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The Process of Organisational Integration in Mergers and Acquisitions

by

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Abstract

The purpose of this dissertation has been to study organisational integration processes in mergers and acquisitions. In particular my two research aims have been: (1) to identify features and factors that facilitate or impede organisational integration, and (2) to study how the three dimensions in organisational integration, i.e. integration of tasks, unification of power and integration of cultures and identities, interrelate and evolve over time.

Five theoretical perspectives were identified as particularly relevant for studying organisational integration processes in mergers and acquisitions. These were: (1) the organisational stream of merger and acquisition literature, (2) strategic and organisational change, (3) power and politics, (4) social justice, and (5) social identity theory. The application of the four latter literatures to the case analysis had a number of advantages. First, it provided me with richer and more precise concepts. Second, the literature contributed by identifying underlying indicators. Third and most importantly, the perspectives were helpful in explaining the case findings.

I chose a comparative, longitudinal case study design. This design was particularly suitable for in-depth exploration of sensitive or complex issues. Moreover, it reflected the contextual, historical and processual nature of the study. Third, this design was open to building theory and starting off with a conceptual framework.

I chose to limit the study to two cases, i.e. the merger between Bergen Bank and DnC and Gjensidige's acquisition of Forenede. By limiting the number of cases I could study the combinations in depth and over a sustained period of time. I collected data at top management, middle management and employee levels twice in each case. I used three data collection methods; in-depth interviews with key informants, documentary and archive data and observational material.

The data has been reduced and analysed through five stages. This involved establishing the chronology, coding and writing up the data according to phases and themes, introducing organisational integration into the analysis, comparing the cases and applying the theory.

The outcome of the analysis of the two cases is three-fold. First, I have identified patterns in the cases which represent possible empirical generalisations. The second

outcome concerns refining and developing more detailed models of organisational integration, i.e. models for task integration, unification of power and cultural integration. Third, I have proposed 15 propositions to be tested in future research.

The study of organisational integration processes in mergers and acquisitions contributes to the organisational field of merger and acquisition literature in five areas. First, it applies new theoretical perspectives. Second, the dissertation introduces a framework that combines task, power and culture. Furthermore, I develop indicators for assessing the three dimensions of organisational integration. Fourth, possible indicators assessing the various factors and features are suggested. Finally, the study contributes to the merger and acquisition field by following the combination processes over a sustained number of years, and as such provides evidence that these processes do evolve over long periods of time.

Preface

The background for studying the merger between the two largest banks in Norway was a project on the Norwegian banking industry. During this project we collected data from a number of the major Norwegian banks, amongst them Bergen Bank and DnC, two of the three largest Norwegian commercial banks. When the merger between Bergen Bank and DnC was announced in October 1989, there was a mutual interest from the bank and us as researchers to study this merger in depth. The data collection in DnB started in the Autumn 1991 and was finished in the Spring 1992. After writing up the DnB-case in the Autumn 1992, and starting on my dissertation in the Summer 1993, I began looking for another case that could further contribute to my understanding of organisational integration processes.

Since I chose organisational integration as the outcome variable in my dissertation, it was important to find another combination where this was an important issue. Hence, I wanted to find a case where the two parties were closely related with regard to products and markets, and thus were likely to be fully integrated. On the other hand, it was important that the other case differed from the DnB-merger in a number of areas in order to achieve variance in important factors and features.

Fortunately, I succeeded in obtaining access to my first choice, a major Norwegian insurance company, Gjensidige's, acquisition of another insurance company.

This dissertation has been written partly at the Norwegian School of Economics and Business Administration and partly at the Warwick Business School, University of Warwick. There are many people I am indebted to for fulfilling this dissertation project. First of all I would like to thank Professor Torger Reve who has been my principal advisor and who has encouraged me in all through the dissertation. His open-mindedness and support towards conducting a qualitative case study are highly appreciated. His support and constructive comments in the early stage of my dissertation were crucial, and I would like to thank him for always being available to discuss and comment on my work.

I am also deeply indebted to Professor Andrew Pettigrew at the Warwick Business School for accepting my request to spend a year at the Centre for Corporate Strategy and Change at Warwick Business School and for acting as one of my dissertation advisors. His insights into qualitative research and high standards have no doubt raised the quality of the dissertation, and I highly appreciated spending a year under his attentive, demanding and high quality supervision. I would also like to thank Andrew Pettigrew for treating me as a member of the Centre for Corporate Strategy and Change, letting me participate in the Centre's activities which I thoroughly enjoyed. Furthermore, I would like to express gratitude to all the other staff members and guests at the Centre who gave me valuable comments and made my stay at Warwick highly enjoyable.

Sincere thanks go to the third person on my dissertation committee, Willy Haukedal, for being open to discuss ideas before being fully developed and for giving valuable comments on my work. His support has been particularly useful this past year when he was one of the few people with sufficient insight into my work to be able to fruitful discussions.

I would also like to express my appreciation to Gjensidige and DnB for giving me access to study their organisations. I am deeply indebted to all the people who contributed to the study by giving interviews. Special thanks go to Egil Gade Greve and Arne Skauge in DnB and Helge Kvamme and Per Ottesen in Gjensidige.

My dissertation would not have been possible without the financial support of the Norwegian School of Economics and Business Administration. I am deeply grateful to the school for providing me with the opportunity to carry out this study and for supporting the stay at Warwick. I am also indebted to the Kavli Foundation for supporting my stay at Warwick Business School. Another person who deserves my sincere thanks is Felicity Burbridge who acted as my proof-reader.

Finally, I would like to thank my family which is soon to be extended, for supporting me through these past years and for making my stay in England possible and highly enjoyable. I know you are at least as happy as I am for the conclusion of my dissertation.

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Chapter 1: Introduction

The introductory chapter is divided into four part. The first part gives an outline of the study's research questions and framework for case analysis. Secondly, the theoretical perspectives applied in the study are discussed. Then follows a brief review of the methodology approach and, finally, an outline of the organisation of the thesis.

1.1 RESEARCH QUESTION AND FRAMEWORK FOR DISSERTATION

The research question concerns how integrative and disintegrative forces influence organisational integration over time. Thus the purpose of my study is to:

(1) identify the forces that facilitate or impede organisational integration,

and

(2) study how the three dimensions of organisational integration; integration of tasks, unification of power and integration of cultures and identities, interrelate and evolve over time.

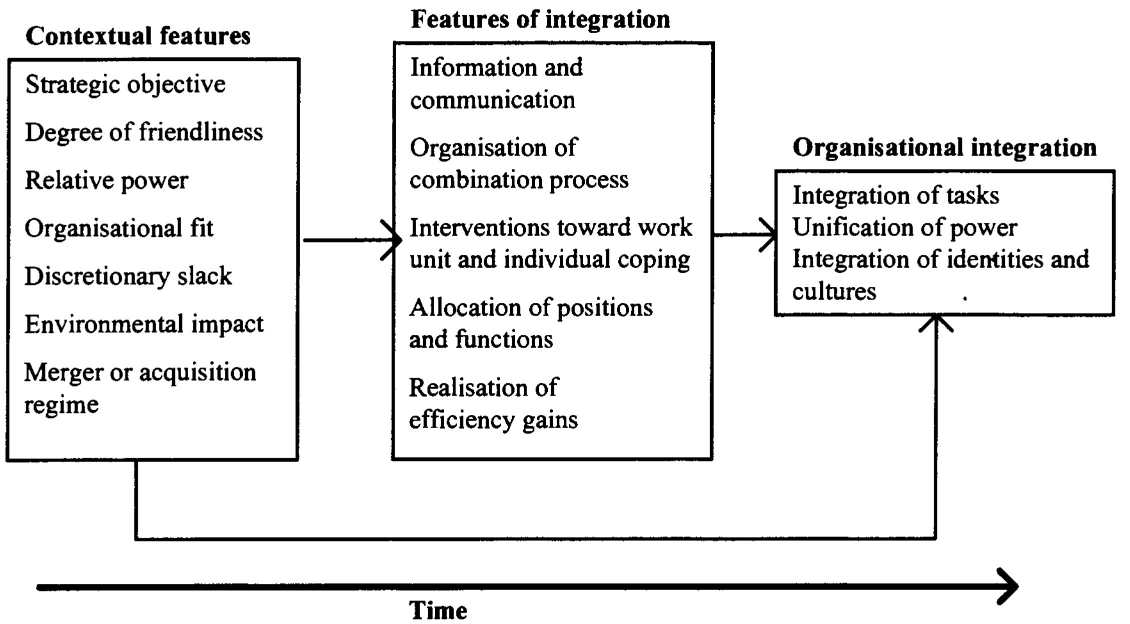
Few studies have explored the underlying dimensions of organisational integration. In the dissertation I will argue that organisational integration should include the task, the political and the cultural features of the combination. This would be in line with recent contributions in the field that take all these three dimensions into consideration (Schweiger et al., 1993, 1994; Pablo, 1994). Moreover, this approach reflects the character of the features in the dissertation framework outlined below.

Besides organisational integration, the framework for the dissertation consists of contextual factors, features of integration and time.

The contextual features are either pre-acquisition or merger factors that can be considered as determined in the post-combination process, or features that are outside the management's control. Based upon a review of the organisational literature on mergers and acquisitions, choice of outcome variable and selection of cases, six contextual factors have been chosen. These are strategic objective, degree of friendliness, relative power, organisational fit, discretionary slack and environmental impact.

The integration features reflect the decision variables which the management can control in the post-combination integration process. Based upon the same selection process as for the contextual process, five factors have been chosen. These are organisation of integration process, information and communication, interventions aimed at work unit and individual coping, allocation of positions and functions, and realisation of efficiency gains. The framework for my dissertation is outlined in figure 1.1 below.

Figure 1.1 Framework for Dissertation



1.2 THEORETICAL PERSPECTIVES

Reviews of literature on mergers and acquisitions show that much of the previous work has been limited in a number of ways. The field has been dominated by prescriptive reports and very general case studies which have often relied upon information about what has happened in only one of the two firms. Furthermore, few studies have been theory driven, although there have been some exceptions in recent years. Researchers in the field claim that there is a need to borrow from other fields besides organisational culture to get a better understanding of the complex merger and acquisition processes.

The purpose of drawing on other literatures is twofold. First, these literatures can raise new questions and themes in relation to the merger and acquisition literature. Secondly, the literatures will be applied in the analysis of case findings. Beside providing me with richer and more precise concepts, these literatures help me to identify underlying indicators. More importantly however, the perspectives will be helpful in explaining the case findings.

The selection of perspectives is based on literatures identified as particularly relevant when studying organisational integration processes in mergers and acquisitions. The four literatures I have selected are (1) strategic and organisational change, (2) power and politics, (3) social justice, and (4) social identity theory. These four perspectives were found to have the highest explanatory power for my case findings.

Research within the merger and acquisition field shows that change is inevitable when two organisations merge, or when one organisation is acquired by another. One field that is highly relevant to understand these change processes is the literature on strategic and organisational change.

Researchers in the field of power and politics have suggested that politics in organisations are particularly prominent in times of change, in major decisions and when there is a scarcity of critical resources. These are all features that characterise organisational integration processes in the context of mergers and acquisitions. Hence, the literature on power and politics is particularly suitable for studying merger and acquisition processes.

Deutsch (1985) suggests that perceived fairness is especially important during times of scarce resources, such as organisational downsizing. Taken into consideration that one of the aims of horizontal mergers and acquisitions is often to realise efficiency gains, the theories on organisational justice become highly relevant in the study of integration processes.

The essence of merger and acquisition processes is the integration of two former independent groups. Social identity theory is especially relevant for studying what happens when these two groups meet and to explore how various factors and features promote or inhibit the cultural integration process.

1.3 METHODOLOGY APPROACH

In some mergers and acquisitions it will not be an objective to integrate the organisations along the task, power, and identification and culture dimensions. If the strategic goal is financial diversification for example, the organisational integration is likely to be minimal (Buouno and Bowditch, 1989). Hence, I have chosen to focus on combinations where achieving organisational integration along all three dimensions has been an objective.

According to Buono and Bowditch (1989) the strategic type of merger or acquisition is a significant determinant of the desired degree of integration. The highest level of integration is expected to occur in horizontal combinations where the firms involved have similar products and operate in the same or closely related markets.

To match this requirement in the outcome variable, I have chosen to study cases where the parties are closely related in products and in markets, and where full integration of the companies' task, political and cultural features has been an objective.

