger planning process will require substantial effort to avoid the operative and HR-related challenges that could be expected to arise. However, as operations must carry on normally, it is reasonable to think that planners may get distracted by combining the management of current operations with the planning of the demerger. It is expected that if planning process is not thorough and clear goals are not set out, confusion of goals and strategy will permeate the process and lead to reduced management efforts.

Proposition 1: *The planning process before an actual demerger ensures that management efforts will be more focused on both planning and operative issues during the disintegration.*

Secondly, communication is a commonly discussed issue among scholars and is distinguished to be a crucial determinant of an M&A success and an implementation efficiency in all stages of the integration (e.g. Schweiger and Denisi, 1991; Appelbaum *et al.*, 2000; Schweizer, 2007; Weber *et al.*, 2011). Hanbeck *et al.*, (2000) concludes that nearly 90 percent of mergers have failed to establish efficient communication in their integration phase, resulting in decreasing employee commitment. It is argued that inefficient communication and the deliberate withholding of information from middle management and lower level employees amplifies the uncertainty, contributes to a loss of trust and loyalty, reduces employee productivity, affects the perception of organization's trustworthiness and honesty and result in employee absenteeism and turnover (Schweiger and Denisi, 1991; Appelbaum *et al.,* 2000; Salame, 2006). Epstein (2004) concludes that miscommunication confuses employees and customers, scares investors, while instead it should help to explain the tasks and roles to ensure smooth integration process. Schweiger and Denisi (1991) indicate that people who were unhappy with on-going integration would be less dissatisfied if the communication is open. Overall, the dialogue between senior management and lower levels at the organization should reinforce and bring confidence in the integration process as well it should be significant, constant, open, truthful, consistent, sympathetic and up-to-date (Appelbaum *et al.*, 2000; Epstein, 2004), then it increases the coping abilities of employees, resulting in increasing productivity (Nguyen and Kleiner, 2003). Scholars agree that communication is a tool for inclusion and relationship management, which are essentially important for the success of an integration process (e.g. Napier, 1989; Schuler and Jackson, 2001; Richey *et al*., 2008). Thus, companies should plan communication and inclusion with consideration to timing and target objectives, in order to actively obtain feedback from all stakeholders (Salame, 2006; Habeck *et al.*, 2000). However, it is also argued that various types of employees require different information (Schweizer, 2007). Different phases of an integration process necessitate different information flows in order to help employees to organize their work and roles within the new company (*ibid.*).

Both mergers and demergers involve and affect the entire organization, from top executives to employees. However, as the M&A literature proves, information has a tendency to remain in the hands of few, something which causes uncertainty and confusion in the organization and irrevocably leads to reduced organizational performance. In order to overcome this obstacle, communication in a demerger needs to be structured, consistent, open, and updated. It is an important tool for the execution of the demerger and should include all stakeholders – such as employees, suppliers, and customers – in the communication of the disintegration process.

Proposition 2: *If a demerging company does not have a clear communication strategy, it is more likely that employees will experience substantial levels of uncertainty.*

2.3. The execution stage

In the execution phase of an M&A, the cultural integration process puts company culture, image and identity at stake, whereas employees may experience a sense of a loss as well as a shattering pride and confidence (Appelbaum *et al*., 2000). Additionally, employees are primarily affected by changes of ownership and management, something which needs openness and honesty in order not to create obstacles. Even qualified managers can run into problems when working on integrating two companies and lacking proper training to deal with cultural changes (*ibid.*). In the combination stage, HR encounters challenges with selecting the appropriate candidate for right positions, creating team design for transition and combination success, communication, staff split, lay-off and hires, and establishing a new culture, structure and HR policies (Schuler and Jackson, 2001).

This study defines the execution of the demerger stage, which starts with the official announcement of a demerger and lasts until the companies are separate and no longer share mutual functions. It is expected that during the execution stage the company experiences severe organizational changes including changes of ownership, management, personnel structure, policies and adaptation of corporate culture and identity. It is also expected that the success in overcoming these issues and establishing new functions and entities highly depends on the implementation speed.

Academia agree that the speed is a key success factor for an M&A outcome (e.g. Gadiesh *et al.*, 2003; Angwin, 2004; Homburg and Bucerius, 2006; Schweizer and Patzelt, 2012). Angwin (2004) argues that low speed may cause fear and indecisiveness and might become an obstacle. The speedy integration process reduces employee and customer uncertainty as well as promotes stability, however, sudden changes may also infuse confusion (Quah and Young, 2005; Epstein, 2004; Schweizer and Patzelt, 2012). Additionally, Gadiesh *et al* (2003) argues that in order to maintain value in a merger, managers need to carry out the integration process actively and achieve prior set goals as fast as possible. Homburg and Bucerius (2006) point out that the speed of integration process depends on the magnitude of internal and external relatedness[1] between the two firms prior M&A activities. Habeck *et al* (2000) draws attention that the leadership establishment is a priority and the higher speed results in decreasing probability of leadership vacuum. Epstein (2004) argues that with low

[1] External relatedness refers to aspects outside the two organizations (e.g. target market position), Internal relatedness refers to aspects inside the two organizations (e.g. management styles) (Homburg and Bucerius, 2006:pp.349)

speed, employees tend to seek opportunities at rival firms, while customers seek substitutes, whereas Angwin (2004) claims that the speed benefits from enthusiastic stakeholders and helps to reduce time spent in a sub-optimal condition. Additionally, management and business consultants distinguish that from the financial perspective, the fast pace of a PMI process reduces uncertainty and risk with it (PWC, 2009; Deloitte, 2010). From organizational and managerial perspective slower speed enables to employ more effective plans and possibly create more value (*ibid.*).

Similarly to a merger, speed is believed to be an important factor in a demerger. As two organizations are created from one, new responsibilities and roles emerge, making it a necessity to avoid confusion and power vacuums resulting from unclear delegations of responsibilities.

Proposition 3: *High speed of disintegration reduces uncertainty and avoids leadership vacuum.*

Scholars argue that the changes of leadership and employee turnover are important attributes to the success of an integration process (e.g. Napier, 1989; Belcher and Nail, 2000; Schuler and Jackson, 2001; Schweizer and Patzelt, 2012). Despite that M&A activities are often fuelled by the desire to gain knowledge, expertise, and a talented and competent workforce, it is argued that a merger itself infuses turnover of employees and with them a loss of intangible assets such as experience, knowledge as well as customers (Napier, 1989; Larsson, 1997; Pritchett *et al.,* 1997; Conyon *et al.,* 2003; Salame, 2006). Thus, the talent employees need to be carefully evaluated in order to reduce knowledge leakage (Pritchett *et al.,* 1997). A company also loses experience, when employees adopt new system and disband the old way of doing things (Appelbaum *et al.,* 2000). It is argued that most integration problems arise when the turnover increases on the top management level or when top managers alienate themselves from the integration process (Finkelstein, 2002). The responsibilities are commonly passed to middle management, who is not empowered to make critical decisions (Nguyen and Kleiner, 2003). Marks and Marvis (2000) refer to leadership as a *"steering committee"*, which is responsible for setting goals, guidelines, aligning implementation team structure, defining decision, reviewing and evaluation. Additionally, Finkelstein (2002) claims that radical changes on the top management level also put corporate identity and corporate culture at stake. Belcher and Nail (2000) concludes that changes in governance might lead to management inefficiency and split of governance, resulting in increasing conflicts between senior management and the board of directors. Moreover, leadership is also essential in a PMI process, where it has a positive effect on employee commitment and it can help to prevent employee turnover (Schweizer and Patzelt, 2012). A leader with previous experience of crisis management can increase employees' morale (Nguyen and Kleiner, 2003).

As previously discussed regarding mergers, organizational changes cause higher levels of uncertainty, which in turn can lead to increased employee turnover. Thus, it is reasonable to believe that due to ongoing organizational changes the demerging company may experience increasing employee turnover as well. It is expected that when splitting, the companies would have to divide its employees between them; some employees may leave both organizations due to uncertainty or changing conditions or lost influence. Thus, together with loss of employees the demerging company may lose experience, knowhow and leadership skills. It is also expected that loss of top managers (leaders) would affect employees' morale during the disintegration process.

Proposition 4: *A demerging company is likely to experience increased management and talent turnover, which in turn leads to loss of experience, managerial capabilities and has adverse effects on corporate identity*

Many M&A scholars draw attention to the national and corporate culture issues during the integration, particularly relevant in cross-border M&As (e.g. Larsson, 1997; Morosini and Singh, 1994; Finkelstein, 2002; Weber *et al.*, 2011). It is agreed that intercultural management helps to reduce conflicts between employees from different national and corporate culture backgrounds, thus, positively contributing to the success of cross-border integration and overall outcome of an M&A process (Chatterjee *et al.*, 1992; Habeck *et al.*, 2000; Barmeyer and Mayhofer, 2008). Reus (2011) suggests that the cultural differences create a window of opportunities for learning and synergy, but if these differences are not addressed, they might restrain emotional involvement during the post-merger integration. Additionally, Fang *et al.* (2004) argues that poor communication, misperception, and misunderstandings are primarily caused by cultural differences, while it contradicts with Appelbaum's *et al.* (2000) claims that communication is a critical tool for dealing with cultural clashes. Moreover, Barmeyer and Mayhofer (2008) point out that the cultural differences may be embraced by employing institutional elements, such as a creation of corporate university to facilitate the process of integration as well intensive cooperation in a joint projects and efficient management of human resource.

Since cultural difference is a resistant force to the integration of two companies during a merger which works to split two companies, it is reasonable to think that employees up to a certain stage of integration welcome a decision to split a cross-border M&A. Given the setting of a disintegration, when two new companies break up and see to each one's self interest, the split into respective national cultures may fasten the creation of a new corporate identity, similar to corporate identities discussed by Zaheer *et al* (2003), which leads to polarization and difficulties to agree or compromise even on small decisions.

Proposition 5: *A demerger of a cross-border M&A divides organizations along national borders, something that solidifies cultural identity and complicates the demerger process by polarizing employees.*

Scholars draw attention to the importance of corporate identity and product identity. Corporate culture refers to "*how things are done here"* and corporate identity refers to a firm's constituents' sense of "*who we are"* Zaheer *et al* (2003: pp.185). Sherman (2006) argues that in a newly created organization the corporate identity becomes stronger when it uses a common name and/or logo which reflects what company stands for. Corporate identity and identification become even more salient in mergers billed as a merger of *"equals"* (Zaheer *et al.,* 2003). The idea of equality tends to reinforce pre-existing identities, since both parties expect to be equally participating in shaping and creating the new company. He also argues that merging companies with strong corporate identities run into problems if they try to accomplish distributive equality instead of integrative equality. Distributive equality means that both parts equally share resources and efforts in all areas, regardless of respective strengths of both parts, whereas integrative equality refers to building the new company complementing the strong and weak aspects of both parties (*ibid*). It is also argued that not only the corporate culture must converge in a convenient way, but also the product culture (Finkelstein, 2002). Brand perception and product culture, together with corporate culture, are self-reinforcing aspects which may lead to organizational disparities in a merger. If product cultures are not compatible, organizational differences may persist (*ibid.)*. Leaders of a merger of equals are likely to focus on creating a new corporate identity, which integrates both previous companies (Bjursell, 2007). Maintaining strong separate brands does not in itself impede a successful merger, as long as the organization is fully integrated and a new corporate identity has developed and become strong. However, brands invoke an emotional attachment for employees and strong brands even more so. Since integrating people is more difficult than integrating systems and routines, it can be argued that strong brands complicate an integration process (*ibid.*).

Since brands invoke high emotional attachment, and are important building blocks in the creation of corporate identities, strong product culture act as obstacles to the creation of a corporate identity, and therefore full integration of a merger. Unless a company manages to reconcile the differences in product identities, it may encounter difficulties to build a strong corporate identity.

Proposition 6: *A weak corporate identity facilitates a demerger.*

2.4. The post-demerger stage

It is argued that a newly established company need from five to seven years to become truly assimilated in the merged entity and thus the post-merger stage must be addressed (Appelbaum *et al.*, 2000; Nguyen and Kleiner, 2003). Appelbaum *et al* (2000) also claims that in the post-merger stage the company might experience loss of effective and close teams, crisis and panic within the new formed team members, whereas supervisors, employees might not address sensitive subjects due to fear. Schuler and Jackson (2001) argues that the solidification and assessment stage requires HR to deal with establishing and evaluating a new structure, combining and revising two cultures, addressing concerns of all stakeholders as well as encourage and record learning.

This study defines the post-demerger stage as a period after the physical and legal split takes place. It is expected that in the post-demerger stage the company will experience loss of effectiveness due to changing of previous working teams and loss of talent employees and with them possibly loss of customers. It is also expected that the company needs to reevaluate the new structure, culture and recorded learning, thus, the managers will need to execute post-demerger integration process to get the new organization and employees in line with the new strategy and be able to employ practices from the joint company into the new organization.

In general, academia argues that M&A activities might result in a loss of customers directly contributing to M&A process failure (Bryson, 2003; Epstein, 2004; Salame, 2006). The loss of customers is likely to occur either through the loss of employees due to employee turnover (Salame, 2006) or lack of communication (Epstein, 2004). If customers are not included in the integration process of a merger of equals it would generate confusion among them (*ibid.*) It is argued that communication delays and lack of inclusion of customers might create problems with purchase decisions such as discounts of product lines in general (Nguyen and Kleiner, 2003). The new company has to share future product roadmaps with customers in order to maintain customer confidence and prevent them from turning to rival companies or change their perception of the company (*ibid.*). Despite that it is the companies who merge and not the customers, the feedback from customers should be used to tailor new strategies to avoid customers' uncertainty and possible dissatisfaction with the new offerings (Epstein, 2004).

As discussed previously, the undergoing organizational changes during the demerger increases uncertainty within the organization, which brings challenges such as confusion, higher employee turnover or miscommunication. It is reasonable to believe that in the post-demerger stage the uncertainty of companies' strategy may cause confusion and dissatisfaction among customers. M&A literature suggests that during the period of uncertainty the company may experience difficulties in servicing their customers at the same level as before, something which has an impact on customers' perception of the company. If the managers are not communicating and getting feedback from the customers, they may turn to competitors.

Proposition 7: *A demerging company is expected to lose customers.*

In addition, scholars discuss the post-merger integration (PMI) as a key determinant that accounts a considerable share of the success of an M&A process (e.g. Habeck *et al.,* 2000; Epstein, 2004; Waldman and Javidan, 2009). Epstein (2004) argues that the PMI is more important in a merger of equals, than in an acquisition or a conglomerate. Reus (2011) in turn, claims that opportunities and challenges primarily arise due to the cultural differences. It is argued that PMI requires very careful and rational design, speed and line management inclusion; then again it still does not guarantee the success of a merger (De Noble *et al*., 1988; Epstein, 2004). It should also include equal team structure, a cultural audit, employee reassurance and enhanced communications (Quah and Young, 2005). Additionally, academia distinguishes that the performance of PMI is strongly affected by organizational factors such as leadership, implementation team and HR function (Nguyen and Kleiner, 2003; Björkman and Söderberg, 2006; Schweizer and Patzelt, 2012). In this stage, managers should primarily address timing, employee inclusions, and cross-cultural management (De Noble *et* *al*., 1988) and especially focus on two main parties of the organization: firstly the employees and secondly the customers (Epstein, 2004). The PMI encounters challenges with corporate and cultural values, beliefs when they are forced to work together (Quah and Young, 2005). In addition, PMI may carry hidden costs such as reallocation of employees (De Noble *et al*., 1988). The organization also experiences major changes in management such as a new CEO, stronger financial control, and increasing importance to marketing and customer relations (Quah and Young, 2005). Additionally, management consultants see the stabilization of an organization, cultural integration, operational synergies and process optimization as the essential determinant of the PMI success (Oliver, Wyman, 2012).

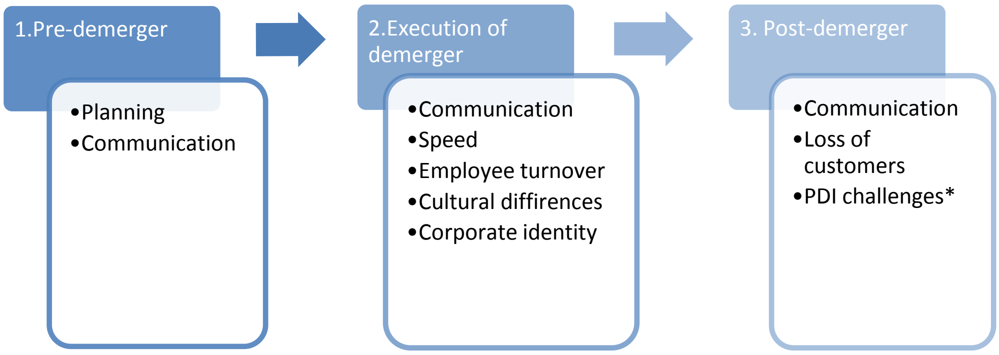
In general, M&A literature suggests that the integration process does not finish when the new entity is created, but rather continues in the post-merger integration process. Thus, it is reasonable to believe that the disintegration process has continuity, which this study defines as post-demerger integration. It is expected that the demerging company will need to redefine its strategy, leadership and practices such as financial control and customers focus in a renewed organization. It is also reasonable to believe that the company would need to integrate practices learned in a merger. Thus, in order to meet demerger expectations and use arising opportunities, the post-demerger integration process must be carefully designed and timed. While the challenges are expected to arise when the management does not reinsure communication, implement culture audits and does not include all stakeholders such as HR personnel in order to foresee and tackle arising problems and hidden costs. However, every merger and demerger has unique conditions such as industry, history and culture which bring different challenges in a post integration period.

Proposition 8: *If a demerging company does not overcome challenges in the post-demerger integration it is more likely that the company will not achieve the expected goals.*

2.5. Theoretical model

The demerger concept (*see Figure 1*) represents the initial visualization of how the demerger process is expected to look like. As previously discussed the disintegration process is split into three stages: the pre-demerger, the execution and the post-demerger, where arrows represent the continuity of the process. Tables attributed to particular phase represent the list of prioritized areas/functions where problems are expected to arise during the each phase. Some function areas such as communication are expected to be important in every stage of the disintegration process, and the occurrence of some of these areas/functions might differ according to a particular case. This concept serves as a framework for the semi-structured interviews in order to approach the propositions and other problematic areas. However, the content of the initial demerger visualization is based on assumptions and all problematic areas and functions need further investigation. After presenting and evaluating empirical findings and propositions, the initial demerger concept is revised and updated (*see Figure 4*).

Figure 1: The demerger concept 1.



***PDI challenges** – challenges such as inefficient communication, culture, inclusion and changes of strategy and leadership.

Source: authors

3. Methodology

This study has undertaken a qualitative case study method using the demerger of Cloetta Fazer in 2008 as a case. Interviews with managers in the current Fazer group constitute the data sample. The following section of the study discusses and explains the research methods employed. It also presents the research purpose and design and discusses data sources as well as techniques used to gather, interpret and communicate the data.

3.1. Why case study - Research Purpose

The purpose of this study is to explore and understand the process of demerging. Given our research question - *What forces drive and shape a disintegration process?* - it reasonably follows that we are looking into an event in which human interaction has played a determinant role. As argued by Goodwin (2006) and Yin (2009), case studies are relevant when investigating phenomena related to individual, group, organizational, and social events shaped by actions, beliefs, experiences, and values. Baxter and Jack (2008) state that a case study which goes in depth into an issue is the best approach to answer to the questions of what, how, and why, in the most detailed way possible.

Criticism of the case design states that individual cases are inappropriate for generalizations and are thus poor fundaments for theoretical frameworks (Lieberson, 1991). Yin (2009) states that weaknesses of case studies are that case study methods are not reliably developed and that researchers have much room for own initiatives and interpretations, something which could consequently lead to potential errors. Further objections to case studies are that a study may result in large quantities of information which cannot be properly or objectively analyzed (Yin, 2009).

However, contrary to conventional wisdom, Flyvbjerg (2011) argues that concrete case knowledge should be regarded as equal to general theoretical knowledge. He argues that in order for knowledge to be useful and applicable for individuals, cases are a good method to learn by experience. Context-dependent cases are the units of knowledge that build up the experience that could help individuals to transform from being *"rule-based beginners"* to *"virtuoso experts"* within their fields (pp. 303). Contrasting with four common misconceptions of case-based research, Flyvbjerg (2011) refutes them by emphasizing on the following advantages of a case study:

- Case studies can in fact be the fundament for generalizations, if executed correctly;
- Case studies can be useful for both generation and testing of hypothesis;

- Case studies and the end result, more often than not, cause researchers to revise their preconceived ideas instead of researchers projecting pre-conceived ideas on the final result;
- Difficulties in summarizing case studies are often the result of a complex reality, rather than a sign of weakness of the methodology (c.f. Flyvbjerg, 2011)

Ultimately, Yin (2009) argues that case studies and qualitative studies should not be regarded as substitutes, but rather compliments. One takes off where the other method cannot yield satisfying answers. In an uninvestigated area such as a demerger, before it is possible to know what topic to focus on and in the case of a quantitative study, what variables to measure, an initial qualitative case study approach is used gain an insight to the whole process under study.

The different methods to scientific approaches are inductive or deductive. With an inductive approach one establishes theories around observation and results, whereas a deductive reasoning uses predetermined fact and theories to logically go from a general statement to a specific claim (Zikmund, 2000). This study uses M&A literature to develop several propositions, which are a tool that helps to phrase conceptual ideas to approach the issue. Hence, a deductive approach is prevalent, although an open analysis of the results that fall outside the literature-based propositions is made and explained.

Interviewing allows for a far more flexible data collection in international business research than other methods such as formularies and research surveys. It allows for direct interaction between interviewer and interviewee and opens up for iterations during the actual data collection by adapting to the respondents perspective and reactions (Yeung, 1995). By contacting managers, the authors access contextual information which is not possible to obtain purely from secondary sources.

Therefore, an exploratory study was conducted in order to understand the process of demerging. Interviews with involved individuals of a case study, in this case Fazer Confectionery, the study identifies the conclusions that can be drawn.

3.2. Research Approach

The different approaches to scientific approaches are inductive or deductive. With an inductive approach one establishes theories around observation and results, whereas a deductive reasoning uses predetermined fact and theories to logically go from a general statement to a specific claim (Zikmund, 2000). This study uses M&A literature to develop several propositions, which are a tool that help phrase conceptual ideas that help to approach the issue. Hence, a deductive approach is prevalent, although an open analysis of the results that fall outside the literature-based propositions is made and explained.

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Therefore, in order to grasp this process we have conducted an exploratory study which will increase our understanding for the phenomena. By interviewing involved people and going into detail into one sample, in this case Fazer confectionery, we are able to identify what conclusions can be drawn.

3.3. Choice of Case – Sampling Issues

Given the scarce previous insights and theoretical frameworks in the field, an in-depth and detailed analysis of a company with recent experience of the disintegration process provides the first step for a study in the field. Cloetta Fazer's demerging in 2008 is a good background for an initial study considering the geographic and chronological proximity of the event being studied.

The confectionery industry has characteristics which make the merger and demerger process relevant. In line with what literature argues, the merger was the result of an industrial restructuring in a saturated market, where brand loyalty is high and growth inherently slow. Hence, organic growth was slow, and the industry entered a consolidation wave where cross-border M&A's are a frequently employed growth strategy (SvD, 2012). Furthermore, it was a combination which can be called a "*merger between equals*", in which two companies of equal size combine their assets and resources, and unite under one new strategy, one new culture, and one new identity (Zaheer, 2003). Cloetta and Fazer came from two markets and attracted different target markets, therefore complementing each other both geographically and segmentally, resulting in a well-suited cross-border M&A. The story of how this merger failed, despite the given conditions, is what has caught our interest to investigate how the separation was carried out.

The event can be placed in a geographic and chronological proximity. The event occurred in the end of 2008, which although seemingly is a long time ago, is enough time for managers to have distance and allow for self-reflection and analysis. The company is based in Finland and is therefore by tradition open to academic contact.

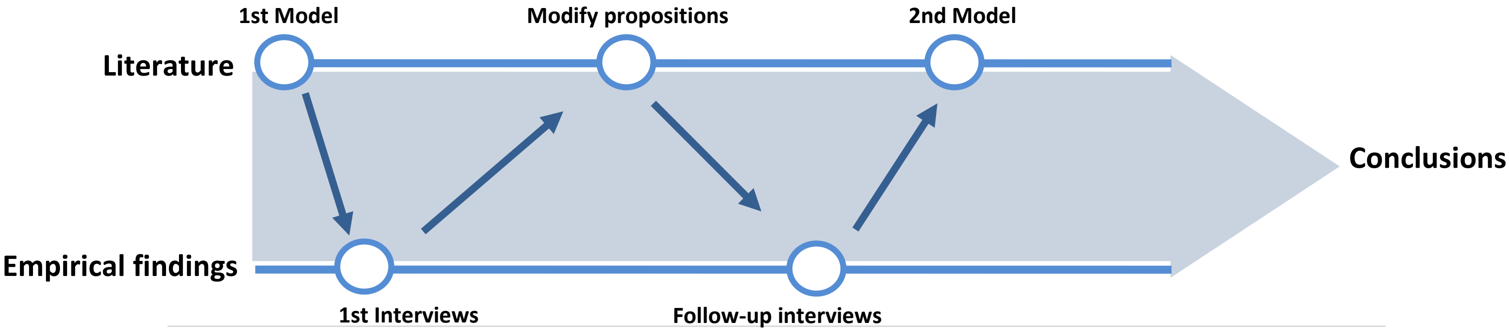
Notably, this study focuses only on one company of the disintegration, and leaves the other side's perspective undefended and unsaid. To use an analogy, we have decided to follow one partner of a divorce, and analyze the experiences of that partner only. Although it is seemingly odd to research only "*one side of the coin*", the authors believe that in order to contribute with any managerial implications, it is important to have a company and manager perspective on the subject of study. Social science is by definition not an objective science, since each individual has a different perception of reality, and individual's perceptions are the best proxies of the truth. A manager is accountable only for side, also so in a demerger, and conclusions for how a company should act in a demerger need to be based on the actions and experiences of companies acting in their self-interest in previous disintegrations.