Taking the explorative nature of the study, the complexity of the outcome variable and the need for processural data into consideration, I chose a comparative case study approach studying two mergers and acquisitions over time. By limiting the number of cases I could study the combinations in depth by collecting data at top management, middle management and employee levels. Moreover, I could achieve the objective of studying the combinations over time, collecting data twice in each case at one and a half and two years' intervals respectively. As mentioned above, studies of mergers and acquisitions have normally applied a short-term perspective, and researchers have called for a sustained examination of mergers and acquisitions over time.

The analysis is based upon a combination of primary and secondary data sources. The collection of primary data consists primarily of unstructured interviews. The secondary data sources consist of external information sources such as newspaper articles and the merger prospectus, as well as internal documents such as memos, consultants' reports, newsletters and a number of other important documents.

My approach in this thesis is both to compare the different cases to see if any patterns replicate themselves across the cases, and to look at the cases over time to get a picture of the dynamics in the combination processes. Five stages are included in this analysis; (1) establishing the chronology, (2) coding and writing up the data according to phases and themes, (3) introducing organisational integration into the analysis, (4) comparing the cases, and (5) applying the theory.

1.4 ORGANISATION OF THESIS

The introductory chapter is divided into five parts. In the first part I briefly discuss the background of the study. Then an outline of the research questions and the framework for the dissertation follows. Part three examines the five theoretical perspectives applied in the dissertation relevant to study organisational integration processes. Finally, I touch upon the methodology approach, and give an outline of the following chapters.

In chapter two I review the organisational literature on mergers and acquisitions. In the first section I give a brief review of the merger and acquisition literature as a whole. Then in the next section I review the organisational merger and acquisition literature according to context, integration, outcomes and process. Finally, I position my study in relation to the work already done in this field.

The first section of chapter three deals with the choice of outcome variable, i.e. organisational integration. Then, I explore the state, process and dimensions of organisational integration. The next two sections justify the selection of cases and outline the model for the empirical studies.

In the fourth chapter I report the most important findings in phase one of the merger between Bergen Bank and DnC. A more detailed description follows in chapter 7. Chapter four is divided into five parts. In the first two sections I discuss the organisational fit and power relationships between the merging parties. Then a discussion of the implementation approach and the environmental impact follows. Finally, I make some preliminary suggestions with regard to the outcome variable.

The review of the organisational merger and acquisition literature in chapter 2 revealed a number of weaknesses both in terms of theoretical development and empirical research. The purpose of chapter five is to contribute to theoretical development within the organisational stream of merger and acquisition literature by borrowing from other fields. Chapter five is divided into six parts. In the first section I discuss why these fields are relevant when studying mergers and acquisitions. Then in the next four sections I discuss themes in the literature on strategic and organisational change, power and politics, social justice, and social identity theory that can be applied to mergers and acquisitions. Finally, I discuss how these themes affect organisational integration in particular.

Chapter six reports the methodology underlying the empirical study. First, I discuss the requirements and choices of research design. The second part of the chapter examines validity and reliability in qualitative studies, and focuses on how these concerns have been addressed in my study. Next a presentation of sampling time and entities and the data collection methods follows. Finally, attention is given to the analysis of cases, and the process of building up the case from chronology to application of theory.

In chapter seven I describe the merger between Bergen Bank and DnC. The chapter is divided into four phases; historical background and strategic rationale, pre-combination, initial combination and the path towards organisational integration. Each of these sections is divided into themes on integration of tasks, unification of power and integration of cultures and identities.

Chapter eight is a description of Gjensidige´s acquisition of Forenede. This chapter is structured in the same way as chapter seven.

Chapter nine compares and contrasts the findings in DnB and Gjensidige. The main emphasis is on the differences between the integration processes rather than the similarities. I start by examining the economic climate at the time of the combinations. Then individual themes concerning tasks, power and cultures and identities are discussed.

The purpose of chapter ten is to analyse the findings in the light of the literature in chapters two and five, and to develop propositions. This chapter follows the structure of the two case chapters and is divided into four main parts on tasks, power, culture and inter-relationships.

Chapter eleven concludes the dissertation by discussing the contributions, limitations and practical and research implications of the study.

Chapter 2 : Review of the Organisational Stream of Literature on Mergers and Acquisitions

In this chapter I will review the organisational stream of literature on mergers and acquisitions. In the first section I will give a brief review of the merger and acquisition literature as a whole. Then I will review the organisational stream of the merger and acquisition literature according to context, implementation, outcomes and process. Finally, I will position my study in relation to the work done in this field.

2.1. BRIEF REVIEW OF MERGER AND ACQUISITION LITERATURE

Four theoretical perspectives have dominatedthe merger and acquisition field, i.e. financial economics, industrial economics, strategic management and organisational literature. This chapter will focus on the organisational stream of literature. Before reviewing this literature in detail, I will briefly discuss the four perspectives in terms of the questions raised, findings and methodology.

2.1.1 Financial Economics Perspective

Financial economists have been particularly concerned with why firms acquire or merge ,and who benefits from this activity. They view the shareholder as the pre-eminent stakeholder, and their approach is more micro-oriented than the macro societal perspective of industrial economists. Financial economists base their research on fundamental concepts such as the efficient market hypothesis, agency theory, free cash flow, the market for corporate control and the capital asset pricing model (Haspeslaph and Jemison, 1991b).

In financial economics mergers and acquisitions are classified into three types; vertical integration, horizontal integration and conglomerate integration (Charakrabarti, 1990). Economics of scale and other synergies motivate vertical and horizontal integration, whereas diversification is viewed as a means of reducing systemic risk of a particular industry. Other motives include achieving a certain rate of growth, increasing earnings per share, taking advantage of tax benefits, obtaining management talent and reducing competition.

Financial economists have traditionally studied mergers and acquisitions through event studies, using a stock market based measure. This measure rests on the efficient market hypothesis. This hypothesis suggests that a firm's stock price reflects an assessment of all current and future available information about the firm. Trautwein (1990) says that the divergence between the findings of event studies and other sorts of evidence casts serious doubt on the former. Furthermore Larsson (1990) says that there are some methodological problems of using stock market based measures. The problem from an organisational point of view is that the efficient market hypothesis implies that it is not necessary to wait for the outcome of a forthcoming integration process to estimate the financial performance.

The event studies within the financial economics perspective have examined the returns of both acquiring and acquired firms′ shareholders following a merger or acquisition announcement. According to Schweiger and Walsh (1990), a consistent pattern emerges from this research showing that target company shareholders earn sizeable premiums, while the acquiring company shareholders' wealth is negligible.

2.1.2 Industrial Economics Perspective

Besides assessing the profitability of mergers and acquisitions, industrial organisation studies have been concerned with the determinants of market structure and the role mergers and acquisitions play in this connection. In particular, they have been interested in studying combinations which result in reduced competition in the market.

Studies within industrial economics have used a variety of product-market and accounting based measures of profitability. According to Lubatkin (1983), studies using accounting measures suffer from a number of limitations such as ignoring the impact of changes in risk and not isolating the merger or acquisition from other events.

Industrial economists have examined the profitability of mergers and acquisitions during three waves, and they are now beginning to examine the fourth. According to Schweiger and Walsh (1990), the evidence is overwhelming that mergers and acquisitions do not increase the profitability of the acquiring firm.

The problem with the studies within industrial economics and finance, from a strategic point of view, is that they do not take into account the relatedness of the merging parties.

2.1.3 Strategic Management Perspective

Research in the field of strategy can be divided into two sub-groups, i.e. the acquisition performance group and the acquisition planning group (Haspeslagh and Jemison, 1991b). The first group of researchers have been focusing on uncovering the variables which discriminate between different types of acquisitions and consequent performance levels. The issue of relatedness or strategic fit has received the most attention in the strategic management literature. Strategic fit has been defined as the degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and non-financial goals of the parent (Jemison and Sitkin, 1986a). A number of typologies assessing strategic fit have been developed in the field. These will be discussed in section 2.2.1.

Through the 1980s and early 1990s there have been a number of studies that have related strategic fit to financial performance (Chatterjee, 1986; Lubatkin, 1987; Gretland, 1991) using the event study methodology. The underlying hypothesis in these studies has been that the better the strategic fit, the better the performance. Recent research has failed to find a consistent relationship between performance gains and the degree to which the merging firms share similar technologies. Datta (1991) says that the considerable variation in these findings provides strong support for Jemison and Siktin's (1986a) contention that strategic fit, though important, is not a sufficient condition for superior acquisition performance.

Most of the contributions in the acquisition planning literature come from non-scientific studies. The literature is often written by practitioners or consultants involved in mergers and acquisitions, and the evidence is largely anecdotal. Two broad areas are discussed in this literature (Napier, 1989). The first concerns seeking and evaluating acquisition candidates (Cameron, 1977; Jensen, 1982; Fray et al., 1984; Payne, 1987, Mirvis and Marks, 1992a) or from the opposite perspective, positioning a firm as an attractive candidate for purchase (O'Connor, 1985, Mirvis and Marks, 1992). The second area concerns organising and carrying out the legal, financial and related technical issues of negotiation (Willensky, 1985). Seeking a candidate for acquisition is usually part of a strategic process (Ebeling and Dooney, 1983). As such much of the literature is concerned with how to acquire firms more successfully, and the importance of early merger planning.

Jemison and Sitkin (1986a) say that past research has generally employed a rational choice perspective assuming that the acquiring firm has a clear, well developed corporate strategy. Jemison and Sitkin claim that one cannot merely address strategic fit of an acquisition without understanding the process of negotiating and integrating the target into the parent firm. In line with other authors (Duhaine and Schwenk, 1985; Haspeslagh, 1989), Jeminson and Siktin (1986a,b) have sought to find explanations of why human resource related aspects are neglected in the pre-acquisition phase, and how impediments in the pre-acquisition process itself might affect acquisition outcomes.

2.1.4 Organisational Perspective

The organisational perspective rests upon organisational theory, organisational behaviour and organisational psychology as well as a vast number of practitioner-oriented contributions. These studies have in general raised two types of questions. The first question concerns how contextual features of mergers and acquisitions affect individuals within the combining firms. The second question, on the other hand, raises the issue of how to manage the post-merger integration process. A more detailed description of this field will follow in section 2.2.

Researchers who have reviewed the organisational stream of merger and acquisition implementation have concluded that there are substantial problems with the literature's data collection methods (Marks, 1982; Hunt, 1988; Napier, 1989, Larsson, 1990; David and Singh, 1994). Many articles are prescriptive rather than descriptive, often based on a single observer's view of a single merger case with no alternative sources of data. The surveys often suffer from low response rates, usage of weak measures and a disregard of how employees below management level experience the merger. Furthermore, the case studies benefiting from theoretical guidance and systematic data collection are few. Cartwright and Cooper (1990) also claim that studies that have been undertaken have tended to arise as much by accident as by design, or under simulated conditions.

Much of this criticism is based upon the practitioner's orientation which in many years dominated the field. However, the practitioner's orientation does not necessarily mean that these articles lack scientific value. Schweiger and Walsh (1990) claim the many articles that have described a practitioner's personal or consulting experience have provided important insights into the complex phenomenon of merger and acquisition impact. Moreover, they have served as foundations of many for the academic articles.

The emphasis in the literature so far has been on assessing effects of the acquisition or merger after a relatively short time. Few go beyond two years; many focus on the first months or year of transition. A number of researchers claim that there is a need for sustained examination of mergers and acquisitions over time. Walter (1985) for example, claims that three to five years is not an unusual transition time, and it can be much longer. Furthermore, the benefits from such combinations often take several years to achieve (Napier, 1989).

Through the late 1980s and early 1990s there has been a substantial improvement in the literature on merger and acquisition implementation. Whereas the literature has been criticised for using a low level of descriptive language (Larsson, 1990), its recent developments seem to reflect that it is moving into higher level, more comprehensive and integrating conceptualisations. The number of theoretical contributions has risen significantly, although many of the propositions put forward have yet to be empirically tested.

2.2 REVIEW OF THE ORGANISATIONAL STREAM OF MERGER AND ACQUISITION LITERATURE

The focus of the next sections will be to review the organisational stream of merger and acquisition literature in detail. The purpose of the review is twofold. The first purpose is to identify the major factors and features that have been investigated in the previous literature. The second purpose is to investigate the proposed and empirically studied linkages between the different factors. The review will not discuss the methodology approaches applied in the different contributions, other than referring to the contributions that have tested the hypothesis. Interested readers are referred to Schweiger and Walsh (1990) for a comprehensive review of the methodological approaches used in scientific articles. The review will focus on impacts on corporate, group and individual levels. Studies examining impacts on a whole industry or society will as such not be included (see for example Schweiger and Walsh, 1990).

I will outline the factors and features, and discuss propositions and findings in the organisational literature on mergers and acquisitions according to the following framework.