Readers interested in how Cloetta managed the disintegration process are referred to the study by Karlsson and Nordell (2012).

3.4. Relationship between theory and empiricism

This study was conducted iteratively in the following manner (*see Figure 2)*. The authors used a deductive approach to categorize and start the process, but analyzed further findings inductively and related back to new literature and streams of research. This research process helped to present conclusions and theoretical foundation authors of this study started by conducting an analysis of existing M&A literature, and investigate how much was written about disintegration, and what could be inferred from the M&A literature to the disintegration process. The overview resulted in a number of propositions that helped prepare interviews.

Figure 2: The research process



By doing this, we were prepared for interviews which allowed us to understand the relevant areas in failed merger. After another literature view we had further follow-up questions which were done and helped us progress our conceptual view of this process. In the analysis we have looked at other fields in order to present strong and founded conclusions.

3.5. Data Collection

The data collection has been through interviews with Fazer managers who were involved in the disintegration in 2008. Data is complemented with secondary documents such as annual reviews, press releases, and news articles from the time of the disintegration.

The sampling was based on available managers within the current Fazer group who had main positions in Cloetta Fazer, and was directly involved in the demerger process. Therefore, they could provide valuable assessments and information about the economic, operational and organizational aspects of the split. The respondents in the data collection are presented below (*see Table 1*), mentioned with the title the manager had at the time of the demerger.

Table 1: The list of interviews

Employee	Interview type	Brief description
CEO of Karl Fazer	Personal interview for 1 hour and 30 minutes	Previous CEO of Cloetta Fazer until 2006. Worked at Fazer since 1997 **Hereon referred to as** the **CEO of Karl Fazer**
HR Manager of Cloetta Fazer	Personal interview for 40 minutes	Current HR manager of Karl Fazer group. Worked at Fazer since 1998 **Hereon referred to as the HR manager**
Logistics and Supply chain manager of Cloetta Fazer	Phone interview for 45 minutes	Current logistics manager of Karl Fazer group. Worked at Fazer since 1998 **Hereon referred to as the SCM**
CEO of Cloetta Fazer	Phone interview for 45 minutes	CEO at time of disintegration and current exports director at Fazer confectionery. Worked at Fazer since 1994 **Hereon referred to as the CEO of Cloetta Fazer**

All managers had worked for Fazer Confectionery before the merger with Cloetta Fazer, and held at the time of the demerger key positions in either Cloetta Fazer, or in one of its owners, Karl Fazer.

Interviews were semi-structured with several topics prepared from the literature review. Given each respondents different role in the disintegration, the interviews were different and adjusted for the responses of each manager.

3.6. Analysis and Coding

Interviews were recorded and transcribed by the authors. Thereafter each interview was structured in accordance to the unfolding of the process, so that the authors could compare the timeline of the process, according to each respondent. The interviews showed a tendency that the higher a manager was, the more focus was on the earlier parts of the demerger, whereas more operative managers had more to say about the later parts of the demerger. The data was presented in the empirical findings in chronological order of the demerger (see section 5, pp. 29).

In the analysis section, empirical findings were analyzed and put in relation to the propositions. Quotes and comments related to each proposition are presented and help develop each proposition.

The authors are cognizant that this demerger included two conflicting parties, which struggled for positions and power in the demerger. Consequently, it is important that the authors remain neutral and do not allow stories and comments from respondents to influence their objective and neutral writing.

Although the authors focused mainly on answering the propositions, there were several topics which were covered by the interviewees which had not been mentioned in the literature review. These topics are discussed in section 6.2. under each respective heading.

3.7. Quality and Limitations of data

With any scientific data collection the quality of the data must be assured in order to evaluate the method and how much the conclusion is supported by the data. The tools to judge the quality are the measures validity and reliability. Validity refers to how close to the reality a study result is, and how applicable it is to other examples, whereas reliability refers to the consistency of the collection of data. High validity requires reliability, whereas reliability does not necessarily imply validity (Merriam, 1994).

3.7.1. Validity

The validity of the study can be evaluated using internal and external validity (Yin, 2003). Internal validity refers to the thoroughness of the study's design and the care taken to method and what was and was not measured. The collected data has been analyzed and attributed to the propositions as far as possible, in order to provide a higher internal validity (CSU, 2012). Language issues may be raised. Interviews were conducted in English, the second or third language for both interviewers and interviewees. Despite good knowledge of other languages, it is acknowledged that verbal nuances that reflect strong emotional impacts are stronger in an individual's first language. However, the authors have been present at all interview occasions and worked with the transcribed interviews to confirm if a situation has been interpreted equally or not.

External validity refers to the transferability of our conclusions on other examples. For instance, how applicable are our results on future demerger processes, or previous ones, such as the disintegration of Daimler-Chrysler? It is an inherent weakness of case-based research. The more in-depth and detailed the research is the less applicable are the results on other examples, because results are dependent on several factors specific for the case.

Nevertheless, as stated by Flyvbjerg (2011) a concrete case study as ours is necessary in order to give specific context-based knowledge which can be used in real life (c.f. Flyvbjerg, 2011). Also, at the end of our analysis, we will provide generalization given with the results existing in this context, which may be used for hypotheses testing.

3.7.2. Reliability

Reliability refers to the way another researcher can repeat the same research method and achieve the same results. In a case study with personal interviews, this concept is less relevant since no interview will be identical to another. However, by using triangulation, and asking similar questions to all respondents we are able to present a more reliable data than had been the case of only asking one respondent. When diverging opinions or answers appear, both opinions are presented and contrasted. Therefore, the reliability of the data can be considered to be improved.

3.7.3. Limitations

The authors have contacted only the managers that are with Fazer today. Their stories may be different from managers that have left the company for any reason, thereby leaving the sample somewhat distorted. Furthermore, the event occurred in the end of 2008, which may be a cause for selective memory or memory issues

4. Company Background

Below follows a background of the companies and of the time together in the merger.

4.1. Cloetta

Cloetta was founded in 1862 in Copenhagen by three Swiss brothers. By 1917 the company was majority owned by the Swedish Svenfeldt family, and production moved to Motala. The same family remains the main owner today, through its holding company Malfors Promotor AB. In the decade of 1990 Cloetta becomes listed on the Stockholm stock exchange, and grows organically and inorganically. Headquarter is located in Ljungsbro, a country-side town in Swedish Östergötland. The company and its location share a mutual influence on each other: the company has always been locally rooted and with a strong local identity and culture (Bjursell, 2007).

4.2. Fazer

Fazer was founded in 1891 by Karl Fazer, when he opened a French-Russian confectionery business in Helsinki, Finland. In 1928 the brand Fazer Blue was created, a brand that has grown to be considered a national pride more popular than Nokia (Bjursell, 2007). In 1938 the bakery operations start, and in 1976 Fazer Catering Business, subsequently Amica, is founded. Through organic and in-organic growth the company reaches a dominant domestic position and in 1989 the company internationalizes its confectionery through the corporation of the family business into: Fazer Confectionery, Fazer Bakeries and Fazer Biscuits (Oy Karl Fazer, 2012).

4.3. Cloetta Fazer

Already in 1990, the two companies started collaborating and introduced a production alliance, where certain production and logistics needs were consolidated. In 1999, an agreement was reached where Fazer Confectionery and Cloetta AB would merge and create the leading Nordic confectionery company. It was a merger which had been discussed already in 1973, but was not realized until 1999, 26 years later (Affärsvärlden, 2001).

Being a larger entity, it allowed Cloetta Fazer to obtain higher bargaining power versus suppliers and customers, and consolidate operations and enjoy benefits of scale (Bruneheim, Engellau, and Lewin, 2008). During its second year of integration, 2001, the proposed synergy effects of 75 MSEK were realized, and the company was underway to fully integrate through different management programs and projects (Cloetta Fazer AB, 2002).

The underlying reasons for the merger were many, Bjursell (2007) mention additionally to cost-cutting targets, that market movements were underway, which created new conditions for confectionery giants. Large nordic retail chain stores, such as COOP and ICA Ahold, were consolidating as well, creating opportunities for a large consolidated confectionery business to easier follow its customers and serve them within the same system.

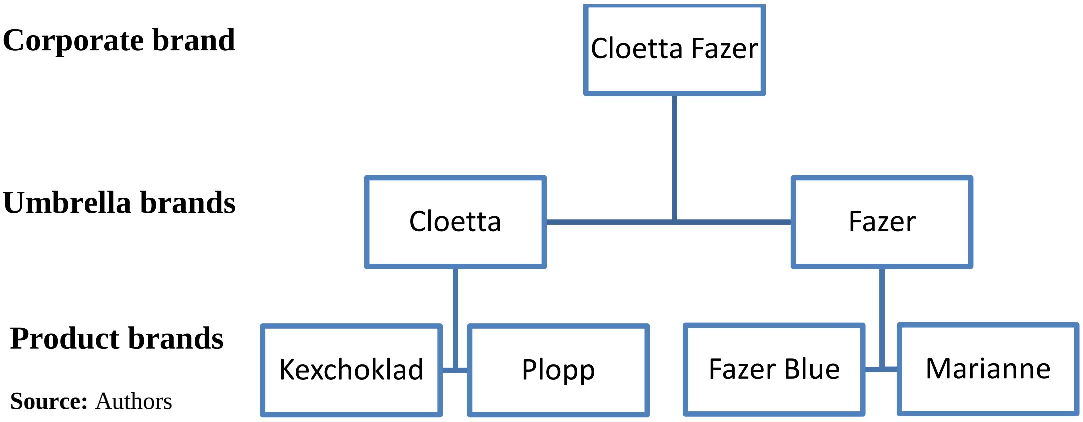
Given the market positions of each company, the strategic fit seemed unblemished. Both companies had strong positions in their domestic markets, and their brands served different price segments and consequently complemented each other seemingly perfectly. The market welcomed the move, and stock prices rose in anticipation of the increased margins that would follow synergies in procurement, production, marketing, administration, sales and distribution.

4.3.1. Operative success

The fusion between the Confectionery giant can be argued to be an operative success. After the merger, the new company enjoyed a 25 percent market share in the Nordic market, and hence became the largest player. Synergy effects were accomplished, through cost-cutting measures within production, distribution, marketing, IT, and procurement (Cloetta Fazer AB, 2002). Bruneheim *et al* (2008) state that profitability goals and the desired synergies were achieved quickly, however, not growth targets. In a stagnant market as the nordic confectionery market with high brand loyalty and low growth, growth comes through acquisitions (Cloetta Fazer AB, 2006). In Sweden, Cloetta Fazer's market share was 24 percent, whereas in Finland it was 41 percent (Cloetta Fazer AB, 2007)**.**

Even though the company was integrated, some managerial obstacles were difficult to integrate. The Swedish and Finnish market organizations for example. They were built on each respective organization, and therefore remained relatively independent after the merger. *The Figure 3* illustrates how the company was not completely integrated, from a market point of view:

Figure 3: Hierarchy of Cloetta Fazer



Source: Authors

Culturally, the companies had different heritage. In her study of the company, Bjursell (2007) describes the Ljungsbro based Cloetta as "*the country cousin on the move*", and Fazer as a representative of the high Swedish-Finnish society in Finland. Whereas Cloetta's corporate brand connoted collaboration and friendliness, Fazer connoted academics and quality. Nevertheless, in the integration phase synergy targets were reached and market positions were stable, and the company was underway to merge into one common culture and identity.

For reasons described in the following passage, Cloetta Fazer did not find the means how to succesfully grow according to its growth targets, and simultaneaously keep all stakeholders satisfied.