The focus of my study is on the integration of the two companies after the decision to merge or acquire has been taken. This is reflected in the framework which includes contextual, integration, outcome and process variables. Contextual variables include features and factors that the management cannot control once the decision to merge or acquire has been taken. Integration factors on the other hand, concern decisions over which the management can exercise control. The effect of the contextual and integration features is reflected in the two classes of outcome variables. Finally, the process features reflect the evolving integration process.

Figure 2.1. Review of Framework

Contextual features	Features of integration	
Strategic objective Degree of friendliness Relative power Organisational fit Discretionary slack Type of industry Individual characteristics and situations Environmental impact Merger or acquisition regime	Integration options Organisation of combination process Information and communication Interventions towards work unit and individual coping Allocation of positions and functions Realisation of efficiency gains Post-merger management	**Individual, organisational and cultural outcome** **Financial performance** **Process** Stages in process Timing change Cultural change

The empirical findings will in general be discussed in relation to the studies′ outcome variables.

2.2.1 Context

The contextual features are either pre-acquisition factors that can be considered as determined after the decision to merge has been made, or features that the management cannot control in the post-combination process. Reviewing the organisational literature on mergers and acquisitions, the following contextual factors and features seem to be mentioned with some frequency, or else have been introduced in recent literature:

- Strategic objective
- Degree of friendliness
- Acquisition experience
- Relative power
- Organisational fit

- Discretionary slack
- Type of industry
- Individual characteristics and situations
- Environmental impact

Strategic objective

One of the most important and extensively discussed contextual factors in the strategic and organisational streams of mergers and acquisition literature is strategic objective. This feature includes concepts such as strategic fit, strategic interdependence need and strategic task. This sub-section will focus on the strategic objectives, and therefore not include the work which focuses on other reasons for acquiring (Levinson, 1970; Hunt et al., 1987; Napier, 1989; Trautwein, 1990 and Cartwright and Cooper, 1992). Strategic objective is often included in proposed theoretical frameworks as well as being tested in empirical research.

Jemison and Sitkin (1986a) define strategic fit as the degree to which the target firm augments or complements the parent's strategy in terms of industry, market or technology. Researchers have used both motives and/or type of merger or acquisition to assess strategic fit Most authors, however, tend to assess strategic fit by looking at the type of merger or acquisition.

A number of typologies for assessing strategic fit in mergers and acquisitions have been developed. Today, the two most established typologies within the field seem to be the one of the Federal Trade Commission (FTC) which classifies mergers and acquisitions into horizontal, vertical, product extension, market extension and pure conglomerate, and the classification of mergers and acquisitions into related and unrelated (Salter and Weinhold, 1981).

A horizontal merger or acquisition occurs when the firms involved produce one or more of the same or closely related products. A vertical merger or acquisition is one between companies that had an actual or potential buyer-seller relationship prior to the combination. A merger or acquisition is considered to be a product extension when the acquiring and the acquired companies or merging parties are functionally related in production or distribution, but sell them in different geographical markets. Finally, unrelated mergers or acquisitions involve the combination of two essentially unconnected companies.

A feature related to strategic fit is strategic interdependence need (Haspeslagh and Jemison, 1991b; Haspeslagh and Farquar, 1994). These authors suggest a redefinition of the broad acquisition objectives in terms of the types of interdependence they imply. Depending on the type of capability transfer requirements for interdependence will differ and thus the degree to which the boundaries of the acquired organisation that will have to be disturbed and eliminated.

The relationship between strategic objective and organisational/financial performance seems to be the most commonly tested in empirical research (Kitching, 1967; Hunt, 1987; Larsson, 1989; Chakrabarti, 1990, Cannella and Hambrick, 1993). Other studies have used top management turnover (Walsh, 1988 and 1989; Siel and Smith, 1990; Siel, Smith and Omura, 1990), autonomy (Siel and Smith, 1990; Datta and Grant, 1991), expectations (Rentsch and Schneider, 1991), and level of integration chosen (Pablo, 1994) as outcome variables. Findings from these studies are reported in Table 2.1, 2.2, 2.3 and in section 2.2.4.

The strength of this feature is that it is a well established and widely applied concept. Its explanatory power has however been limited, and, as mentioned above, it has failed to find a consistent relationship between performance gains and the degree to which the merging firms share similar technologies. This has lead researchers to look for other factors and features to explain the variance in performance.

Degree of friendliness

Another feature which is included in a number of theoretical frameworks, but has seldom been empirically tested, is the degree of friendliness. Hambrick and Cannella (1993) classify social climate in three categories; mutually negotiated unions, uncontested tender offers and contested tender offers. In mutually negotiated unions, the executives and boards of both firms participate. The negotiation process allows an open and extended discourse, reducing potential social conflict.

Uncontested offers are unions in which an acquirer bypasses a target firm's management by extending an offer directly to the shareholders. Bypassing target management produces more potential conflict than that which occurs with friendly union. Moreover, tender offers often include share prices higher than those in mergers (Chatterjee, 1986), thus increasing the pressure on the acquiring firm to extract high performance from the acquisitions (Hambrick and Cannella, 1993).

Contested tender offers represent an extreme in social conflict. In these instances, the target and acquiring firms battle with one another in a very public forum, each claiming the other party's inadequacy. The atmosphere surrounding such an acquisition is likely to be characterised by bitterness and acrimony, making smooth social integration after the deal unlikely (ibid). Other typologies for degree of friendliness have been suggested by Pritchett (1985), Buono and Bowditch (1989) and Hunt et al. (1987).

Research suggests that the degree of hostility influences the level of conflict (Mirvis, 1985), employee reactions (Buono and Bowditch, 1989), and combination success (Hunt, 1990). The empirical quantitative studies that have been conducted have tested the relationship between the degree of attributed hostility and employee resistance (Larsson, 1989) and between social climate and executive departure (Hambrick and Cannella, 1993). These findings are reported in Table 2.2 and 2.3.

Although degree of friendliness is a variable often included in theoretical frameworks, it has seldom been empirically tested. Furthermore, few studies have examined the effect of this feature on the integration process in depth. Hence there is a need for exploratory, empirical research investigating the links between this concept in relation to other concepts of integration.

Acquisition experience

The number of studies relating acquisition experience to performance, can be characterised as inconclusive (Fowler and Schmidt, 1989). Only a few studies have been concerned with implementation or human resources implications (Hunt et al., 1987, Business International, 1992; Pablo, 1994; Shanley, 1994).

Lubatkin (1983) suggests that the management of each succeeding merger should, up to a point, become more adept at finding the necessary structure and at avoiding the administrative problems that have a negative influence on performance. In other words, acquiring firms that pursue a strategy of higher activity in the external acquisition market may outperform the acquiring firms that follow less active strategies.

Shanley (1994) sees acquisition experience as one of four factors predicting the extent and types of organisational change that occur in an acquisition. According to Shanley, experience provides insights from trial and error learning that reduce the uncertainties of integration. Shanley expects experienced acquirers to avoid major changes, and thus he hypothesises that experience will be negatively related to administrative changes. Hunt et al. (1987) predict that experienced buyers will have a better chance of success than inexperienced. Similarly, Business International (1992) argues that success in integrating acquisitions is largely a matter of experience. Furthermore, Pablo (1994) expects that experienced acquirers will focus more on multiculturism. Pablo's (1994) and Shanley's (1994) findings are reported in Table 2.1 and in section 2.2.5 respectively.

The scant research linking acquisition experience to other features seriously questions its exploratory power. In contrast to the strategic objective factor, this feature is not a well established concept. Furthermore, there is the question of how this feature best can be assessed, at company, top management or CEO level.

Relative power

Although there are a number of studies mentioning power as an important feature, few studies have tested or explored this feature in depth. The two most commonly used indicators for measuring relative power seem to be relative size and whether the combination is a merger or acquisition (Levinson, 1970; Humpal, 1971; Mirvis, 1985; Cartwright and Cooper, 1990; Haspeslagh and Jemison, 1991b; Rentsch and Schneider, 1991; Ollie, 1994).

Research has suggested that relative power differences in terms of being the acquirer and the acquiree, is a determinant of the implementation process (Ollie, 1994), and may result in different behavioural response to merger (Humpal, 1971). Cartwright and Cooper (1990) say that the overt power relationship between the parties to an acquisition is different from that between merger partners - at least at the time of the initial announcement. In an acquisition, there are clear winners and losers. In mergers the parties are likely to be more evenly matched in terms of size, and thus the distribution of power is more likely to evolve over time.

A few studies have suggested additional indicators for power. Halvorsen (1984) focuses on the power differential in terms of high and low status groups, and suggests offensive versus defensive strategies and the quality of the loan portfolio as indicators. Similarly, Hambrick and Cannella (1993) use the pre-acquisition performance of the acquired firm relative to that of the acquiring firm as one of their indicators of relative standing. Finally, Pablo (1994) uses compatibility of visions as an indicator to reflect the political characteristics of the acquisition.

A few recent studies have empirically tested relative power in relation to expectations of acquired and acquiring companies, departure of acquired executives, and level of integration chosen.

Expectations. Rentsch and Schneider (1991) argue that because larger organisations tend to dominate smaller organisations, the employees in the larger organisation are likely to have more positive and realistic expectations if they expect to be dominant over the smaller organisation following a combination. In contrast, members of the smaller organisation are likely to develop less positive expectations for post-combination life. They will expect to be dominated.

Departure of acquired executives. Hambrick and Cannella's (1993) study focuses on relative standing, or local social status. They argue that if the acquirers feel dominant or superior, and they reveal those feelings in their interactions with, and policies toward, the acquired executives, the departure rate of the acquired executives will be affected. Similarly, if the acquired executives feel inferior, stripped of status, or locked in a struggle with the acquirers, they will tend to depart.

Level of integration chosen. Pablo (1994) claims that the political characteristics of an acquisition will influence the level of integration chosen. She says that the impact of size differences is not simply the overwhelming and domination of the smaller entity through sheer magnitude, but also the intensification of beliefs about superiority and inferiority between the acquiring and the acquired firms.

Most studies within the organisational field of mergers and acquisitions use rather simplistic indicators of relative power such as size and acquirer versus target. Recent research have challenged these simplistic indicators and suggested additional indicators. The concept of relative power should be further explored building upon this recent research. Moreover, its inter-relatedness with other contextual features and its effect on the integration process is still poorly understood. Findings from quantitative studies relating relative power to employee reactions are reported in Tables 2.2 and 2.3.

In addition to the studies mentioned above, there are some empirical studies that have focused on the relative size and pre-acquisition performance as features of the combination in itself. Empirical studies focusing on size have tested relative size in relation to acquisition success (Kitching, 1967; Hunt et al., 1987), top management turnover (Walsh, 1989), and post-acquisition changes (Shanley, 1994). Studies looking at pre-combination performance or quality of target have related this feature to success (Hunt et al., 1987), top management turnover (Walsh and Ellwood, 1991) and post acquisition changes (Shanley, 1994). Findings in the quantitative empirical studies are reported in Table 2.3 and in section 2.2.4 and 2.2.5.

Organisational fit

One of the major areas of the organisational stream of merger and acquisition literature has been research on organisational and cultural fit. David and Singh (1993) say that whereas strategic fit can result in potential synergies, organisational fit is a necessary condition for effective realisation of the potential synergies. Most of the scientific contributions in this area, many of which are fairly recent, have been concerned with theory development. The few empirical contributions which have tested the relationship of organisational fit to other factors have used involvement and success expectations (Shanley and Correa, 1992), performance (Chakrabarti, 1990; Datta, 1991; Chatterjee et al., 1992) and level of integration (Pablo, 1994). Findings from these studies are reported in Tables 2.1 and 2.2, and in section 2.2.4.

The difference between organisational and cultural fit in the literature is not particular clear .These concepts are often used interchangeably, and in some contributions cultural fit is incorporated into organisational fit. In this review I have chosen to treat both under one heading.

There are various suggestions in the literature of how to assess organisational and cultural fit. I have chosen to divide the discussion into three parts. First I will give a brief review of the contributions that look at the whole area of organisational fit. Then I will discuss articles with a narrower focus that (1) focus on compatibility of organisational systems and management styles, and (2) focus on compatibility of organisational culture in particular. Of these three parts, I have chosen to discuss the latter most extensively.

The whole area of organisational fit. A number of authors have been concerned with the whole area of organisational and cultural fit (Korman, Rosenblom and Walsh, 1978; Krupar and Krupar, 1988; McCann and Gilkey, 1988; Chakrabarti, 1990; Somers and Bird, 1990; Siel and Smith, 1990; Blumenthal, 1992; Marks and Mirvis, 1992b; Schweiger, Csiszar and Napier, 1994). These authors have typically been more concerned with identifying various indicators than testing and relating these indicators to other features. Few papers build upon former contributions in the field, but rather come up with their own concepts and interpretations. As illustrated in Table A2.1 most categorisations are very broad, making testing difficult.

One recent contribution which is more promising in this respect is Schweiger, Csciszar and Napier (1994). They use the different activities in the value chain as a basis for analysing the fit between two organisations. Schweiger et al. build upon a well established concept in the strategic management literature and suggest that the combination of independent value chains will imply different types and degrees of technical configuration changes, depending on what is needed to achieve synergies. The only quantitative empirical contribution seems to be Chakrabarti (1990) who relates organisational fit to performance (Findings reported in section 2.2.4).

Table A2.1 in the appendix gives a review of the various concepts and indicators proposed in the contributions that look at the whole area of organisational fit.

Compatibility of organisational systems and management styles. A second stream of research has been concerned with compatibility of reward and compensation systems and/or management styles (Davis 1968; Hayes, 1979; Schweiger, Ivancevich and Power, 1987; Schweiger and Weber, 1989; Datta, 1991; Business International, 1992). Hayes (1979) says that compatibility of management styles and compensation systems are key factors to assess in the pre-acquisition period. However, the significance of the former issue will depend on how closely the management teams have to work together. Schweiger et al. (1987) say that failure to address reward, termination and issues of culture may lead to attachment problems and resulted in lost opportunities to retain qualified personnel, motivate employees, and maintain integrity and effectiveness of work units. Datta (1991) hypothesises that there will be a negative relationship between differences in management styles and the reward and evaluations systems of the acquiring and the acquired firms, and post-acquisition performance. This relationship will however vary according to level of integration.

One interesting study (Shanley and Correa, 1992) looks at the agreement of top management teams in relation to involvement in the integration process and success expectations. The various concepts and indicators proposed in this are listed in Table A2.2 in the appendix.

Compared to the contributions on the whole area of organisational fit, this stream of research has developed more indicators which are easier to test, and this has resulted in few quantitative studies. However, as the discussion of their findings will show, the research has failed to find that the compatibility of the reward and compensation systems influences the post-acquisition performance. Furthermore, the research on management styles has traditionally been top-management-centred.

Compatibility of organisational culture. I will now turn to the contributions that have been concerned with the compatibility of corporate and organisational cultures. Some of these contributions will be further discussed in section 2.2.5. Contributions within this field have suggested that cultural compatibility relates to factors such as features of integration, top management turnover, combination success, cultural outcome and acculturation.

Features of integration. There are a number of authors who have suggested that different cultures impede the integration process. According to Buono and Bowditch (1989) the full potency of organisational culture can be seen during a merger or acquisition when two disparate cultures are forced to become one. "...organisations that appear to be highly compatible on the surface and that seemingly should be able to achieve valuable merger synergies can have underlying cultural differences that seriously threaten their integration" (p. 142-143). Mirvis and Marks (1992a) say that different models of integration should be tested for cultural fit.

Pablo (1994) seems to be the only author that has tried to test aspects of organisational culture in relation to integration. She relates the concept of multiculturism to integration design decisions. Multiculturism refers to the degree to which an organisation values cultural diversity and is willing to tolerate and encourage it. She hypothesises that there will be a negative relationship between the multiculturism of the acquirer and the level of integration chosen.

Turnover. Some authors have suggested that cultural differences will have an impact on turnover. Walsh (1988) argues that the target company top management turnover rate following a merger or acquisition will be higher than the normal rate for an equivalent non-merged company. "Culture shock" is seen as one of three forces that contribute to such turnover. Siel and Smith (1990) suggest that an analysis of organisational fit is one of the foremost issues determining whether the acquiring firm will be successful in retaining top managers in the acquired firm.

Integration success. Walter (1985) suggests that cultural disturbances in mergers and acquisitions can cost as much as 25-30 percent in lost performance. Dahlgren and Witt's (1988) findings suggest that achievement of economics of scale were inhibited by heterogeneous management cultures. Ollie (1994) claims that cultural differences in one of three studied mergers were the principal factor for failure.

Chatterjee et al. (1992) test the relationship between cultural fit and shareholder value in related mergers. They hypothesise that the change in shareholder value of buying firms will be inversely related to the degree of perceived cultural differences between the combining top management teams. Furthermore, they hypothesise that the change in shareholder value of buying firms will be directly related to the degree to which the buyer's top management tolerates multiculturism.

Cultural outcome. One of the most thorough contributions on assessing organisational culture prior to the merger is Buono, Bowditch and Lewes (1985). They distinguish between subjective culture; a cultural group's characteristic way of perceiving the man-made part of the environment, the rules and the group's norms, roles and values, and the objective culture; the artefacts and the material products of a society. These authors relate organisational culture in the pre-merger phase to attitudes and perceptions of members of the organisation before and after the merger, and study the emerging culture of the newly formed organisation.

Another author who has been studying cultural outcome is Pedersen (1991). He investigates to what extent the cultural patterns of two pre-merger firms can explain post-merger cultural outcome. Cartwright and Cooper (1992 and 1993a) create a typology of the likely outcome of merging different types of cultures.

Acculturation. Larsson (1991) argues that while differences in organisational cultures can give rise to cultural clashes, "not all cultural differences are equally hazardous to the combination's health" (p. 1). One possible reason for this, is according to the author, that differences can be complementary and unrelated as well as conflictual. He hypothesises that the degree of acculturation will vary according to whether the two cultures are complementary, similar or conflictual. Furthermore, he argues that international mergers and acquisitions have lower acculturation than domestic mergers and acquisitions.

Nahavandi and Malekzadeh (1994) argue that the acquired firm's choice of acculturation mode (see subsection 2.2.5) is dependent on its perception of the attractiveness of the acquirer and the strength of its culture. The acquirer's choice of acculturation mode on the other hand, is determined by its strategy, multiculturism, leadership and structure. The two latter concepts, are according to the authors, closely related to the organisation's culture.

Elsass and Veiga (1994) focus on cultural differentiation, that is the desire of groups to maintain their separate cultural identity. They suggest two factors that influence the forces of cultural differentiation; perception of differences and structure of inter-group relationships. Elsass and Veiga argue that organisational acculturation can be described as a dynamic interaction between the opposing forces of cultural differentiation and organisational integration. The two latter contributions will be discussed further in section 2.3.6. The various contributions are listed in Table A2.3 in the appendix.

Contributions assessing corporate culture in the merging organisations typically focus on the dominant culture in the organisation (Buono, Bowditch and Buono, 1985; Buono and Bowditch, 1989; Nahavandi and Malekzadeh, 1988 and 1994). However, as many of the authors point out but fail to use in their studies, culture is multifaceted and complex. Siel et al. (1988) draw a distinction between the companies' dominant culture and the various sub-cultures. They characterise the sub-cultures into enhancing (adherent to the core values of the dominant culture), orthogonal (separate, unconflicting set of values) and counterculture (challenge to the core values of dominant culture).

The field of assessing cultural fit is in its early stage of theory development. Most contributions are inductive studies that focus primarily on identifying variables to investigate. The field is characterised by a lack of established concepts and consistency. The strength of the research on cultural fit lies in the use of theory from other fields, in particular literature on organisational culture, cultural anthropology and cultural psychology. Although there have been some recent quantitative studies, there is no strong tradition in the field for conducting quantitative research. This may be partly due to the lack of established concepts, but there is also the question whether it is possible to test such a complex and multifaceted concept across a large number of mergers and acquisitions without losing its richness.

Discretionary slack

One context variable that has recently been introduced into the merger and acquisition literature on implementation is discretionary slack or slack resources (Schweiger and Walsh, 1990; Schweiger, Csiszar and Napier, 1994).

Schweiger and Walsh (1990) claim that most mergers and acquisitions result in reduction of slack resources. This reduction may limit integration design options and force an undesirable integration approach. Furthermore they suggest that lack of slack resources may cause mergers and acquisitions to fail.

Schweiger, Csiszar and Napier (1994) say that discretionary organisational slack may play a critical role in the change process. They define discretionary slack as the availability of discretionary resources during a change process. They say that when slack is available it provides the combining firm with time and resources to make change in units. Further they claim (p.):

> When discretionary slack is not available, firms face short-term pressures to achieve "normal" business results. This leads to a shortened time to implement needed organisational changes, and may require unplanned actions (e.g., short-term cost-cutting) that undermine the achievement of synergy.

Schweiger, Csiszar and Napier suggest that availability can be influenced by business conditions, choice of financing, the purchase price, the payment of take-over premiums, or the division of value between acquired and acquiring firm.

There seems to be no empirical work on the importance of discretionary slack as a contextual factor. Hence there is a need to identify the indicators of this concept, and explore how it influences the integration process.

Type of industry

According to Napier (1989) one area for future research is to test the theoretical propositions across different industries. Few contributions within the implementation field have focused on type of industry. Most of these contributions have differentiated between service and manufacturing industries.

Imberman (1985, p. 30) says that when the acquired company is a service company, whose notable assets are its people, the ability to solve "thorny public and employee relation problems" is even more crucial in order to accomplish a smooth transition. Blumenthal (1989) argues that an industry that is labour intensive rather than capital intensive may require a different approach, or be an inherently more difficult setting in which to implement a merger. Business International (1992) says that service companies are special because they depend on human assets. They say that "because humans are not only mortal but also able to disappear without let or hindrance, the price paid for an acquisition is immediately at risk" (p.40).

The only empirical contribution testing type of industry seems to be Pablo (1994). She argues that although the relationship between industry characteristics and strategic decision-making may be unclear, the relationship between industry and strategic decision-making process is more straightforward. About the difference between service and manufacturing industries Pablo says:

> Service organisations compete largely on the basis of intangible outputs that reflect a set of relationships among organisational actors (employees and customers). The technology-driven objective structure that reduces employee discretion and options for decision-making in manufacturing organisations is thus replaced in service organisations by subjective, value-driven structures that control employee behaviours and interaction with customers.

Pablo argues that managers from service industry organisations will weight multiculturism, organisational tasks and compatibility of acquisition visions more heavily when making integration design decisions than managers from manufacturing industry organisations. Pablo's findings are reported in Table 2.1.

Since there are so few contributions that have empirically tested this concept, it is difficult to assess it relative importance. Furthermore, there is the question of which classification is the most fruitful. To answer these questions more empirical research across different types of industries is needed.

Individual characteristics and situations

Some of the early contributions in the field (Costello, Kubis and Shaffer, 1963; Shirley, 1973) suggested that it is important to take <u>individual characteristics and situations</u> into account. Costello, Kubis and Shaffer's (1963) study relates age, success in organisation, morale and three personality variables; authoritarianism, manifest anxiety and need for interdependence to attitudes towards a forthcoming merger.

Shirley (1973) suggested that older and longer-service employees and physicians would be more likely to resist a merger of their respective hospitals. Furthermore, he hypothesised that degree of satisfaction with pre-change conditions would be significantly related to initial attitudes toward change.

Shanley and Correa (1992) identify three sources of social identification; profession, organisation and task, and claim that these sources will influence the reactions of employees to acquisition by introducing perceptual biases. Hambrick and Cannella (1993) hypothesise that age will be positively related to top management turnover. Findings for quantitative studies relating individual characteristics and situations to employee reactions are reported in Tables 2.2 and 2.3.

The research on individual characteristics and situations have mainly been concerned with individual reactions, and there seem to be no studies linking this concept to performance.

In the early research on mergers and acquisitions, individual characteristics and situations were quite frequently included. However, research on mergers and acquisitions in the 1980s and 1990s have focused more on how contextual variables at an organisational level influence post-acquisition success.

Environmental impact

One area in which there has been surprisingly little research, is the <u>environmental impact</u>. The only contributions in the field of merger and acquisition implementation that seem to cover this issue in some depth are Schweiger, Ridley and Marini (1992) and Ollie (1994). Schweiger, Ridley and Marini's findings based on a case study suggest that environmental pressures may alter the integration process (p. 194):

> The many short-term pressures to meet business plans shifted some of management's focus from integration plans to short-term profitability plans. As a consequence a number of the rebuilding initiatives were temporarily side tracked. Moreover, "we versus them" began to emerge.

Ollie (1994) argues that the misfortunes in two of three studies of cross-border mergers cannot be viewed in isolation from the economic crisis they went through and the policies of both national governments with respect to their national industries. He says the crisis altered the premises upon which the merger had been built, and fostered competition and mistrust instead of promoting inter group assimilation.