4.3.2. Cause for failure: Ownership friction

The 16th of June in 2008, the announcement was made to split the two companies into its original parts, Cloetta and Fazer. Cloetta AB was to remain a listed company on the Stockholm Stock Exchange, whereas Fazer returned to its parent company Karl Fazer as one of three divisions (DI, 2008). What lead the company to split up again, after nine years of integration as one company? Despite the cultural differences, both between Swedish and Finnish national cultures, and between two corporate cultures, they did not cause enough friction for the merger to be questioned (Bjursell, 2007). The answer instead, lays in dissensions between the two largest owners, Malfors Promotor AB, and Karl Fazer.

Two reasons are cited as causing the failure: 1) The families' different views of the shareholders' agreement and the subsequent ownership strives, and 2) different strategic perspectives, in which Fazer was reluctant to trade power and influence in exchange of market shares (Bruneheim, Engellau, & Lewin, 2008).

From the inception of the merger, there existed slight inequalities between the owners, Karl Fazer and Malfors Promotor AB. At the time of the merger, 50 and 20 percent of the shares were owned by Karl Fazer and Malfors, respectively, making 70 percent of the shares non-liquid (Bruneheim, Engellau, & Lewin, 2008). Therefore, an agreement was written in beforehand, aiming at balancing the ownership and reducing the level of non-floating shares. The Interpretation of the agreement became a cause for conflict later in legal processes between the owners. Malfors Promotor AB claimed that the agreement was binding and that Fazer had accepted it, whereas Fazer claimed no such agreement as being agreed upon (DI, 2006)Voting rights should not exceed 40 percent for any of the owners. However, the owners referred differently to the contract, and Karl Fazer stated that the agreement only stated a balanced, however not specified, ownership level as desirable (Bruneheim, Engellau, and Lewin, 2008). Karl Fazer sold their shares to related companies, and family members held private Cloetta Fazer shares, in addition to the ownership through Karl Fazer. In 2005 Fazer placed a bid on the entire company with the intention to buy out the remaining shareholders, leading to an even more polarized relation between the main owners (DN, 2006).The board of directors of Cloetta Fazer did not recommend its shareholders to accept the offer, but by then it was public that ownership issues caused a conflict and a constraining factor for the company (DI, 2005).

Eventually, the conflicting position between the owners slipped down to management level of the company, and in particular its brands. Even though it can be argued that company’s interest should be to invest in the biggest brands, which to a majority was Fazer, the Cloetta brands would suffer from lower sales. For instance, 8 of the top 12 prioritized brands were Fazer (Cloetta Fazer AB, 2007). This lead to negative sentiments among stakeholders – employees, managers, and owners – which represented the *“old”* Cloetta (Bruneheim, Engellau, and Lewin, 2008).

Table 2: Cloetta Fazer AB financials

Cloetta Fazer AB	2002	2007
Sales MSEK	3085	3253
Operating profit MSEK	394	313
Margin	12,8%	9,6%
Employees	2100	1560
Market Share	22%	22%
Source: Annual Review, 2002, 2007		

As a direct result of the discord between the owners, the strategy of the company was affected. As mentioned earlier, Cloetta Fazer merged in order to consolidate resources and grow inorganically in an otherwise stalling Nordic confectionery market. As the table 2 implies, growth was slow and market shares remained static. In order to continue to grow, Cloetta Fazer planned to merge together with Danish confectionery dominant Toms. The owners could not agree though, as the acquisition would be financed with issuing of shares, and the families' influence would decrease. Therefore, Cloetta Fazer remained dependent on its organic growth. Malfors Promotor AB argued that Karl Fazer ought to dilute its ownership, in order to finance the M&A, whereas Karl Fazer argued that Cloetta Fazer should be delisted, as a consequence of an ownership position with three strong owners (Bruneheim, Engellau, and Lewin, 2008).

5. Empirical Findings

This chapter presents the empirical findings obtained through interviews with Karl Fazer managers who were involved in the disintegration process in 2008. The interviews focused on the unfolding of the disintegration and on the emotions and perceptions from that time. Results are extracted and presented in a chronological order. In order to see illustrated chronological timeline of the demerger see the *Appendix.*

5.1. Narrative of the demerger process

5.1.1. Pre-demerger phase

In the spring of 2006, the then CEO of Cloetta Fazer, who currently is the CEO of Karl Fazer, realized that the ownership conflict in the company obstructed the creation of value. He had come to insight of how both main owners thought, and did not believe he would be able to create long-term value for all involved shareholders. At the same time he received an offer from Karl Fazer to become the Managing Director (MD) of the Karl Fazer group, an offer he accepted. He was clear with the main owner on the Cloetta side, Malfors Promotor AB, of his intentions and also of his ideas of the future of the company. In their discussion in 2006, nobody saw a future scenario where both owner families can sit in the driver's seat. Unless any of the owners changed their opinion, a split was inevitable. A new CEO for Cloetta Fazer is appointed, but discussions continue on the top ownership level of how the issue of Cloetta Fazer should have been handled.

There were many concerns raised about the future of the organization. Conflicts had existed and complicated strategic decisions for a long time, and DI (2003) reports as early as 2003 (during the integration of the two companies) that issues on the ownership level started to surface. Given the same market conditions which led to the merger of Cloetta Fazer – slow growth in Cloetta Fazer's home markets – Cloetta Fazer's growth strategy focused on inorganic rather than organic growth (Cloetta Fazer annual report, 2004). However, the ownership disagreement impacted the hoped merger with Danish confectionery leader Toms. During the last years of the merger, any major decision had to take into consideration the owners, something which stalled decision-making routines and required much energy. The SCM describes the decision-making process as politics rather than business: *"I have joked that during my 9 years I have become a really good politician".*

As positions became increasingly polarized, strategic decisions had to be reciprocal between both brands in order to go through. Reciprocity led to financially irrational decisions, as the case of investments in two separate chocolate production lines instead of one: *"We made a quite big investment in a chocolate line, and we needed only one, but we had to make two. Really unwise decision"* (SCM).

In 2007, after discussions between main owners and representatives from both families, the decision was made to split the companies. In November of 2007, a group consisting of the CEO of Karl Fazer and a representative of Malfors Promotor AB, and two previous board members of which one had legal expertise (here on referred as the planning committee), started to meet and prepare a framework for the execution of the split. The meetings were held weekly for nearly a year, and a major concern for the committee was to take into consideration the interests of all stakeholders: Cloetta Fazer's main owners as well as institutional and private ones. Initially, the planning committee handled issues of legal and financial nature. The basic approach was to set up a business portfolio according to assets of respective company. Since all brands were still connected under the umbrella brands of Fazer or Cloetta, and since each brand was also tied to production sites in either Finland or Sweden, the split followed pre-merger organizational limits. Even though the split followed geographic borders – the Finnish assets became a part of Fazer and Swedish assets remained with Cloetta - the legal aspect in every part of the demerger process was an unexpected burden that managers did not expect nor had expertise in.

The Swedish Financial Supervisory Authority (FI) and the Nasdaq OMX Nordic Stockholm stock exchange need to be notified in early 2008; ca. two months after the committee started the planning process. From this point Cloetta Fazer as well as the top management was monitored in order to assure that no insiders gain from share price volatility and share ownership.

In the spring of 2008 the new CEO of Cloetta Fazer was informed about the preparations of the split of Cloetta Fazer, which was going to be announced in June 2008. He was also notified that he would be given the role of divisional CEO of the demerged Fazer business after the split was completed; hence having a dual role which he recalls was difficult to balance.

The timing of the announcement was carefully thought through. The most important chocolate sales season in the market, the Christmas sale season, starts in November and continues until the end of December. It was important to have the separation done before the 1st of September, because management did not want to have two challenges, disintegration and the Christmas sale season, to deal with at the same time. Otherwise competitors might have exploited the weakened market situation.

Given the long-going and public conflict between the owners, and the apparent stalemate, the demerger decision was not a major surprise for people or for the market.

5.1.2. The execution phase

June 16

At an extra board meeting on the 16th of June 2008, an official announcement was made about the decision to split the company. Fazer Confectionery would go back to be a division within Karl Fazer, and Cloetta would be reenlisted on the Stockholm stock exchange. All brands and assets that belonged to Fazer before the merger remained in Fazer's ownership, and *vice versa* for resources belonging to Cloetta. It was announced that the legal split would occur by the 1st of September. From that moment on the merger between Cloetta and Fazer ceased to exist. However, operational issues remained mutual until January 1st of 2009. On the day of the announcement the stock prices of Cloetta Fazer soured 18 percent, indicating the positive reaction of the capital markets.

The Cloetta Fazer CEO joined the planning committee right after the announcement was made, together with the main owner of Cloetta, making it a group of six people handling the overall strategic and operative issues. The major decision for Fazer was whether to build up a new Swedish organization or if simply contract a local distributor, and only export from Finland. Since Fazer brands sold relatively well in Sweden, it was decided that Fazer would build up its own Swedish sales and market organization after the disintegration.

The execution of the demerger on operative level began after the summer holidays, and hovered around what company employees wanted to work for, and who would take the different positions after the disintegration. It was a fight for the best sales managers and directors, and the best key accounts, explained by the CEO of Cloetta Fazer: *"That was a behind the scene kind of battle of, the best competitive resources [...] who to attract to the new starting company in Sweden".* Additionally, all old contracts with suppliers and distributors had to be renegotiated, and prices and portfolios were reshaped.

During the period, top management experienced extremely large workload because they had to deal with operative issues and tackle arising disintegration problems. The

CEO of Cloetta Fazer remembers most clearly the high workload, when trying to balance his dual roles in this process, both as an impartial CEO of Cloetta Fazer, and also as the planner for the future Fazer platform for the Swedish organization: *"We also had minority shareholders that we couldn't forget about, so it was like a balance here to run the operations as well as possible and deliver the plans we had for 2009, and at the same time prepare for the split and have the discussions with individuals" (The CEO Cloetta Fazer).*

Cloetta Fazer's Finnish organization remained Fazer-owned, because 98 percent Finnish sales came from the Fazer brands so sales and marketing for Fazer did not change significantly in that market. The Swedish sales were in turn dominated by Cloetta brands and the organization remained Cloetta's.

The emotional response of employees varied, but a pattern was related to the position within the company. Top managers regret the disintegration, in the sense that it was a financially irrational decision that it destroyed more value than it created, whereas strictly operative or administrative employees in general felt happy to be back in line with national owners. The toughest challenge for the organization was to negotiate and split the employees especially the last two weeks of August. People on the production/lower level were split according to national boundaries, but Fazer managers were surprised when several Swedish managers chose to go to Fazer in last minute: *"It was expected that Swedes will go to Cloetta and Finnish to Fazer […] there were many surprises that Swedes actually went to Fazer instead of going to Cloetta" (The HR manager).* Additionally, few employees left both companies. The HR manager and the Karl Fazer CEO both believed that the decision to stay with Fazer was primarily affected by the fact that the headquarters for Fazer's Swedish organization would remain in Stockholm, whereas Cloetta would move back to Ljungsbro.

September 1st

On the 1st of September Cloetta Fazer AB ceased to exist and became two different legal entities, Cloetta AB and Fazer Konfektyr AB. According to Swedish regulations, two competing companies cannot share office space; however, the moving to new offices occurred only by the new year in January 1st. Therefore, FI ordered a separation of Cloetta Fazer headquarters in World Trade Center in Stockholm, and that was for many, including the CEO, the moment when the separation truly sank in. All locks, doors, computers and shared spaces had to be split, and previous colleagues were separated as well. These formalities added extra workload to the implementation team, it was also acknowledged that negotiation on details and consultations with lawyers made this process even more complicated and time consuming, as recalled by the Cloetta Fazer CEO: *"Lawyers in the background because it created a lot of additional discussions about details. Sometimes we could have agreed easier without these lawyers in the background […] it could have been easier just to agree based on a gentleman's agreement".*

In the following months the operative aspects could be solved, once people obtained their new positions. The interim solution was that Fazer used capacity from Cloetta to handle market, distribution, and sales in the Swedish market until January 1st. This solution gave Fazer time to plan a new Swedish market organization. The general strategy for Fazer in the disintegration was divided into three priorities: to secure customers service and the level, to minimize short time financial impact, and to find an agreement on assets, which the CEO of Cloetta Fazer referred to as "*make sure that Cloetta was not robbing us".*

The objective during this period was to put in place logistics and sales force and key account structures for after the 1st of January. The challenges from Fazer's side included how to have a good setup for the Swedish organization for after the demerger, and many HR related concerns. However, no lay-offs were announced, and no new personnel new were hired during the demerger. Swedish labor unions were strong and opposed any replacement by new people in the case of layoffs.

Production in Sweden could not be split up immediately, so instead, it was decided that production would continue as it was, for at least two years. The Fazer production in Cloetta's plants consisted mainly of smaller brands. For Fazer it was important to have production of its smaller volume brands in Sweden, close to the market, and for Cloetta it was important to fill up their production capacity, albeit not with their own products. Notably though, the contracts were now based on market rationale completely. Fazer outsourced some production of minor brands to several producers, and Cloetta is one of them.