According to Schweiger, Ridley and Marini (1992) the environmental impact is an important issue rarely considered in discussions of merger integration processes. "Too often the merger integration process is discussed as if it occurs in a vacuum" (p. 168). This is particularly surprising since there is a strong tradition within the strategic management and organisational change literature to link the organisation to its environment. This is clearly a field in which there is a need for more empirically research. Such research should identify the various features of the environment and investigate its impact on the integration process and various outcomes.

Merger or acquisition regime

Acquisition regime and acculturation mode are both concepts which are difficult to place in this framework. Both reflect policy, process and outcome at the same time. Given that the acquiring and/or acquired firm can make choices about the preferred mode of acculturation or acquisition regime before the decision to merge or acquire takes place, I will argue that the acquiring and/or the acquired firm's policies, attitudes or intentions can be regarded as a part of the contextual features.

Perry (1986) distinguishes between merging and being merged, and says this difference can be explained in terms of; cultural match or mismatch (discussed in previous sub-section), pre-merger perceptions and attitudes, (3) the way the merger is managed (to be discussed in the next section).

Deiser (1994) follows up this argument and claims that one of the most important causes of difficulties in realising the potential value of an acquisition, lies in the acquirer's attitude towards the newly acquired firm. He says that very often the incorporation is not carried out in the spirit of partnership, but is more comparable to a colonial conquest. Deiser says that this tendency to ignore or suppress the organisational culture of the acquired firm increases with the degree of relationship to the acquirer's industry. The more the buyer is convinced thatt he understands the rules of the industry, the less open to different perspectives the buyer will be.

Pedersen (1991) studied the Danish part of the Sperry and Burrough merger and claim that instead of the traditional subordination of the acquired company, Burrough wanted to make a new company based on the ideas of equality and partnership. Thus the guiding principles behind the formation of this new company, as well as the merger process, were claimed to be partnership, unity, meritocracy, and dispatch.

David and Singh (1993) define acquisition regime as "an acquiring firm's set of pre- and post-acquisition organisational processes and policies for approaching and subsequently integrating target firms" (p. 237). According to the authors these regimes have a common overt purpose; to implement strategic choices of how to acquire a firm, how much the acquired firm's operations are to be integrated, and how strongly the target units are linked with their counterparts.

David and Singh (1993) suggest that these acquisition regimes have three distinct features: (1) Cultural policy of acquiring firm; unspecified, multicultural tolerance and cultural dominance of acquiring firm, (2) cultural process of acquiring firm; unspecified, inter organisational learning and cultural imposition, and (3) acquiring firm's policies regarding distribution of opportunities and benefits; symmetrical, selective and asymmetrical treatment. The first and last feature reflect the acquiring firm's policies, while the second can be regarded as part of the process. David and Singh's categorisation is useful from the point of view that it reflects both the political and the cultural features of a combination. David and Singh link these different features to the outcomes in the combined organisation.

Focusing on the roots and ramifications of conflict in post-combination negotiations, Mirvis (1985) suggests that both parties' strategies for combination should be included as a feature. In the case Mirvis studied, there was no super-ordinate goal for the combination, and the two firms' strategies and aims were in conflict.

Similarly Nahavandi and Malekzadeh (1988, 1994) focus on the preferred mode for acculturation for both the acquirer and the acquiree. They propose that when the two organisations agree on the preferred mode of acculturation, less acculturative stress and organisational resistance will result, making acculturation a smoother process. Nahavandi and Malekzadeh's and David and Singh's contributions will be further discussed in section 2.3.6.

Although all the contributions discussed above in some way or another address the merger or acquisition regime, it is difficult to get a grasp of the content of this particular feature. The strength of David and Singh (1993) and Nahavandi and Malekzadeh's (1988, 1994) concepts is that they build upon established concepts in other fields of research. However, the distinction between whether it is a feature of the context, process or outcome is not particularly clear in many of the contributions. The contextual part of this feature seem to be the least developed. Thus there is a need for research investigating the unique features of the contextual part of the concept. Furthermore, there is a need for empirical investigation of the proposed linkages with other features.

Summary

In this section I have discussed the contextual factors that appear in the organisational stream of merger and acquisition literature. 10 contextual features were introduced; strategic objective, degree of friendliness. acquisition experience, relative power, organisational fit, discretionary slack, type of industry, individual characteristics and situations, environmental impact and merger or acquisition regime. The discussion above has revealed that much of the research in this field is in its infancy, and that there is a need for more empirical research, both qualitative and quantitative.

2.2.2 Features of Integration

Although necessary, several studies (Lubatkin, 1987; Seth, 1990) suggest that potential synergetic benefits are not sufficient for superior performance. Organisation researchers point to the implementation as a key factor for success or failure. Potential synergies will result in superior performance only if these can eventually be realised through effective post-merger or post-acquisition implementation (Ollie, 1994). Similarly, Haspeslaph and Jemison (1991) stress that the integration is the key to making acquisitions work. "Not until the firms come together and begin to work toward the acquisition's purpose can value be created" (p. 105).

The integration features will reflect the decision variables which the management can control in the post-combination integration process. Reviewing and grouping the most frequently mentioned integration features in the literature I ended up with six factors. I also added a seventh feature, post-merger management, to include the contributions focusing on the overall process of integration. Hence, this section will be divided into 7 parts:

- Integration design
- Organisation of integration process
- Information and communication
- Interventions toward work unit and individual coping
- Allocation of positions and functions
- Realisation of efficiency gains
- Post-merger management

Integration design

The question of how the integration between the companies should be designed has been raised by many authors. Many have proposed their own conceptualisation of this feature and a number of <u>integration design</u> options have been developed in the literature (Elsass and Veiga, 1994; Haspeslagh and Jemison, 1991b; Hayes and Hoag, 1984; Mirvis and Marks, 1992a,b; Napier, 1989; Schweiger et al., 1994; Siel and Smith, 1990). Degree of autonomy seems to be the most commonly used. A review of the various proposed integration designs is given in Table A2.4 in the appendix.

Datta and Grant (1990) say that autonomy, in the context of acquisitions, can be described as the amount of day-to-day freedom that the acquired firm's management is given to manage its business. This does not imply that the acquired company is ignored by the acquiring company, on the contrary, a close co-operation between the respective managements is expected in the setting of post-acquisition goals and objectives.

Contributions in this area have linked integration design options to strategic objective (Datta and Grant, 1990; Schweiger et al., 1994), cultural fit (Hall and Norburn, 1987; Ollie, 1994) , development of shared values (Shirley, 1977), departure of key executives (Hambrick and Cannella, 1993; Hayes, 1979; Hayes and Hoag, 1984), effect on employees (Gall, 1991) and post-merger performance (Haspeslagh and Farquar, 1994; Kitching, 1967). The quantitative research relating autonomy to top management turnover and financial performance are reported in Table 2.3 and section 2.2.4 respectively.

Integration design is one of the most frequent features of integration mentioned in the organisational stream of merger and acquisition literature. Unfortunately, there is little consistency among the various types of integration designs suggested. As for the research on organisational fit, few papers build upon former contributions in the field, but rather come up with their own concepts and interpretations. This lack of consistency has probably been a hindrance for the development of theory in this area.

Organisation of integration process

Two issues seem to be reflected in the literature concerning the organisation of the integration process: transition structures and participation.

Transition structures. One common characteristic of merger and acquisition processes is the establishment of transition structures. These transition structures may take one of many forms. The structures most frequently mentioned in the literature seem to be merger managers, transition teams, and parallel organisational structures (McCann and Gilkey, 1987; Buono and Bowditch, 1989; Schweiger and Weber, 1989; Business International, 1992; Mirvis and Marks, 1992b).

In general, transition structures can serve three purposes. The first is aimed at organising the operational side of the combination process effectively (McCann and Gilkey, 1988; Ghosal and Haspeslagh, 1990; Burke and Jackson, 1992). The second purpose is to test the capabilities of the team members (Burke and Jackson 1992; Mirvis and Marks, 1992b). The third purpose is to facilitate the integration of human resources.

The literature mentions a number of advantages in using transition structures. Transition structures involve major players (Ivancevich, Schweiger and Power, 1987; Business International, 1992), facilitate communication (Mirvis and Marks, 1986; Business International, 1992) facilitate learning and joint problem solving (Schweiger et al., 1992) reduce conflicts (Schweiger et al., 1994), build teams (Burke and Jackson, 1992) and create an equal partner atmosphere (Business International, 1992). According to Elsass and Veiga (1994) there is wide agreement that inter-group structures such as committees and task forces, which require members from both groups to interact and co-operate with each other, serve, in the long run, to reduce feelings of inter group antagonism and animosity.

The creation of transition structures is also seen as important for preventing unnecessary sources of stress (Ivancevich, Schweiger and Power, 1987) and in keeping the best people (Smith and Siel, 1990). However, under hostile conditions, (Ivancevich, Schweiger and Power, 1987) and when cultural strains and clashes are present (Buono and Bowditch, 1989), executives are likely to be less co-operative.

Many of the contributions on transition structures have been practitioner-oriented, and few have drawn on other fields of literature. There is a lack of research evaluating the effectiveness of the various approaches, and no studies seem to have empirically tested the postulated linkages to other features.

Participation. Although the importance of participation in bringing about organisational change is often mentioned in the literature, few authors have explored this issue in depth. There are two dimensions to participation. One is the horizontal dimension that emphasises the involvement of both merger parties, or rather the executives of both parties, in the combination process. The vertical dimension on the other hand concerns involvement of the employees in the process. Of the two, the former has received most attention in the literature, and involvement of executives from both parties in, for example, transition teams is frequently mentioned (Geber, 1987; Hunsaker and Coombs, 1988; Ivancevich, Schweiger and Power, 1987; Marks, 1982; Mirvis and Marks, 1986; Mirvis and Marks, 1992b).

As for the vertical dimension, Buono and Bowditch (1989) claim that the process is usually tightly controlled by top management. "Merger related structuring is typically *done to* rather than *done by* employees" (p. 258). Buono and Bowditch (1990) find that mergers and acquisitions differ regarding the extent to which people are forced into certain situations or provided with a true opportunity to take part in discussions and decisions.

Authors concerned with the human side of mergers and acquisitions typically stress the importance of including human related issues in pre-merger discussion. There are three groups of people that are seen as exponents of these issues, i.e. human resource managers, consultants and line management (Boland, 1970; Diven, 1984 ; Ulrich, 1989; Buono and Nurick, 1992; Mirvis and Marks, 1992a,b).

Though the typical advice in the literature is to involve as many people as possible, all members of an organisation cannot be members of transition teams. One way to organise employee involvement is through union representatives (Halvorsen, 1984). Another function that is often mentioned and seen as an exponent of employee needs, is the human resource managers. Interestingly, in Robino and DeMeuse´s (1985) study acquired personnel managers explained their role as having to announce unpopular decisions that they did not participate in making.

A number of advantages of inviting participation are mentioned in the literature. Contributors say that participation provides input (Buono and Bowditch, 1989; Mirvis and Marks, 1992b), gives opportunity to learn about the acquired firm's business (Shrallow, 1985), facilitates communication, (Buono and Bowditch, 1989; Shanley and Correa, 1992), reduces resistance (Marks, 1982), gains commitment and ownership to the new organisation (Hunsaker and Coombs, 1988; Burke and Jackson, 1992), and promotes agreement between management teams (Shanley and Correa, 1992) and with the decision to merge (Shirley, 1973). However, Haspeslagh and Jemison (1994) suggest that the managers' and employees' willingness and capacity to participate can act as impediments to the achievement of these gains.

As for the effect on various outcome variables, participation can prevent unwanted turnover (Hopkinson, 1991; Mirvis and Marks, 1992b), produce more favourable organisational climate and enhance productivity (Buono and Bowditch, 1989), positively influence attitudes towards merger and job changes (Shirley et al., 1973, 1977), and have a direct effect on the employee morale, productivity and profitability (Marrow et al., 1967). Findings from the quantitative empirical studies relating involvement to employee reactions are reported in Table 2.2.

Participation is an issue that has received scant empirical attention in the organisational merger and acquisition literature. As for transition structures, many of the contributions use a low level of descriptive language, and the authors seem largely to have neglected the research on participation carried out in other related fields. Most of the contributions have focused on why participation should be promoted, few have explored how and when the participants should be involved, what they should influence and whether participation is purely advantageous.

Information and communication

The primary intervention recommended for helping combat uncertainty is communication (Bastien, 1987; Schweiger and Walsh, 1990). A large part of the literature on communications is normative oriented, giving typical advice such as to establish a two-way communication system (Marks and Mirvis, 1985), give early, clear and timely information (Henderson, 1989; Gutknecht and Keys, 1993), and establish formal, internal communication systems as soon as possible (Bastien, 1987, Schweiger, Csiszar and Napier, 1994). Besides the research on integration options, this is the area that seems to have received the most attention in the literature among the seven integration variables.