Fazer had to renegotiate contracts to export to markets such as UK, Germany, Norway, Denmark and the Baltic countries. Since the export portfolio was based on Fazer brands, the area remained relatively unchanged for the company. Despite that the demerger presented a perfect opportunity to renegotiate and change some distributors the solution in most cases was to continue working with the same distributors for at least a year. In other cases management took the decision to end some contracts immediately and enter new ones instead.

The cooperation between Fazer and Cloetta employees was professional and the working atmosphere was good, something that led to smooth transition. Employees knew that the reason for the split stemmed from the ownership conflict, and not from discords between the organizations themselves. Thus, as soon as people had decided where to go in the demerger, people respected the setup and worked together for the common good until the 1st of January, when the operational changes were put in place and the two companies were separated completely. In the words of the CEO, the collaboration in the autumn of 2008 was a preventative measure from both companies in order not to lose market position or as the Cloetta Fazer CEO referred: "*We continued working based on a mutual agreement not to mess up the situation*".

In general, sales, marketing, and logistics were the functions most difficult to disintegrate. However, it was also referred that marketing unit was the least integrated in the merger. The supply chain was difficult to disintegrate from both an operative and HR perspective. In particular from an operative point of view, because all old contracts and prices had to be renegotiated and new portfolios were set up with customers.

Additionally, the HR employed techniques such as meetings in order to include all actors involved in a planning process and clearly define the tasks: *"We used talk meeting to involve people that now it means we are planning, now we are implementing" (HR manager).*

One of the reasons that the supply chain was difficult to disintegrate was that it was the most successfully integrated function in the company, which had formed a new and successful identity, as opposed to the market oriented side of Cloetta Fazer which had remained split. The SCM acknowledged that the supply chain was the most successful and most integrated function with deepest collaboration, whereas for example marketing was never truly and emotionally integrated.

Nevertheless, the human-side of the disintegration was difficult because colleagues that had previously been friends suddenly had to become competitors. It created an unnatural situation and emotional distress in the negotiations that followed, as illustrated by the SCM: *"We are not robots […] suddenly your friends become enemies" (the SCM).* Moreover, the supply chain division of Cloetta Fazer consisted of 600-700 employees and approximately two thirds went to Fazer, and one third to Cloetta. Another painful aspect was the time frame before legal issues were put in place for the 1st of September split. The SCM was surprised that people working with the disintegration process managed to deal with the *"24/7"* workload and succeed. However, it was acknowledged that the negotiation process from Fazer side could have been better executed. Fazer could have had a clearer governance model of how to negotiate and escalade the positions, and how to communicate within the process: *"One thing that is really critical is to have a clear governance model" (The SCM).* The main cause of poor negotiation position was timing issues.

Fazer could have had a clearer governance model of how to negotiate and escalade the positions, and how to communicate within the process. It was believed that Cloetta was much better than Fazer at what topics they could decide and not decide. Cloetta possessed warehouse and important assets in the Swedish market, hence, having a better negotiation position: *"Cloetta could squeeze us"* (the SCM).

Despite the external help from the legal advisory firm, the demerger process was carried out with the companies' own managerial capacity. From the HR point of view, the demerger process was carefully planned, focusing on a clear structure and implementation speed. The demerger structured and defined the periods for planning, legal and operational starts. The company tried to execute the demerger as fast as possible; however, the speed was limited due to the legal boundaries.

1.1.1. The post-demerger phase

Post separation 2009

Operationally, some functions such as production for smaller brands remained mutual. IT management of the logistics is another issue which remained mutual until the 1st of April, 2009.

In Sweden, Fazer had to start from a different market position, going from being market leader with 25 percent market share, to being the 4th largest producer, with only a seven percent market share. Similarly to before the merger, the logistics was outsourced and the logistics center moved to new locations in Norrköping. Moreover, after the demerger, Fazer's relation with customers, suppliers and distributors had changed. The company had lesser bargaining power because of diminishing volumes; however, the managers do not recall drastic changes of customer portfolio.

All interviewees state that no consideration was given during the disintegration to the post-demerger relation with the Karl Fazer group, during the disintegration. The CEO of Cloetta Fazer emphasizes that they took one thing at the time, and for six months after the split, Fazer Confectionery was an independent unit in Karl Fazer. However, immediately after the split, HR started to plan for the reintegration back to Karl Fazer, which was believed to be a simple process. Eight months after the split of the companies, in August 2009, external consultants, the Boston Consulting Group (BCG), were hired to assist in the reintegration into Karl Fazer again. In general, the BCG was met positively by most of employees; however, the objective to reduce the layers in the organization increased confusion among managers.

The Karl Fazer CEO thought that Karl Fazer and the Confectionery division would simply dock perfectly, given its common history and ownership. However, surprisingly, the reintegration back to Karl Fazer was an HR-challenge as big as the disintegration from Cloetta Fazer itself: *"It was a surprise that we had to fight a little bit on the home ground here in Finland and not in Sweden or anywhere else" (The CEO of Karl Fazer).* All interviewees argue that Fazer Confectionery operationally took *"a step down"* when integrating back to Karl Fazer. The SCM acknowledged that Cloetta Fazer was in the front edge in many areas and many perspectives, however, with the reintegration it could not advance further: *"We went back quite a lot and the development stopped on the development side "(the SCM).* Additionally, it was extremely hard for the Confectionery people to come back to Karl Fazer. The SCM speculated that the cause might have been the success of the Confectionery: *"CF was a successful journey, and coming back to the Fazer group was not really easy. We were really independent, you could also say proud [...] I worked at Karl Fazer before, but for people that had only worked at Cloetta Fazer, it was a bigger shock" (the SCM).*

The CEO stated that Karl Fazer had not developed during the time without the Confectionery division, which was and still is the flagship and main historical and emotional compass for the company. The Supply Chain manager disagrees, and argues that it was good for the other divisions that the Confectionery moved away for some time. This situation allowed the bakery and food services divisions to take a step forward, and not only see themselves as the *"little brother and sister"* to the Confectionery division. It was acknowledged that during the time without the Confectionery division, the Bakery became a *"star"* in terms of revenue. Thus, the reintegration of the Confectionery brought up negative emotions and created rivalry. The SCM speculated: *"The Bakery and Fazer Food was a little bit jealous because Confectionery has always been a star".*

Nevertheless, during the 9 years as a part of the listed Cloetta Fazer, management had developed routines and models for financing, balance sheet upkeep, IT systems, corporate governance and decision making models, different than what a family-owned company like Karl Fazer uses. It was also acknowledged that family business is long term oriented, while public company has to deliver quarterly results, implying that employee developed different routines: *"We say that one quarter in a family company is 25 years, and in a listed company its three months, you can see the difference" (The HR manager)*. However, by reintegrating back into Karl Fazer, the company had a possibility to employ some of the practices used in the joint company. Operationally, Fazer Confectionery's Swedish excursion brought advantages to Karl Fazer, as explained by the SCM when listing advantages such as sourcing processes, lean manufacturing, SAP: *"We had reached quite far in developing the production, logistics solutions. Bakery introduced SAP two years ago; they didn't even have it before. And we had used it for ten years almost".* It was also referred that the Bakery was not able absorb all knowhow and practices from the Confectionery: *"Even today the bakery has not been able to copy paste, some examples" (the SCM).* Additionally, HR incorporated Swedish style of discussion as a part of management. It was acknowledged that raising questions and discussion is very beneficial for long-term development: "*The biggest learning was the Swedish discussion which I was very critical before, it's the mentality. But I have changed my mind totally" (The HR manager).*

Fazer Confectionery had better implemented the use of enterprise systems and operative routines. One manager argues that pride perhaps, may be the reason everything has not been absorbed by Karl Fazer. Additionally, the *"homecoming effect"* allowed owners to set clearer long-term strategy. It was noticed that having a clear driver makes decision making more effective and rational: *"A driver in the driver seat, better than a 50/50 split. A benefit from demerger is a clear owner [...] decision making is fast and clear, rational and fact-based" (the SCM).*

The experiences from being a listed company have helped many in the Karl Fazer management to introduce governance structures similar to those in listed companies. Examples are nomination committees, compensation and audit committees, etc. Managers, board members, and owners had clear and distinct roles as well. Although the reports are semi-annual, they are broadcasted on the web for all owners, like listed companies. Despite being a family company, there is a daily share price which the owners can use when selling and buying shares within the family.

In hindsight, the cultural blend of Swedish and Finnish leadership styles has impacted the new Karl Fazer organization. Both the Karl Fazer CEO and the HR manager think that Finnish managers in general are better suited for *"crisis management"* than their Swedish counterparts, but that Swedish organizations in general are less hierarchical and better suited for discussions and long-term planning. This aspect was brought to Karl Fazer in realization of the advantages of the latter style.

6. Analysis

This chapter analyses empirical findings by classifying them in accordance to the prior discussed propositions. In addition, it also discusses other issues distinguished from the empirical findings.

6.1. Evaluation of propositions

This chapter analyses the empirical findings in the light of the written propositions, and establishes the accuracy of the propositions from *Chapter 2*. The propositions focus on how one company can go through a disintegration process, and the case has only contacted one party of the disintegration process for data collection. Therefore, the findings are not necessarily valid for the other part of this demerger, Cloetta.

Proposition 1: *The planning process before an actual demerger ensures that management efforts will be more focused on both planning and operative issues during the disintegration.*

The planning period before the public announcement was eight months, although the seeds to the idea of splitting the companies had existed for few years. In this time period the structure of the disintegration was established, in other words how the legal framework for the split of Fazer and Cloetta would look like. Once the legal framework was set, it was relatively easy to calculate the enterprise value of both companies, in order to have an accurate worth of the companies in the separation and settle ownership issues at a fair price. Another determinant factor was the timing issue, and to set up strategically important dates of when part goals had to be accomplished.

The time spent on planning is a balancing act between the need to give due consideration to the future process, but also fulfill other commitments. The CEO of Karl Fazer for instance, had to fulfill his duties in Karl Fazer while planning the demerger. The planning period of eight months could effectively be comprised given other conditions, and length itself as a factor becomes less relevant for the unfolding of the disintegration.

From HR point of view, the disintegration was very structured, careful and clearly planned, and all HR issues were resolved before the legal split on the 1st of September. The process was divided into clear phases, roles and communicated to responsible staff: *"At this time it must be one process and then it became operative" (The HR manager).* "*We had to say by what day, and who will be in charge in many different small projects, internally in*

Fazer" (The CEO of Karl Fazer). Moreover, after HR issues were resolved the HR managers started to focus on the upcoming reintegration process back into Karl Fazer.

The planning process for the operational functions started after the public announcement and primarily focused on how to setup the Swedish sales and market organization from scratch as well as who would take the different positions. From the operational standpoint, the involved managers had to balance dual roles: planning the disintegration process and negotiating with key employees, and at the same time run operations as usual: *"It was a balance, to run the operations and deliver the plans we had for 2009, and at the same time prepare for the split and have the discussions with individuals" (The CEO of Cloetta Fazer).*

Once the disintegration was underway, top management confirm that workload was large, and that combining operations with future planning was a heavy burden. It was especially hard for people involved in supply chain function: *"There was not time to plan anything really; it started overnight" (Supply chain manager).* This situation prevented management from preparing for negotiations, something which affected the negotiating position of Fazer.

The findings suggest that the planning process could be divided into two layers. The first layer covers strategic planning which includes definition and structure of the companies, distributing roles and functions of key employees in the disintegration process; it was mainly influenced by regulatory aspects. The second layer covers the planning on an operational level; primarily discussing the split of employees and setting up new organizational platform. The case shows that the strategic planning was relatively undisturbed, whereas the management on the operational level dealt with dual roles, which affected the managerial efforts that could have been more precise when dealing with the disintegration issues thoroughly. Thus, the case suggests that duration of the planning process is not necessarily a key factor to avoid disturbance, the managerial disturbance occurs on different levels which restrains capacity to tackle the problems.

Proposition 2: *If a demerging company does not have a clear communication strategy, it is more likely that employees will experience substantial levels of uncertainty.*

From HR management point of view the communication throughout the whole demerger process was open, clear and worked well: *"It was pretty open information […] CEO was always very clear in communicating everything to all parties […] everybody* *immediately knew what we were doing" (The HR manager).* Everybody was included after the official announcement of the demerger. Goals and disintegration phases were communicated with all employees. Additionally, from HR perspective, the inclusion was an essential. The HR staff organized talk meetings to involve employees and to distinguish the phase of the processed such as planning and implementation.

Given the overall goal of splitting legal entities and employees before September 1st, the organization adapted and worked hard to accomplish the objectives in time. Employees experienced uncertainty and distress, but it was more due to the emotional attachment created in the functional divisions of Cloetta Fazer, than to a lack of communication.

The findings suggest that the company employed open and inclusive communication. However, there are no evidence about the link between the effects of clear communication strategy and the level of uncertainty. The case suggests that the main reason for uncertainty during the disintegration was not miscommunication but rather emotional involvement. It is also suggested that inclusion is an essential determinant of successful communication strategy. Thus, despite that it is not possible directly link the miscommunication and the increasing uncertainty, it is reasonable to believe that a clear communication strategy helps to reduce uncertainty level during the disintegration process. It is also reasonable consider inclusions as a part of communication strategy an important determinant of smooth disintegration process.

Proposition 3: *High speed of disintegration reduces uncertainty and avoids leadership vacuum.*

Throughout the planning process the speed of disintegration was referred to as one of the most important factors for a successful execution. The CEO of Karl Fazer, who shaped and planned the strategy, argued that both in the merger and the demerger, the process was more focused the shorter it was: *"If it will be a very long process […] there is a risk also that you will lose momentum and all the synergies" (The CEO of Karl Fazer).*

The disintegration period can be divided into two phases. The first phase started on 16th of June and lasted till the 1st of September and the second one started on the 1st of September and lasted till the 1st of January. From HR perspective, the disintegration process was executed in a speedy and structured way. Employees had to decide where they wanted to go in two and a half months after the announcement. Notably, summer vacations that in general covered the month of July, restrained the effective time spent on planning the operational parts of the demerger, to the start of August, as illustrated by the SCM: "*when we came back from the holidays in august that is when it really went off*". The SCM admitted the timing was extremely pressing.

All interviewees witness of an extreme workload in the weeks before September 1st. They were forced to balance different roles, and had much pressure from maintaining normal operations and planning for a smooth separation. However, the overall goal of the demerger was clear, and management had set up speedy yet clear sub-goals, including dates for when what and by whom certain tasks were to be accomplished. That helped reduce uncertainty, as goals were communicated and employees knew what to expect and what was expected of them. No manager mentions uncertainty as a distracting factor in the disintegration. The uncertainty that existed relates to employee decisions of where to go in the new organizations, but this barrier was removed once the HR issue was decided in September 1st.

Findings suggest that although the tight timeframe of the disintegration was extreme, and may have led to reduced performance in other aspects of the demerger, it did not cause any significant confusion. On the contrary, the speed is likely to have been a contributing factor to avoid uncertainty. Leadership vacuum was not a prevalent issue either, while the structure was clear and delegated responsibilities to people in the organization. Thus, it is reasonable to imply that speed reduces uncertainty and leadership vacuum.

Proposition 4: *A demerging company is likely to experience increased management and talent turnover, which in turn leads to loss of experience, managerial capabilities and adverse effects on corporate identity*

All interviewees referred the most problems occurs while dividing and distributing the personnel. The whole distribution process was extremely though especially during the last two weeks of August, 2008. The discussions and negotiations who go to Fazer and who go to Cloetta involved a lot of emotions. The SCM referred to on-going negotiations as a battle behind the scene for the best competitive resources, meaning who will attract the best people to the new companies. On the managerial level, the distribution of employees was equal; however, the most problems arose in the Stockholm office, which at the beginning of the merger was newly established. Despite prejudice of national culture and expectations that people would go to the company from the same cultural background, some managers changed *"camps"* and started to work in an organization opposite to their nationality. The CEO of Karl Fazer speculated that the two main reasons for Swedes choosing Fazer were firstly, the planned location of headquarter of Fazer Swedish operations in Stockholm, whereas Cloetta planned to move back to Ljungsbro, and secondly career perspectives in Fazer, because it was a bigger company.

From production point of view, there were not many changes because the production sites were split up according to ownership before the merger. Generally, production employees were happy of the demerger, and that they are once again a part of Karl Fazer.

The distribution of supply chain personnel looked a bit different, approximately two thirds from total of 600-700 employees went to Fazer, and one third went to Cloetta. It was acknowledged that Cloetta experienced bigger hit while dividing employees of supply chain function. Mainly because, in the merger the company had a central supply chain organization with main competences coming from Finland, whereas, after the demerger the majority of competent and experienced supply chain personnel stayed in Fazer: *"After the demerger, it was the loss of competence that was hard for Cloetta. It was not there" (The SCM).* The *"fighting"* continued for the best sales managers and the best key accounts, and the situation was more favorable to Fazer.

The results indicate that the demerger increase employee turnover in sense of necessity to divide employees of the joint company. The case also suggests that the most of problems for future organizational setup arise due to employee turnover and the competences they bring in it. It is also shown that the talent employees are addressed with great concern especially on the managerial level, in other words a *"war on talents"* takes place during the split of companies and the discussion and negotiations are vital in order to obtain resources. The case also indicates that if the talent employees decide to join one company, adversely, the other company loses these employees with their competences and experiences. Thus, it is reasonable to compare a demerger to a *"zero-sum game"* in terms of employees and their competences and experience. Only very few individuals chose to leave both organizations. However, the case did not show any evidence that higher employee turnover has an impact on the corporate identity.

Proposition 5: *A demerger of a cross-border M&A divides organizations along national borders, something which solidifies cultural identity and complicates the demerger process by polarizing employees.*

Despite that the companies are from neighboring countries, the perception was that mentally it is difficult for Swedes to be a smaller brother in a merger. The cultural differences existed in the merger and the demerger. The national culture had different impacts on employees on the different levels at the organization. Employees on the production/lower level were distributed according to the settings of pre-merger. Despite the belief that people on the managerial level would go according to the national boundaries, some managers chose to work in an organization opposite to their nationality.

Moreover, the positive emotional side of the demerger occurred to employees on the production/lower level, whereas, employees on the managerial level were affected negatively *""It is good that we are back in Finland" that is typical for production workers here" (The HR manager)*.

Additionally, after the legal split and disunion of employees, the companies continued to work in a collaborative setting, sharing distribution and production activities. It was acknowledge that the disintegration process went smooth because people were very professional; they respected the setting and continued working with rivals without extreme emotions, thus, the polarization was not present.

The case does not provide evidence that organizations are separated only according to national boundaries. However, *"the homecoming effect"* positively affected attitude of employees on the production and lower level as well as solidified the cultural identity, while the effect of managerial level was opposite. Thus, it is reasonable to believe that the polarization of employees is not directed depended on national cultures, but rather is influenced by the aspect of the history of the merger, collaboration and integration level.

Proposition 6: *A weak corporate identity facilitates a demerger.*

In general, the approach of what and how to split the company was based on a business portfolio that was set up. This was not particularly complicated, because all brands were still connected to the umbrella brands Fazer or Cloetta. The brands had a main production site, and production located in Sweden would belong to Cloetta, and sites in Finland to Fazer. Additionally, Fazer's century-long traditions have helped Fazer to be the most recognized brand in Finland. During the years of integration, the emotional attachment to the brands had to a degree remained strong among employees, but first and foremost among the owners. It was this attachment that lead to the conflicts which subsequently caused the demerger.

The different brands, and subsequent polarization in the company in the merger and integration, can be argued to have led to a weak corporate identity. Cloetta Fazer was a well-functioning company with a developed corporate culture. However, no interviewees mention the corporate identity in Cloetta Fazer as being particularly salient.

The evidence shows that the strong brands facilitated the making of the business portfolio which served as a legal and administrative platform for the demerger. Evidence also suggests that Fazer's strong brand equity creates substantial emotional attachment for customers as well as employees. It is reasonable to believe that strong separate brands weaken the corporate identity of the joint company. Thus, it is reasonable to argue that a weak corporate identity facilities the demerger.

Proposition 7: *A demerging company is expected to lose customers.*

The approach of what and how to split the company was based on a business portfolio based on brands. Naturally, the demerger had some implications on the market share at least in the short term. Cloetta Fazer was a market leader with 25 percent of the market, whereas the demerged Fazer's held 4th position in the market with only 7 percent of the share.

However, the CEO of Cloetta Fazer does not recall any significant sales decline for the actual Fazer brands during the demerger period. Both demerging companies had a mature approach and worked to not let the situation become an opportunity for competitors to exploit the potential confusion and. which had an important impact for Fazer in the Swedish market. The reasons that employees in the old Cloetta Fazer worked well until the last day of the scheduled collaboration on the supply chain side.

In remaining markets, such as Denmark, Baltic countries, Russia, and Poland, the export portfolio was based on Fazer brands. Therefore the demerger did not constitute a threat to Fazer's bargaining power versus distributors in those markets. Distributors that Fazer had plans of changing already, were changed: the split provided a perfect opportunity to change distributors the company was not satisfied with. The solution in most cases was to work with the same distributors for at least a year, before renegotiating and changing distributors: *"We had already been having some thoughts to change distributors. It was now an easier case where we had the split" (the CEO of Cloetta Fazer).*

After the demerger, Fazer's relation with suppliers, distributors and customers had changed, due to the lower volumes and adjusted bargaining power. However, the managers do not recall drastic changes, and concur in that Cloetta was hit harder by the re-negotiations in the value chain.

Additionally, a challenge occurred when preparing the platform for how Fazer Swedish operations were going to work. The company had a possibility to cooperate with some distributors in Sweden, but it was decided to establish own sales force and local company. It was the biggest operational challenges to set up the logistics, new sales force and key account structures.

The findings imply that the demerger contracts the market share, although, there is no clear evidence what effects it had on Fazer's market share. The case illustrates that brand based exports were not affected. However, the case proposes that the demerger presents a perfect opportunity to revise distribution portfolio, thus, the company may end old and sign new contracts with distributors. Despite clear evidence that a demerging company loses customers, it is still reasonable to believe that a demerger requires a company to revise its contracts with customers and distributors.

Proposition 8: *If a demerging company does not overcome challenges in the post-demerger integration it is more likely that the company will not achieve the expected goals.*

In general, the post-demerger integration (reintegration) process began right after the split. A common belief was that it will be easy to go back to Karl Fazer: *"Now we will dock in the Confectionery part into the rest of the Group" (The CEO of Karl Fazer)*. However, the process experienced a bulk of frictions between the different business units because through the merger period the Fazer Bakery took over the leading position in terms of revenues. This situation created rivalry and jealousy amongst the different business units. In general it was difficult for the Confectionery people to accept the post-demerger integration because during the nine years together with Cloetta, management and workers had operated in a listed company, having different routines for the finance process, balance sheet management, IT systems, and corporate governance, whereas with the reintegration they were only a part of a Karl Fazer. The CEO of Karl Fazer acknowledged that they had to fight more on in Finland than anywhere else.

Additionally, Cloetta Fazer had created its own business culture as a public company, while Karl Fazer had always been a family company. Thus, the reintegration back into Karl Fazer became a cultural shock for the employees from Cloetta Fazer, primarily because the Cloetta Fazer journey was successful and the confectionary unit was independent.

Additionally, throughout nine years in the merger, Cloetta Fazer has developed a lot of useful practices in sourcing, marketing, management and production. The merger gave Fazer an opportunity to acquire these experiences from the joint company, whereas the demerger allowed transferring these practices into Karl Fazer. However, the knowledge transfer encountered problems due to differences in systems as well as resistance of employees. It was referred that Karl Fazer had less developed IT system and did not have SAP: *“Then we went back to Karl Fazer and somebody has said: oh now we have to go back 10 years back with IT systems” (The HR manager).* It was also recognized that the Bakery was not able to implement practices from Cloetta Fazer to full extent: *“Actually even today the bakery has not been able to copy paste that, some examples” (The SCM).* In addition, HR had transferred management culture referred as *“Swedish discussion mentality”*, something that the HR manager criticized at the beginning of the merger. It was acknowledged that raising questions and discussing problems in depth adds value to the decision making process, thus, this management style is now commonly used in Karl Fazer. Nevertheless, the SCM diverged from the Karl Fazer CEO and thought that it was good that the bakery and food services were independent for 9 years, so that they could develop their identity on their own, and take a step forward.

Despite that the demerger process was carried out with own managerial capacity, in order to cope with post-demerger integration problems the company employed external consultant (BCG). In general, the idea to use external consultants’ services was met positively by most employees in Karl Fazer; however, the BCG suggestion to reduce organizational layers increased confusion on the managerial level

Additionally, it was acknowledged that now Karl Fazer looks much more like a public company. The company presents the reports and broadcasts on the web for the owners to follow. The CEO also underlines that the company has very good governance of roles such as managers’ roles, boards’ roles and owners’ roles.

The literature draws attention to the perception of cultural similarities, which often lead to underestimation of the cultural differences especially between close neighboring countries (Fang *et al.,* 2004). Moreover, it is hard to reconcile *"Family"* versus *"Professional"* cultures, especially when owners are involved in the merged entity (Zaheer *et al.*, 2003).