One useful distinction is between the quantity and the quality of information (Chakrabarti, 1985, Elsass and Veiga, 1994). Quantity covers the questions of how frequent the communications should be, for how long and through which media. It has been suggested in the literature that communications in mergers and acquisitions should be more frequent than usual and repeated many times through various media (Pritchett, 1985; Lamb, 1986; Geber, 1987; Davy et al., 1988; Napier, Simmons and Stratton, 1989; Schweiger and Weber, 1989; Galosy, 1990). Several authors have pointed to the lack of information or the communications vacuum during mergers and acquisitions and sought to find explanations for this (Mirvis and Marks, 1986; Buono and Bowditch, 1989; Mirvis and Marks, 1992b).

The various aspects of quality of information and communication frequently mentioned in the literature are realistic merger previews (Schweiger and Ivancevich, 1985; Schweiger and DeNisi, 1987; Buono and Bowditch, 1989; Mirvis and Marks, 1992b; Schweiger et al., 1994), honest communication (Shirley, 1977; Hunt et al., 1987; Schweiger et al., 1987; Davy et al., 1988; Haspeslagh and Jemison, 1994), keeping promises (Pritchett, 1985; Kanter, Ingols and Myers, 1987; Galosy, 1990; Larsson, 1990), congruence between communication and action (Bastien, 1987; Elsass and Veiga, 1994), and clear and accurate information (Pritchett, 1985; Buono and Bowditch, 1989).

Although common sense suggests to many managers that bad news or any other negative implications of the merger should be withheld for as long as possible from affected employees, merger experience suggests otherwise (Marks and Mirvis, 1985). There seems to be a tendency to oversell the positive elements of change (Shirley, 1977) and to engage in wishful thinking or wanting to motivate people by being overly optimistic (Schweiger et al., 1994b). In fact, Buono and Bowditch (1990) claim that managers in some instances deliberately deceive the employees.

Although openness and frequent communication are desirable, this is not always possible. The secrecy often surrounding a merger or acquisition (Kelly, 1991; Galosy, 1990), the uncertainty (Schweiger and DeNisi, 1987), the rules and regulations (Buono and Bowditch, 1990; Schweiger et al., 1994b) and hostility between the parties (Larsson, 1990) act as impediments to communication. Full disclosure may however violate the need for secrecy and curb the managers′ flexibility in making future changes (Schweiger et al., 1994).

Most research on communications in mergers and acquisitions seems to have been concerned with its effect on employees and as a means of reducing uncertainty and anxiety. As such some researchers have tested the effect of communicative efforts on employee reactions and attitudes (Davy et al., 1988; Schweiger and DeNisi, 1987). These findings are reported in Table 2.2. Fewer have tried to assess the effect on productivity and turnover and financial performance (Chakrabarti, 1990). Findings from this study are reported in section 2.2.4.

The research on information and communication is one of the most established and well-researched areas in the organisational stream of merger and acquisition literature. Although a large part of the literature is normative and practitioner-oriented, there is a growing body of descriptive research with a more scientific approach. Some contributions draw on related fields of research, but the potential is far from exhausted. Moreover, there is a need for research assessing the effectiveness of communicative efforts in terms of productivity and performance.

Interventions toward work unit and individual coping

The creation of transition structures, participation and communication can all be seen as important interventions in the combination process. I will now turn to some of the other interventions that can be chosen to facilitate the integration process.

Research has suggested that these type of interventions in merger and acquisitions processes are not widely applied. According to Buono and Bowditch (1989) merging or acquiring firms are reluctant to undertake any activities that go beyond basic adjustment in financial controls, strategic orientations, or human resources policies such as benefit packages and compensation systems. Buono and Nurick (1992) argue that the attempts of upper-level management to ameliorate merger and acquisition pressures and tensions and to facilitate post-combination of different work forces, cultures and so forth, remain the exception rather than the rule. In fact, Ivancevich, Schweiger and Power (1987) found that none of the programs aimed at work unit and individual coping were on average rated as important.

Schweiger, Ridley and Marini (1992) argue that single shot interventions are not sufficient to integrate diverse organisations. Multiple vehicles for achieving these may be warranted. Employee surveys, team building and workshops seem to be the interventions that have received the most attention in the literature.

Employee surveys. Several authors have suggested employee surveys (Marrow et al, 1962; Pritchett, 1985; Marks and Mirvis, 1986; Buono and Bowditch, 1989; Galousy; 1990; Gall, 1991; Marks and Mirvis, 1992) as a means of involving employees and acquiring information about the opinions and attitudes of the employees in the organisation. Galosy (1990) stresses that these surveys should be given to all the employees, not just those from the acquired company. Surveys can be carried out early to assess expectations, during the combination to evaluate how changes are being handled and afterwards to determine levels of satisfaction or discontent (Mirvis and Marks, 1992b).

However, management must be aware that the survey will raise employee expectations that the company will act on the survey results (Galousy, 1990). Thus Buono and Bowditch (1989) recommend that the employees should be involved in the planning, development and implementation of the survey.

Pritchett (1985) says that by participating in the generation of the data base from which changes will emanate, employees share a greater feeling of ownership of these changes and are therefore more accepting of the changes and more committed to carrying them out. Employee surveys can also limit the effects of the merger syndrome by providing a safety net for identifying and correcting conditions that may adversely affect post-merger performance (Mirvis and Marks, 1986; Ivancevich, Schweiger and Power, 1987).

Team building. Pritchett (1985) says that whenever there is a true merger, an actual blending of organisations, conflicts and competitive struggles will develop. Facing new managers, peers, ways of doing things and change of power bases will increase the likelihood of tension in newly formed teams (Marks and Mirvis 1992; Mirvis and Marks, 1992b). A team building process can help an organisation overcome these dysfunctional group and individual behaviours (Pritchett, 1985; Mirvis and Marks, 1986). The intent is to help people learn how to work together, improve communications, work through interpersonal conflicts and build trust and mutual support.

Mirvis and Marks (1992b) and Marks and Mirvis (1992) name three team building tasks; psychological enlistment that involves forming the team, role development to determine relative influence and control and development of trust and confidence. As for who should be involved, the typical advice is to start at the top of the organisation (Mirvis and Marks, 1992b), and then move the process down the ranks (Galosy, 1990).

Contributors in the field recommend that team building should be considered following any strongly resisted acquisition, where there is a high degree of integration between the two companies' work forces (Pritchett, 1985), and where the management styles differ (Marks and Mirvis, 1992). However, it might be difficult to build a unified team before the leadership position has been stabilised (Burke and Jackson, 1992).

Workshops. Deiser (1994) says that workshops are useful for the treatment of cultural issues and for fine-tuning the organisation. Involving all concerned employees, workshops can be a powerful tool for implementing the strategic intent of the merger, and an effective way of dealing with emotional issues. Moreover, combination related workshops can reduce inter-group conflict, help members of the organisation to understand what is happening and to regain some sense of control over their work and careers (Blake and Mounton, 1984; Buono and Bowditch, 1989; Marks, 1991).The results from workshops can also provide the management with important feedback, and as such function as an early warning system.

Workshops can produce tangible results such as operational suggestions and action plans as well as more intangible results that relate to the organisational culture or climate (Blake and Mounton, 1984; Deiser, 1994).

Other interventions mentioned in the literature are individual counselling (Schweiger and Ivancevich, 1985; Mirvis and Marks, 1986; Buono and Bowditch, 1989; Marks, 1991), inter group mirroring (Blumberg and Wiener, 1971; Mangham, 1973; Blake and Mounton, 1984; Buono and Bowditch, 1989, Buono and Nurick, 1992), employee protection plans (Ivancevich, Schweiger and Power, 1987), and merger stress management training (Schweiger and Ivancevich, 1985; Ivancevich, Schweiger and Power, 1987; McCann and Gilkey, 1988).

Some authors have distinguished between the different stages and levels in the organisation at which interventions are directed (Ivancevich, Schweiger and Power, 1987; Marks and Cutcliffe, 1988; McCann and Gilkey, 1988). Marks and Cutcliffe (1988) focus on three types of interventions; preliminary, primary and secondary. The preliminary intervention focuses on the employees′ immediate feelings and what the merger will mean to them and the organisation. The primary intervention is aimed at the exchange of valid information at operational levels. Thirdly, secondary interventions focus on assessing and correcting maladaptive behaviours in both individuals and groups. All of these types of intervention can be applied at individual, group and organisational level respectively.

The research on interventions aimed at work unit and individual coping is an area that has been, and still is, dominated by practitioners or other contributors working as consultants. Most of the research is at a low descriptive level, and very little work has been done to link and test these interventions in relation to other factors or features. Taking the seemingly limited use of these types of interventions, there is also the question of how important this feature is in relation to the other features of integration.

Allocation of positions and functions

One important question in mergers and acquisitions concerns the <u>allocation of positions and functions</u>. The number of contributions exploring this issue in any detail are, however, rather few. The literature seems to have been dominated by staffing decision issues, though some contributions (Graves, 1981; Buono, Bowditch and Lewis, 1985; Pedersen, 1991, Ollie, 1994) focus on other merger related issues as well as logo, company name and location.

The selection process is often characterised as a highly political process where competitors jostle for positions to take over particular roles (Buono and Bowditch, 1989). Marks and Mirvis (1992b) view job assignments as the first "battleground", and say that managers have a difficult job weighing loyalty to their own people against criteria such as merit and equality.

Some authors have recommended the use of a systematic appraisal plan and completion of the process as quickly as possible (Leigton and Tod, 1969; Pritchett, 1985; Ivancevich and Stewart, 1989; Mirvis and Marks, 1992b). Ivancevich and Stewart (1989) propose a four-tiered recommendation for making staff selection decisions. They argue that with no effective appraisal plan in place and significant shortcomings in the approaches used, staffing decisions are often ineffective, delayed and perceived by acquired employees to be highly biased.

There are some authors that have discussed selection processes in some detail (Ulrich et al., 1989; Mirvis and Marks, 1992b, Schweiger, Ridley and Marini, 1992; Ollie, 1994). Of particular interest are the contributions that discuss the balance between selection process based upon capabilities and equality. These contributions have suggested that use of a balanced approach with organisational affiliation as the main selection criteria may make the organisation unstable and prolong the integration process (Schweiger; Ridley and Marini, 1992) and result in top heavy teams (David and Singh, 1993; Ollie, 1994). However, when there is an equal distribution of decision power, both companies are likely to be better represented in crucial decisions, it provides learning and understanding, and it is symbolic in the sense that it conveys to the employees that members of both organisations will be treated fairly and with respect (Schweiger, Csiszar and Napier, 1994).

The literature mentions three factors that influence the allocation of positions and functions, i.e. integration design (Napier, 1989), relative status (Halvorsen, 1985) and differences in organisational culture (Buono et al., 1985). Moreover, research suggests that the timing, criteria used and the outcome of allocation decisions may have an impact on top management turnover (Hambrick and Cannella, 1993; Ivancevich and Steward, 1989; Napier, 1989), dysfunctional individual outcomes

(Ivancevich, Schweiger and Power, 1987) and emerging culture in the combined organisation (Buono, Bowditch and Lewis, 1985; Ollie, 1994).

Compared to the attention the allocation of positions and functions receive in "real life" mergers and acquisitions, there has been surprisingly little research in this area. One reason for this scant research may be that it is difficult to obtain access to study these kinds of often highly political decisions. Another reason may be failure to recognise the importance of this issue. The potential of borrowing from other fields to shed light on allocation decisions has been largely neglected (one exception is Hambrick and Cannella (1993) who use relative deprivation theory). Research studying allocation and reallocations over time seems to be non-existent.

Realisation of efficiency gains

Haspeslagh and Jemison (1991b, 1994) divide synergies into four categories; i.e. sharing activities, transferring operational and general management skills and combination benefits. The organisational literature on mergers and acquisitions has been mainly concerned with realising gains through sharing activities. Few authors have been concerned with realisation of other types efficiency gains.

When activities are eliminated or absorbed in mergers and acquisitions, the result is often laying off individuals in redundant positions (Schweiger et al., 1994). Other reasons for laying off employees include non-performing employees, employees who are unwilling or unable to adapt, and streamlining of organisation (Prichett, 1985; Buono and Bowditch, 1989; Cabrera, 1990). The worst job losses are expected to be carried out in hostile mergers with liquidation in mind (Ivancevich, Schweiger and Power, 1987).

Research suggests that the way employees are laid off can significantly affect morale and attitudes (Buono and Bowditch, 1989; Mirvis and Marks, 1992b) both of those who and those who stay (Ivancevich, Schweiger and Power, 1987; Leana and Feldman, 1989; Panos, 1989). For those who leave, interventions such as out-placement services can ease trauma and help reallocate them in new jobs. For those who stay, the way lay-offs are managed signals how employees may be treated in the future.