The case shows that the post-demerger process and on-going organizational changes is followed by the reintegration back into the previous group. The findings suggest that the most challenges occurred for the integration of employees due to their emotional involvement. It might also be referred that the main cause were corporate culture clashes. Additionally, the reintegration created rivalry within the Karl Fazer group, which complicated the process due to employee resistance to adopt new practices, regrets for not being under the spotlight (being only a part of the group). However, it was referred that *"the comeback"* benefited the whole group by employing useful practices such as IT, SAP systems, acquiring knowledge of sourcing, finance, reporting and management cultures. Additionally, M&A literature suggest that cultural similarities as well as consolidation of *"Family"* and *"Professional"* cultures lead to difficulties. All in all, it is reasonable to believe that the company in the post-demerger integration should primarily focus on and deal with corporate culture challenges in order to achieve smoother integration and knowledge transfer.

6.2. Other findings

Issue 1: *Differences in Business Units*

In the disintegration, similar to the integration, there was a difference in how to manage the different business units. However, the challenges of the disintegration process varied from different perspectives and between different business units. From HR perspective, the marketing function was least integrated and experienced less emotional impact than for example the supply chain function: *"For marketing [...] not so much cooperation at all. It should have been more cooperation" (The HR manager)*.

However, the Swedish sales and market organization was particularly difficult, since the assets went to Cloetta and Fazer had to rebuild their own organization. The main challenge there was to fight for the best key accounts and retain the most competent personnel. Logistics experienced complications, since it was a fully integrated company and HR issues were present there. Warehousing and a logistics setup had to be created from scratch.

Additionally, it was acknowledge that the Swedish business was hit the hardest, because functions and business units in Sweden had the biggest synergies in the merger.

The findings suggest that the challenges of disintegration varied across different business units and primarily depended on the level of integration. There is lack of literature that focus on the variation of level of integration among the different business units within the organization. Despite that this issues need further investigation, it is still reasonable to imply that the higher level of integration across different business units is most likely to complicate the disintegration process.

Issue 2: *Employee emotions*

The demerger was very emotional for all stakeholders, however, different on different levels of the corporate hierarchy. Owners had reached the decision to split and welcome the process as an end to the conflicts. Managers in general regret the split, as they argue it destroyed value, and because a corporate identity was beginning to develop among the blue-collar workers. Production workers on the other side, welcomed the split, and in the words of the HR manager, argued that it was *"good that we are back in Sweden, good that we are back in Finland"*.

The most difficult it was to cope with emotions because the disintegration changed the relations that had been built up during the years of the merger; it required friends to become rivals in a very brief period: *"Suddenly your friends become enemies" (the SCM).*

Additionally, a lot of human feeling occurred in the post-demerger process (reintegration) back into Karl Fazer, and in some cases, even became an obstacle for value creation. Emotionally it was really difficult for Fazer Confectionery because a long time they used to stay alone and the management spent efforts on dealing with the fact that now they are a part of Karl Fazer. At Karl Fazer people were used to traditional values and own ways of doing things as well as corporate governance, ways of working with the strategic process sourcing etc. The SCM acknowledged that Cloetta Fazer was in the front edge in many areas and many perspectives, however, with the reintegration it could not advance further.

The literature suggests that organizational changes trigger a wide range of emotions among workforce and is a central part of *"human side"* of an M&A process (c.f. Huy, 2002; Kusstatscher and Cooper, 2005). Weiss and Cropanzano (1996) point out that emotions influence job performance and satisfaction as well as personality and mood, whereas, Ager (2010) stretched that integration is a threat to one's social identity and results in emotional stress. In addition, integration raises personal and psychological issues and that stress and distraction affects performance, these emotions might spread insecurity and possibly job loss at all levels of the organization (Sherman, 2005).

The case suggests that the most of problems in the disintegration process arise due to emotional involvement. Human emotions become main obstacles and difficulties during the execution of the demerger and in the post-demerger integration phase. It also suggests that the emotions emerge within the managerial level which was the most integrated. The findings go along with literature that organizational changes increase emotions. Hence, it is reasonable to believe that the emotional difficulties during the demerger create difficulties, increase stress and insecurity and have negative effects on employee performance at all levels of the organization.

Issue 3: *Regulatory and Legal aspects*

As a listed company Cloetta Fazer had to inform the Swedish Financial Supervisory Authority (Finansinspektionen) and the Sweden OMX stock exchange. Hence, before the regulatory issues (share and stock prices and price volatility) were sorted out the company could not take any executive decisions. For a year, the top management met weekly in order to follow up everything both from a legal and operational perspective.

Additionally, the demerger process was carried out with internal managerial capacity; however, for legal processes the company employed an outside legal advisory. The legal process was difficult to address, because even external legal advisors had no previous knowledge in how to deal with the disintegration process of two previously married companies. It was also noticed that legal process was an obstacle for timing and speed of the disintegration and a lot of time and resources were spent on negotiating and complicating the split: *"Sometimes we could have agreed easier without lawyers in the background" (The CEO of Cloetta Fazer)".*

Sherman (2005) acknowledges that following the closing deal with an integration process, comes many legal and administrative tasks such as asset acquisition, stock acquisition. In order for management to focus on implementation, the legal issues should be handled by legal advisors who are familiar with corporate governance, intellectual property etc. (*ibid.*).

The findings propose that regulatory and legal aspects have severe implications on the shape of demerger in terms of timing and speed. Additionally, the literature suggests that legal and administrative tasks of an organization change should be handled by legal advisors with experience in this field. The case shows that the demerger is a complex type of legal affair, which constituted a challenge even for the legal advisors. However, an analysis of the legal affairs is left out, as it is outside the scope of this study. Nevertheless, it is clear that the legal and regulatory aspects shape the demerger in terms of timing, speed.

Issue 4: *Negotiations*

Despite the on-going discussions and negotiations with key employees and dividing the managerial staff, the demerger process required considerable preparation for negotiations of who gets what. The negotiation process was critical for Fazer in order to gain competences and experiences by acquiring employees, as well as getting setups for newly established Swedish business unit. It was referred that legal aspects and detailed discussion complicated the negotiation process.

It was also referred that during the disintegration process the company was at *"state of war"*, which requires clear decision making process. However, Fazer lacked governance model, structure, planning, communication and management of the negotiations: *"One thing that is really critical is to have a clear governance model" (The SCM).* The main cause of poor negotiation position was timing and organizational issues of Fazer.

In general, negotiations are considered to be key process determining the outcomes of post-integration stage and performance of strategy (c.f. Quah and Young, 2005; Saorin-Iborra, 2008). It was also distinguished that time pressure, culture, experience and power-dependence relationship influence the negotiation outcome. Additionally, the key aspect related to the negotiation process is exchange of information through communication (*ibid.*). De Noble *et al* (1998) states that negotiations put constant pressure on management, resulting in less attention being paid to post-merger integration issues.

The findings suggest that the negotiations allow the company to have better setup after the demerger. The case also referred that the demerger negotiations are similar to was, thus, it must have clear governance model and structure to have better position during the negotiations. The results go along with literature that timing influenced the negotiation outcome. All in all, it is reasonable to imply that the preparation for the negotiation process must take into account factors such as time, pressure and culture in order to enhance negotiation outcome for better setups.

Issue 5: *Transition Structure*

Despite that after the legal split, the companies still shared some mutual functions and worked in a cooperative structure. It was acknowledged the importance of Christmas sales for confectionary business. In order not to lose market sales or as The CEO of Cloetta Fazer referred *"not to mess up the situation"* some functions such as logistics, sales and distribution remained a mutual project until January 2009. Fazer had to acquire a new warehouse for the distribution in Sweden. It also had to build upstream functions before it could take over its own operations, for instance, IT systems for logistics management: *"The theoretical split took place first of September, but we continued working based on mutual agreement not to mess up the situation" (The CEO of Cloetta Fazer).*

Production also could not be split up immediately, instead, it was decided that production would continue as it was, for at least two years. It was important for Fazer to have production in Sweden, and for Cloetta to fill up their production capacity, albeit not with own products. It is important to notice that the contracts are based on business rationale completely, Fazer has outsourced some production of smaller brands to several producers, and Cloetta is one of them. Despite the split, there are no hard feelings and cooperation works well; Cloetta still produces Fazer's smaller brands. All in all, it was referred that due to the level of cooperation and professionalism between the two companies was high, thus, the transition ran smoothly.

M&A literature also discusses temporary structure during the integration, for example, Marks and Marvis (2000) argue that *"Transition Structure"* usually last from three to six months and primarily helps to coordinate and support the implementation of change. The benefits include an ability to study and test how organizations would together (knowledge building). It also gives possibility for managers and professional to work together beforehand (relationship building) as well it allows to run the business as usual and plan in-depth the integration of people, processes, and culture (transitions management) (*ibid.*).

The case shows that the demerging companies had a mutual agreement to continue their cooperation in order not to lose market share. It also shows that professionalism allows employees to reach mutual understanding what is more important for the company. Additionally, the need to run business as usual is similar between the cooperative structure presented in the case and the *"Transition Structure"* discussed by Marks and Marvis (2000). Thus, it is reasonable to believe that the demerger company could use the *"Transition Structure"* to balance running business as usual with in-depth planning of the disintegration process.

Issue 6: *Leadership structure*

In general, it is acknowledged that the original conflict was strategic. The company strategy changed rapidly from being a public - short term oriented - company to once again being a part of family business. Strategy and planning at family company is more long-term oriented.

Despite that the joint company Cloetta Fazer worked very well it did not go along with the two separate strategic views of two families. It is believed that there are too much politics in a merger of equals. The equality in the joint company resulted in less fact based decision making for instance, the joint company invested in two separate chocolate production lines, whereas just before the split (in 2008) the joint company acquired Karamellpojkarna (in Sweden) and Fennobon (in Finland). Additionally, it was acknowledged that it should be a driver in the driver seat, because equality makes the decision making less efficient, whereas the demerger defines a clear owner with a clear strategy and decision making: *"A driver in the driver seat, better than a 50/50 split. A benefit from demerger is a clear owner […] decision making is fast and clear, rational and fact-based" (the SCM).*

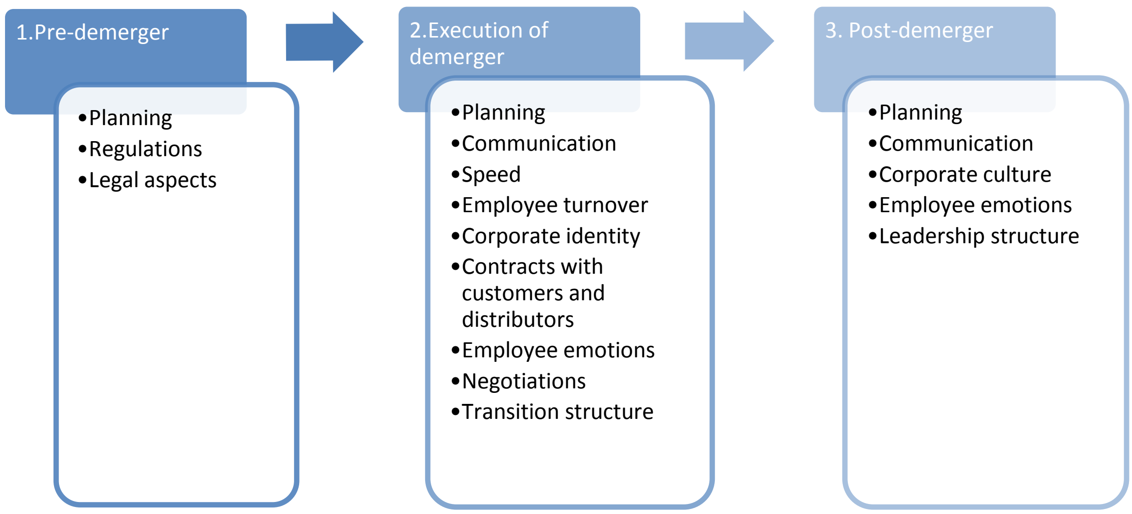
Literature distinguishes the strategic mismatch as one of the foremost discussed causes for failed integration (Shanley and Correa, 1992; Habeck *et al.,* 2000; Nguyen and Kleiner, 2003). Bruneheim *et al* (2008) claims that ownership issues such as mismatching strategic goals may impede a strategic coherence between the companies. It is also argued that the organization structure should properly reflect the underlying strategy in order to be successful. If it is not so, the structure needs to be revised (De Noble *et al.,* 1988). Moreover, mismatching strategies could also arise due to a perception and changes of a driver/leader especially in a merger of equals (Zaheer *et al.*, 2003). It is also argued that a merger of equals does not exist and it is called *"equal"* in order to get public approval (Finkelstein, 2002). However, the compromises for looking and behaving equal may lead to an inefficient allocation of human and physical resources such as HQ location or governance split (Belcher and Nail, 2000).