The literature on downsizing has been particular concerned with who is dismissed, how lay-offs are carried out and how the trauma of job loss for those whose employment has been laid off has been dealt with (Cabrera, 1982; Ivanchevich, Schweiger and Power, 1987; Ivancevich and Stewart, 1989; Leana and Feldman, 1989; Schweiger, Csiszar and Napier, 1993; Schweiger et al., 1994; Schweiger and Weber, 1989).

Researchers recommend that termination issues should be based on sound criteria, be visible and made jointly by representatives from both firms to ensure fairness and due process (Ivancevich, Schweiger and Power, 1987; Ivancevich and Stewart, 1989). However, empirical evidence (Leana and Feldman, 1989) suggests that laid-off employees felt that their terminations were arbitrary and capricious. Moreover, top management was perceived to spare barely competent management personnel, while terminating a substantial number of lower level workers.

Several ways of downsizing have been suggested in the literature including voluntary turnover, early retirement, change of jobs and lay-offs (Cabrera, 1982; Ivancevich et al., 1987). Of these approaches laying-off is regarded as having the most negative impact on effected employees (Leana and Feldman, 1989).

Suggested approaches for minimising the trauma of job loss include advance notification, severance pay and extended benefits, retraining programmes, out-placement assistance, counselling, internal transfers and fair recommendations to potential employees (Buono and Bowditch, 1989, 1990; Cabrera, 1982,1990; Leana and Feldman, 1989; Mirvis and Marks, 1986; Mirvis and Marks, 1992b; Panos, 1989; Schweiger and Weber, 1989; Ulrich, 1989).

Research suggests that the job loss associated with mergers and acquisitions is not of the magnitude one might think, and that job losses are more likely to be associated with general restructuring (Hunt et al., 1987; Schweiger and Walsh, 1990). Hunt et al. for example, found that approximately two thirds of the forty companies investigated increased or maintained the manpower level in the acquired companies.

Realisation of efficiency gains is an important area for research in mergers and acquisitions. The past research has concentrated mainly on downsizing and its effects on the employees. There is a lack of research relating downsizing to other features and assessing its effectiveness in terms of productivity and performance. Furthermore there is a lack of research studying other efficiency gains apart from downsizing.

Post-merger management

There are a number of authors who have focused on the management of the implementation process as a whole or used other dimensions than applied in this section. A large part of the contributions in this area is non-scientific articles (Kleinman, 1988; Balloun and Gridley, 1990; Polley, 1990; Purche, 1990) that have not contributed to the development of new theory. The more scientific contributions have stressed the importance of (1) creating an atmosphere for capability transfer (Haspeslagh and Jemison, 1991a and b and 1994), (2) institutional leadership capable of instilling a new sense of purpose to activate managers and employees in both firms after the merger (Kitching, 1967; Searby, 1969; Haspeslaph and Jemison, 1991; Marks and Mirvis, 1992b; Haspeslagh and Farquar, 1994, Ollie, 1994), and (3) managing the interfaces between the organisations (Hunt et al., 1987; Haspeslagh and Jemison, 1991a and b and 1994) .

As for focusing on the implementation process as a whole, one particularly interesting contribution is Krogh (1994). He investigates Bourgeouis and Brodwin´s (1984) five models of implementation, but concludes that none of the models adequately account for the lack of a common history in mergers and acquisitions.

Summary

In this section I reviewed research on seven integration features; integration design, organisation of integration process, information and communication, interventions aimed at work unit and individual coping, allocation of positions and functions, realisation of efficiency gains and post-merger management. The research on integration features has been dominated by practitioner-oriented contributions. Most contributions are either normative or at a low descriptive level, and few authors draw on theories from other fields. However, the practitioner orientation does not necessarily mean that these articles lack scientific value. Several articles have provided important insights into the complex phenomena for merger and acquisition impact. Moreover, they can serve as foundations of many of the academic articles.

The few contributions that have used integration features as outcome variables are listed in Table 2.1. below.

Table 2.1. Quantitative Studies Using Integration Outcome Variables

Authors	Sample	Features studied	Findings
Datta and Grant (1990)	129 acquisitions	Type of combination in relation to autonomy	Autonomy in unrelated acquisitions will be significantly greater than in related acquisitions
Shanley and Correa (1992)	Hospital acquisition 84 respondents	Perceived and actual agreement and accuracy and internal agreement in relation to extent of involvement in integration	Involvement found to relate significantly to accuracy and internal agreement
Pablo (1994)	56 executives in acquiring organisations	Strategic and organisational task needs, multiculturism of acquirer, compatibility of acquisition visions, power differential, acquisition experience and type of industry in relation to level of integration	Found that strategic task needs were positively related to level of integration chosen. Organisational task needs, multiculturism of acquirer and compatibility of acquisition visions negatively related to level of integration chosen. Power differential was negatively related, and thus the opposite of what was expected, to the level of integration chosen. Found that respondents from service industries tend to weight multiculturism more heavily than respondents from manufacturing industries. Acquisition experience did not provide significant predictions for weighting the features in the study

2.2.3 Individual, Organisational and Cultural Outcomes

In this section I will discuss the various individual and organisational outcomes that have been raised in the organisational stream of merger and acquisition literature. In contrast to the studies using financial outcomes, use of individual, organisational and cultural outcomes takes the employees as stakeholders into account. The mainstream of research has been concerned with dysfunctional outcomes (Schweiger and Walsh, 1990) on behalf of the acquired employees (Napier, 1989), and scant attention has been given to the possible positive reactions and outcomes (Larsson and Driver, 1993; Napier, 1989). Few studies within this area have tried to link the studies of employee reactions to financial outcomes.

I will start this section by giving an outline of the studies focusing on employee reactions, and review the empirical quantitative contributions in Table 2.2. Then I will discuss the contributions that have used combination success as their outcome variable. Finally, I will discuss possible cultural outcomes of merger and acquisition processes.

Employee reactions

Employee dysfunctional reactions seem to be a result of the uncertainty, ambiguity, and insecurity that commonly follow merger and acquisitions. Pritchett (1985) claims that the reactions observed during these combinations are highly predictable. The most frequently mentioned reactions in the literature seem to be (1) stress, (2) sense of loss over aspects such as job, hierarchical status, trusted subordinates, friends or peers, network, career paths and identity, (3) less team work and increased power struggles, (4) aggression, anger, anxiety, depression, resignation, self-preservation, preoccupation, (5) physical illness, and (6) increased staff/employee turnover, absenteeism, intention to quit and decreased job related performance, productivity, job satisfaction and commitment. The contributions that have focused on turnover in particular will be discussed separately below.

Marks and Mirvis (1985) and Mirvis and Marks (1986) have especially focused on how the acquired managers react in acquisitions. They claim that the "merger syndrome" that encompasses executives' stressful reactions and development of crisis management orientation is one of the primary causes of disappointing outcomes.

The sense of loss employees experience in combination has been compared to the mourning and grief period experienced when a family member dies (Sinetar, 1981; Schweiger et al., 1987; Buono and Bowditch, 1989). Many authors have suggested that the employees′ reactions will pass through a number of stages (Schweiger and Ivancevich; 1985; Hunsaker and Coombs, 1988; Mirvis and Marks, 1992b; Cartwright and Cooper, 1990, 1993b). In addition, research on employee reactions has indicated that members of the organisation vary significantly in their ability to handle the uncertainties and stress involved in combinations (Schweiger and Ivancevich, 1985; Ivancevich, Schweiger and Power, 1987; Buono and Bowditch, 1989; Marks and Mirvis, 1992; Mirvis and Marks, 1992b).

Research suggests that the impact of mergers and acquisitions on individuals will vary according to degree of hostility (Buono and Bowditch, 1989, Cartwright and Cooper, 1990; Gutknecht and Keys, 1993), age, tenure, degree of attachment and commitment to former organisation (Mirvis and Marks, 1992b; Cartwright and Cooper, 1993), how the combination is managed and degree of involvement (Mirvis and Marks, 1986, 1992b; Gutknecht and Keys, 1993) and suddenness in announcement (Cartwright and Cooper, 1990). How individuals react, in turn, is expected to influence the financial and operational results and post-merger negotiations and integration (Mirvis and Marks, 1986).The empirical quantitative studies are reported in Table 2.2 below.

Employee reactions following a merger or acquisition seem to be the most commonly used outcome variables in the organisational field of mergers and acquisitions. Apart from the research on executive departure, few studies on employee reactions have examined the same set of factors or applied the same methodology. Furthermore, several studies have focused on only one merger or acquisition, often from the perspective of only one of the companies. Although the strength of this area is the quantitative research, many studies lack the appropriate controls upon which to draw inferences with confidence (Schweiger and Walsh, 1990).

Some of these studies have focused on measuring the effect of merger or acquisition event on employee reactions or changes in attitudes or morale (Buono and Bowditch, 1989; Cartwright and Cooper, 1993, Gutknecht and Keys, 1993). Other studies have related employee reactions to contextual factors (Costello et al., 1963; Shirley, 1973, 1977; Halvorsen, 1985; Larsson, 1991; Rentsch and Schneider, 1991; Shanley and Correa, 1992) and features of integration (Shirley, 1972, 1977; Davy et al., 1988, 1989; Schweiger and Denisi, 1991; Shanley and Correa, 1992). Studies in the latter group have either studied the effect of involvement or communicative efforts.

As for the whole area of empirical research on employee reactions there seems to be little consistency of the various outcomes used in the studies of employee reaction, and how the various outcomes relate to each other. Furthermore, the research has been biased in terms of its neglect of positive reactions.

Table 2.2. Studies of Individual and Organisational Outcomes

Authors	Sample	Features studied	Findings
Costello, Kubis and Shaffer (1963)	87 middle managers of one organisation	(1) age, (2) previous success in organisation, (3) morale, and (4) authoritarianism in relation to attitude toward merger	Attitudes toward merger tend to be unfavourable. Favourable attitudes related to older age, lack of previous success in organisation, high morale and high authoritarianism
Shirley (1973)	90 physicians and 694 employees in 8 hospitals	(1) confidence in management, (2) degree of involvement, (3) job satisfaction, (4) anticipated benefits, (5) age, and (5) length of service in relation to attitudes toward merger	Find that confidence in management, satisfaction with pay and working conditions prior to the merger, personal benefits anticipated from the merger and age are significantly related to favourable attitudes for employees. Degree of involvement positively related to favourable attitudes for physicians. No significant relation between degree of involvement and length of service for employees
Shirley (1977)	1700 employees in 8 hospitals	(1) personal benefits, (2) trust and (3) involvement in relation to initial attitude toward a merger and attitude toward job changes	Anticipated personal benefits, trust in management and degree of involvement positively and significantly related to favourable initial attitude. Amount of felt involvement positively and significantly related to favourable attitudes toward job changes. (Other findings difficult to report due to insufficient reporting of results)
Halvorsen (1985)	One merger	Turnover, latent turnover, and absence in high and low status organisations	Found that turnover, latent turnover and absence is higher in low status organisation (no statistical tests were performed)
Davy et al. (1988)	135 respondents in one acquisition 2 surveys	Changes in communications programme in relation to changes in employee attitudes and intentions measured in terms of (1) job insecurity, (2) lack of personal control, (3) organisational commitment, (4) job satisfaction, (5) distraction, (6) competitive, (7) guilt, (8) intent to leave, (9) intent to be absent, (10) individual performance	Found that employee attitudes and intentions were negatively affected when management discontinued the communication programme
Buono and Bowditch (1989)	90 respondents in a bank merger	Pre-and post-merger attitudes for leavers in terms of organisational commitment, job-related issues, management of integration, compensation and job security and advancement	Large significant differences between pre-and post-merger attitudes
Davy et al. (1989)	60 respondents in one organisation 4 surveys	Carrying out layoffs in relation to changes in attitudes and behaviour in terms of (1) job security, (2) organisational commitment, (3) job satisfaction, (4) intention to leave, (4) level of competitiveness	Lowest level of job security found prior to any actual layoffs and after announcement in changes in health benefits. Steady decline in organisational commitment, job satisfaction, and significant increase in intent to leave the company. Increased level of competition corresponding with the period when the greatest number of layoffs were taking place (no statistical tests were performed)
Larsson (1991)	55 case studies	Attributed hostility in relation to employee resistance	Found that the more attributed hostility the more employee resistance