The results suggest that ownership shapes company's long-term strategy and aligns with the long-term strategy. The demerger allows a company to increase efficiency, speed and rationality of the decision making. The findings also suggest that equality drives excessive and sometimes unnecessary compromises such as investments. M&A literature proposes that ownership issues is a burden for the integration process as well behaving *"equal"* brings costs. Thus, it is reasonable to imply that a demerger contracts managerial mechanisms, establishes new leadership structure, which is responsible for its own strategy and future development. It is also expected that a demerging company would have simpler leadership structure and a clearer strategy and decision making.

6.3. Conceptualization of findings

After evaluating empirical findings and propositions the demerger concept was revised and updated (see *Figure 6*), the problematic areas and functions were reviewed and replaced according to the case.

Figure 4: The demerger concept 2.



Source: authors

The evidence presented in the case revealed that during the pre-demerger stage communication was not the main issue. Except from the initial planners no more people were included into planning sessions before the official announcement. The planner primarily had to deal with regulations and legal aspects, thus these issues are added into the pre-demerger stage. Moreover, with the official announcement of the demerger the planning process spread to the executions and the post-demerger phases, including different organizational and operational issues such as setting up the new organization in Sweden, and planning for reintegration back into Karl Fazer. The case also suggested that in the execution stage not the cultural differences but mainly corporate identity played a determining role by facilitating the demerger. The challenges also occurred while negotiating about setups and employees as well as while reviewing old contracts with customers and distributors. The transition structure in the execution stage helped the company to protect the market position. Additionally, employee emotions occurred during the execution phase and spread to the post-demerger integration, something which was primarily caused by the differences in corporate culture between the Confectionary and the rest of Karl Fazer. The post-demerger integration also brought up new conditions with the change of leadership structure, resulting in revision of company's strategy.

6.4. Reflections of the research question

In this part, the study focuses on finding the link between the problematic areas and functions that determine the shape of the demerger process and generalizing the forces that cause the problems in these areas to occur.

The empirical findings presented in the case revealed that the timing and speed of the demerger was primarily influenced by the Christmas sales. It is acknowledged that the Christmas sales seasonality is a business cycle primarily observed in the confectionery industry. Thus, this study concludes that due to the confectionery market behavior during the Christmas period, the confectionery market seasonality is an influencing force that shapes the demerger process.

Secondly, the case showed that companies in the confectionery industry need consolidation to benefit from volumes and achieve economies of scale, as well as close connections to their customers. The need for consolidation even in the demerger was achieved by employing the transition structure, something that formed the disintegration process. The study concludes that the industry structure shapes a demerger process by influencing the company to adapt its operations to industry's conditions while disintegrating.

Thirdly, the results indicate that the initial planning and the demerger process were primarily framed by legal and regulatory boundaries. The regulatory boundaries set the possible start for the demerger and influenced the actual speed of the demerger process due to the necessity to follow legal aspects of the process. Thus, this study concludes that the regulatory aspects are an influencing force that shapes the demerger process.

Lastly, the case proposes that the demerger process was affected by corporate identity in terms of strong brands, and level of integration in terms of emotional involvement and operational cooperation. These internal factors allowed the company to adapt and respond to the demerger process in a particular way, easily divide the assets and production or experience difficulties due to emotional involvement and resistance. All of these factors are an internal part of the merger itself and could be regarded as internal factors. Hence, this study concludes that internal factors are shaping the demerger process.

Additionally, the list of four forces that influence the demerger process is not exhaustive, thus the list of influencing forces need further research. Additionally, it is acknowledged that influencing forces might have auxiliary effects that determine and shape the demerger process.

7. Conclusions and Implications

This chapter presents concluding remarks about empirical findings, the contribution to academic as well as managerial implications. It also discuss the limitations of the study and gives suggestions for future research.

7.1. Concluding remarks

Initially the research question was: *What forces drive and shape a demerger process?* Thus, this study found out four influential forces such as the confectionery market behavior (seasonality), the confectionery industry structure, regulatory, and internal factors. The confectionery market seasonality required the company to set precise timing for the demerger, whereas regulations limit a company's flexibility of accurate timing and in turn influences the speed of the demerger process. The confectionery industry structure shapes the company's operational structure during the demerger process, in the sense that both companies remained in a collaborative situation for four months. The internal factors such as corporate identity and level of integration influence the process. If it is strong, it may complicate the process with emotional involvement and/or employee resistance. However, conversely, high level of integration and friendly relations also allows the company to benefit from a collaborative relation in the transition period, in response to the confectionery market seasonality, industry structure and regulatory forces.

The study examined and concluded the effects of these areas and functions on the demerger process during the three stages. Firstly, in the pre-demerger stage, the planning process splits into two different layers, on the strategic and the operational levels. The managerial disturbance occurred on the operational level due to multiple roles, which complicated, while, the on the strategic level the disturbance was not present. It was also found out that the planning process spans into the execution and the post-demerger integration stages. Moreover, the regulatory and legal aspects complicated the planning process by putting boundaries on timing and speed of planning.

Furthermore, the study pointed out that the speed and clear communication strategy are contributing factors in order to avoid uncertainty and leadership vacuum. A clear communication strategy spans into the post-demerger integration stage and ensures a smoother disintegration process. Moreover, a demerger creates a *"zero-sum game"* in terms of employees and their competences and experiences. Adding to the burden of the organizational change, a demerging company is required to revise and renegotiate its contracts with customers and distributors, and plan accordingly. The study also found out that a demerger is facilitated by strong and separate brands, something that weakened the corporate identity from the beginning. Additionally, in order to enhance negotiation outcome for better setups, the preparatory process requires consideration of factors such as time, pressure and culture. The employment of the transition structure could help a company to balance running business as usual with in-depth planning of the disintegration process. Lastly, a demerger amplifies employees' emotions, something that increase stress and insecurity during the execution stage and the post-demerger stage.

Additionally, the post-demerger stage is in a sense a new integration process which has challenges that need to be overcome. The integration of the corporate culture brings up rivalry, jealousy or pride and become an obstacle for smoother reintegration and knowledge transfer to the former business entity. However, a demerging company has simpler leadership structure and with it a clearer strategy and more efficient decision making.

The study also concludes that the level of difficulties for disintegrating across different business units primarily occur due to different levels of integration, in other words, operational and emotional integration.

7.2. Suggestions for further research

This study has focused on one company and analyzed its experience of the demerger. The experience of the other party has not been investigated. Since the merger was successful operationally and enjoyed synergies, and the authors only met with one company, it is hard to know how much value was destroyed in this demerger. Research focusing on value retention in a demerger, for both companies, may explore and explain how value can be retained.

Another interesting finding of this study is the organizational opportunity for Karl Fazer, when it integrated a successful publicly traded company into a private family company structure. The re-integration provided a knowledge transfer which helped to lift the group, and shaped a family company to transform and copy many routines of the previously publicly traded one. Researchers may find interesting to know whether experiences from a relatively recent demerger has any beneficial impact on another organizational change such as a reintegration, or if it rather has a disadvantageous effect.

7.3. Contribution to academia

The study contributes to the academic literature by providing an example case about a demerger process. The study also illustrates the concept of the demerger process and distinguishes what forces shape the process as well as provides foundation for further investigation of problematic areas and function and their connectivity to the influencing forces. Many topics, as discussed in this study, have been derived from M&A literature and simply used a “reverse” approach. In other words, the causes for difficulties in an M&A may be a facilitating factor in a demerger, or at least an influencing factor. This is particularly relevant for topics such as corporate culture and identity, where employees both in the merger and demerger showed tendencies to group according to previous structures as emotional reactions to events in the company. In conclusion, this study provides an overview of how a demerger unfolds and a foundation of forces and factors which help to further build a conceptual framework of a demerger.

7.4. Managerial implications

The study provides management with an example case of how a particular company in the Fast Moving Consumer Goods (FMCG) industry dealt with a demerger. Certain characteristics, such as the need to constantly maintain distribution, put demands on the demerger which both companies adapt to. The importance of a transition structure was one example of how consideration needed to be taken to the market situation first and foremost. Planning of how to disintegrate must be organized only after the transition can be ensured. If the operative aspects were sound during the merger, employees will be inclined to collaborate until the end, according to this case, something which managers may find useful.

The case has shown that negotiations play a determining role for the impact on each of the two demerging companies. It also illustrates the unexpected situation and challenge for employees, when having tough negotiations facing friends and previous colleagues. Managers in a demerger process need to be well-prepared and clearly structure how much negotiations can and should escalate in the process.

7.5. Limitations of the study

Initially, the study is limited to one side perspective, thus, the results might not easily be applicable for two parties in a demerger. Secondly, the list of problematic areas/functions and influencing forces is not exhaustive. The forces might have additional effects on the demerger process. Thirdly, only top managers were interviewed for this study, thus, the results may be different when hearing the perspective of individuals in other levels of the organization.

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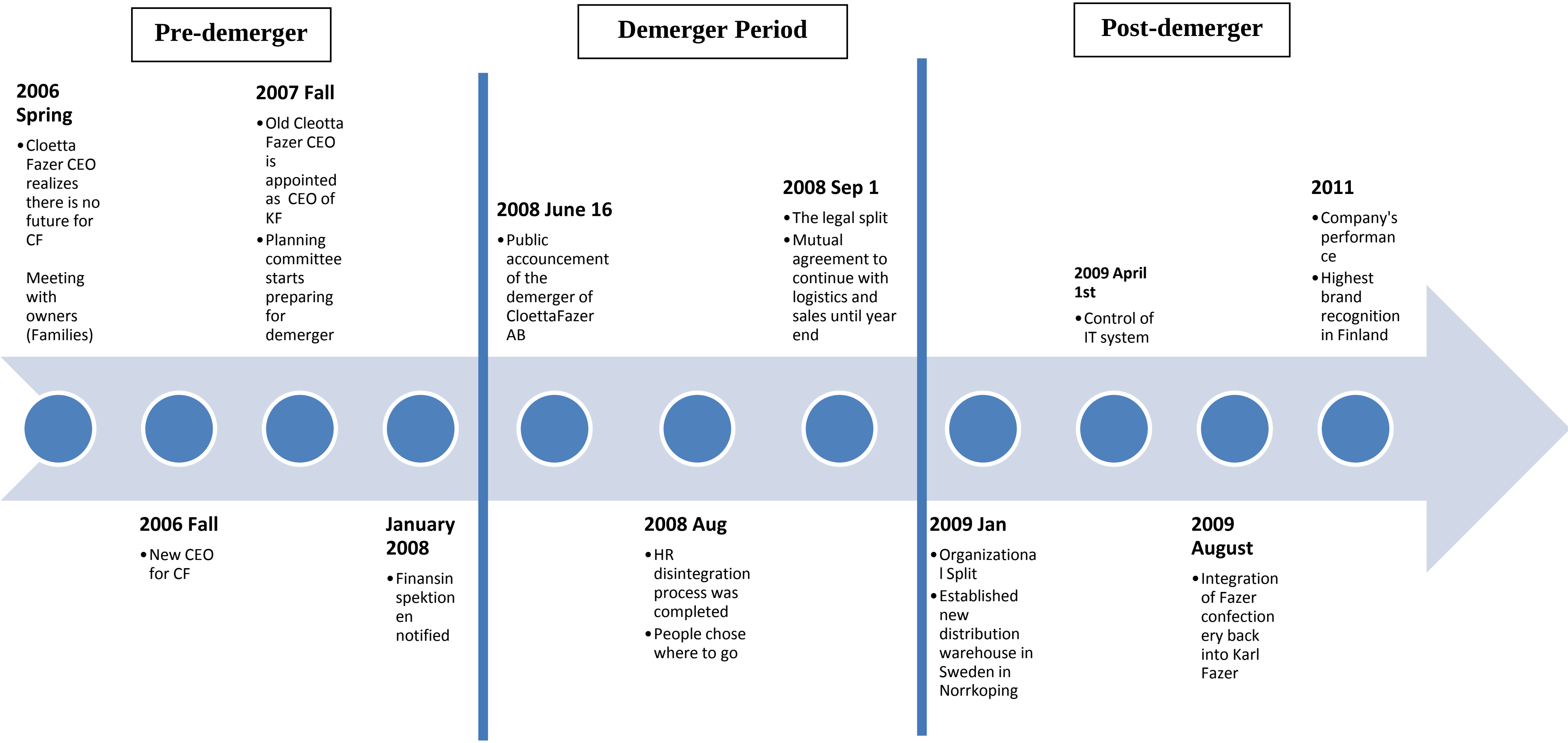
8. Appendix



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