Table 2.2 cont.			
Rentsch and Schneider (1991)	252 MBA students as respondents	Relative size and motive for combining in relation to exceptions in terms of (1) morale/ identity, (2) job security, (3) power, (4) autonomy, (5) career	Individuals in smaller organisation conditions had significantly lower expectations in terms of power, autonomy and job security than those in larger or equal sized conditions. Expectations in terms of job security, power and career were higher when the motive was growth than when the motive was survival. No significant findings with respect to morale and identity
Schweiger and DeNisi (1991)	75 and 72 respondents in two plants	Announcement of merger and institution of realistic merger previews in relation to (1) global stress, (2) perceived uncertainty, (3) job satisfaction, (4) organisational commitment, (5) trustworthiness, honesty and caring, (6) intentions to remain, (7) individual performance, and (8) absenteeism	Found that the announcement of the merger had deleterious effect in both plants. Effect on outcomes was different in the two plants. At the experimental plant the employees were significantly lower on perceived uncertainty and significantly higher on job satisfaction, commitment and perceptions of the company's trustworthiness, honesty and caring. The realistic merger preview appeared to stabilise the level of dysfunctional outcomes, and this effect continued over time
Shanley and Correa (1992)	Hospital acquisition 73 respondents	Perceived agreement, actual agreement, accuracy, internal agreement, involvement, organisation, profession and tasks in relation to success expectations	Significant effects found for tasks and involvement. Different aspects of agreement significantly associated with success expectations, although not consistently across different aspects of agreement.
Cartwright and Cooper (1993b)	1 merger 157 respondents	Job satisfaction, stress and mental well being	No evidence was found to support that the merger had adversely effected overall levels of job satisfaction Merger experienced more stressful for managers in the smaller company Work overload found to be the major source of stress Mental well-being of managers in smaller company more adversely affected by the merger
Gutknecht and Keys (1993)	3 cases of acquired companies 400 respondents	Perceived changes in morale in the face of perceived changes in workload, job satisfaction, opportunities for advancement, company productivity, and retention of job security	Found that the perceived change in productivity correlated with perceived improvement in job responsibilities. Attributes improved job satisfaction and company performance to fortuitous job redesign changes. Insufficient reporting of findings.

A number of authors have suggested that the management turnover rate in companies that have undergone a merger or acquisition is higher than in companies that have not been involved in such combinations. The literature on management turnover and retention is of particular interest. This is probably the outcome variable that has been most thoroughly tested in the organisational stream of merger and acquisition literature. Contributions have focused on both the reasons for, and the implications of, management turnover.

Research has suggested a number of factors that influence management turnover, including type of merger or acquisition (Hayes, 1979; Walsh, 1988,1989; Hambrick and Cannella, 1993), degree of friendliness (Walsh, 1989; Hambrick and Cannella, 1993), target company's performance in the pre-acquisition phase and relative to the acquirerer, relative size, whether the combination is a merger or tender offer and status bestowal (Hayes and Hoag, 1984; Walsh, 1989; Walsh and Ellwood, 1991; Hambrick and Cannella, 1993), organisational fit (Hayes, 1979; Siel and Smith, 1990), integration strategy (Siel and Smith, 1990; Siel and Smith and Omura, 1990), autonomy (Hayes, 1979; Hayes and Hoag, 1984; Siel and Smith, 1990) and management of the merger process (Chakrabarti, 1990). The studies that have empirically tested features relating to executive departures are summarised in Table 2.3 below.

Table 2.3. Studies of Executive Departures

Authors	Sample	Features studied	Findings
Hayes and Hoag (1984)	200 acquisitions	(1) degree of autonomy, (2) acquired management performance, (3) compensation, (4) financial independence and (5) contracts in relation to retention of acquired top management	Turnover negatively related to degree of autonomy and to performance of acquired company. No reported relationship between turnover and either financial independence or employee contracts (no statistical tests were performed)
Walsh (1988)	55 acquired companies and 30 control companies	(1) acquired and control companies and (2) type of combination in relation to target company top management turnover in first five years	Found that turnover was significantly higher in the sample of acquired companies than in the sample of control companies. No significant differences in turnover rates in relation to type of combination
Walsh (1989)	113 acquired companies	(1) type of combination, (2) relative size, (3) tender offer or merger, (4) degree of friendliness in relation to target company top management turnover in first five years	Confirms earlier study of high turnover rates following mergers and acquisitions. Turnover found to be positively related to relative size. Turnover higher in tender offers than in mergers, in hostile combinations and in unrelated than related.
Walsh and Ellwood (1991)	102 target companies, 77 parent companies, 75 control companies	(1) target, parent and control companies, (2) pre-acquisition stock performance in target in relation to target company top management turnover in first five years	Found that turnover among top managers in a target firm in the 2 years after a merger or acquisition is much higher than normal. The target company's past performance history did not relate to post-acquisition management turnover.
Hambrick and Cannella (1993)	97 acquired firms	(1) target pre acquisition performance, (2) target pre acquisition performance relative to parent, (3) relative size, (4) degree of friendliness, (5) degree of autonomy, (6) status bestowal, (7) age and (8) relatedness in relation to acquired executive propensity to depart	Found that two year executive departure was negatively associated with acquired firms' pre-acquisition performance, and even more so with their performance relative to their acquirer's. Degree of friendliness negatively associated with executive departure. Executives that were personally granted status were less likely to depart, but those who were indirectly granted status were more likely to depart. Neither the relative size, nor the degree of relatedness showed a simple correlation with executive departure. Age was positively related to executive departure.

The strength of the studies on top management turnover lies in its quantitative tradition. The focus on these studies has been mainly to relate various contextual factors to top management turnover. The only integration feature that has been included is degree of autonomy. Another weakness is the concentration on top management. Although many authors suggest that management departure rates relate to post-acquisition performance, very few have examined this relationship empirically (Cannella and Hambrick, 1993; Hayes and Hoag, 1984). Findings from these studies are reported in section 2.2.4 below.

Combination success

The organisational stream of literature written by practitioners and consultants often referred to poor merger and acquisition performance records to justify the organisational approach to the research problem. An example of a typical statement is:

> A decade of study of ten mergers by Arthur Lewis estimated that 80 % failed to live up to projections made for them in feasibility studies. This level of outright failure suggests that the dynamics of bringing two into one need to be far better understood than they are at the present time (Blake and Mounton, 1985, p. 41)

Several studies within this stream use concepts such as merger or acquisition success or failure as their outcome variable without specifying what is meant by success or failure, and further how this can be assessed. Two contributions that have tried to elaborate the success variable in some detail are Graves (1981) and Hunt et al. (1987).

By asking the respondents in what respect the merger had been successful or unsuccessful, Graves (1981) sought to elaborate the on the term success. He grouped the characteristics of organisational success into larger, more efficient, satisfying, similar and smooth (little or no friction and no loss of staff). The most important attribute of personal success was increased job satisfaction. The reasons for success or failure were grouped in four categories; planning, reducing anxiety, merging and evaluating the merger.

Hunt et al. (1987) argued that success must be assessed relative to the particular circumstances prevailing in each acquisition at the time of study and according to the criteria used in the interviews. The rate of success of combinations was assessed using five indicators: (1) Was the acquisition a success from a business perspective ? (2) Was the implementation handled successfully ? (3) Is the acquired business in better shape than before purchase ? (4) Does the acquired business have better prospects than before purchase ? and (5) With the benefit of hindsight, would you go through with it again ?

Of their sample of 80 acquisitions Hunt et al. (1987) found that 55 percent of the acquisitions were successful or very successful, and 45 percent were not-so-successful or unsuccessful. Of seven contextual factors only condition of seller and the thoroughness of auditing process seemed to contribute to success. Hunt et al. (1987) also found that success was highly correlated with how the implementation was handled.

Haspeslagh and Jemison's (1991b, 1994) work is interesting in the sense that they use competitive advantage as their outcome variable and thus draw upon a well-established concept in the literature on strategic management. However, the focus in their studies has been on the transfer of capabilities leading to improved competitive advantage rather than elaboration on how improved competitive advantage can be assessed in mergers and acquisitions. Haspeslagh and Farquar's (1994) contribution takes this work a step further by distinguishing between high and low performance acquisitions. However, the article does not mention how performance was assessed.

Most studies using combination success as their outcome variable fail to specify what they mean by success and how this feature has been assessed. This is particularly the case for many of the practitioner-oriented papers. Hence there is a need for research that can elaborate this term for theory development and testing.

Cultural outcomes

There seems to be two ways to assess cultural outcome. The first is to look at the cultural outcome and trace the former cultures. Buono, Bowditch and Lewis (1985) concluded that the emerging culture of the new organisation in terms of its subjective interpretations and objective artefacts and symbols more closely resembled former Bank B than Bank A. A post-merger climate survey and responses to merger-related survey questions revealed that former Bank B employees felt significantly less alienated and less negative after the merger than did former Bank A members. Furthermore, the most visible aspects of the new institution were either taken from Bank B or a hybrid of the two organisations.

Pedersen (1991) explored to what extent the cultural patterns of the two pre-merger firms could explain post-merger cultural outcome. This was done by looking for post-merger cultural dominance, i.e. whether the emergent cultural pattern could be understood as a continuation of the past, and whether one of the two former cultures dominated the other.

The other way to assess cultural outcome is to look at the degree of achieved cultural integration. Burke and Jackson (1991) say that although their data is anecdotal and impressionistic, the observations that hardly anyone mentioned the former organisations and seemed to keep a score of whether an appointment or a promotion was from one or the other of the former organisations, were taken as an indication of a true merger.

In a study of a building society acquisition, Cartwright and Cooper (1993b) found no significant differences between the mean scores of the managerial groups in their assessments of the "new" culture of the merged organisation and the direction of which it had changed. That members in both partnering organisations presented consistent views of post-merger culture, was taken as an indication that a "new" coherent culture had developed, which was experienced as being different from the existing cultures of both organisations.

The literature focusing on cultural outcomes of mergers and acquisitions is not very well developed in the sense of a coherent concept being developed and tested. As for the success variable, contributions often refer phrases such as making one from two (Blumberg and Wiener, 1971; Blake and Mounton, 1983), spirit of unity (Jones, 1982), creating a viable new organisation, establishing a cohesive entity and development of sense of unity (Ollie, 1994) without elaborating on what is actually meant by these concepts and how they can be assessed. The concept that seems to have been developed furthest in the literature is acculturation. Since this literature is mainly focused on acculturation as a process, it will be discussed in section 2.2.5.

Summary

Comparing the research using employee reactions, combination success and cultural outcome as their dependent variables, the former is the area that has come the furthest in terms of theoretical development and testing. Research has been biased towards relating contextual features to employee reactions, and few studies have studied the influence of integration features. As for combination success and cultural outcome, these are both concepts that need to be further examined in future explorative research.

2.2.4 Financial Performance

Few studies within the field of merger and acquisition implementation have used financial performance as their outcome variable. There are some exceptions though, and these will be discussed subsequently. The studies have related financial performance to strategic objective, relative size, cultural fit, autonomy and top management turnover.

One of the earliest studies within the field of mergers and acquisition implementation which related contextual and managerial factors to success was Kitching (1967). Kitching asked the respondents to give a qualitative assessment of the success or failure of the acquisition program assessed against the original strategy. To cross-check managers' subjective judgement on acquisition success, Kitching focused on the financial results actually obtained compared with the forecasts before the merger. Kitching found that success was related to type of combination, relative size and disturbances in organisational format (reporting relationships established or extent of autonomy allowed).

Chakrabarti (1990) used perceptual rating of performance defined according to a number of dimensions such as growth in sales, profit, return on investment, market share, expansion of customer base and technological and commercial innovation. Strategic objectives and relatedness between the firms were not found to correlate with post-acquisition performance. Organisational fit defined as the quality of the state of collaboration between the organisational units, were strongly related to the performance of the acquired division. Both quality and quantity of information transferred between the division and other parts of the corporation were positively related to performance.

Datta and Grant (1990) measured acquisition success by asking the respondents for their assessment of the impact of the acquisition on five performance criteria; return on investment, earnings per share, stock price, cash flow and sales growth. Datta and Grant found support for their hypothesis that the extent of autonomy given to the acquired firm in unrelated acquisitions will be positively related to post-acquisition success. Though in the predicted direction they failed to find any significant correlation between autonomy and performance in related acquisitions.

Datta (1991) measured acquisition performance by asking the respondents for their assessments of the extent to which the acquisition was able to achieve prior expectations in terms of its impact on the performance of the acquiring firm. Datta found support for a negative relationship between differences in top management styles and performance. A negative relationship was found both in high and low level post-acquisition integration. Differences in reward and evaluation systems were not found to relate to performance.

Chatterjee et al. (1992) found that the capital market's perception of the earnings' impact of a related merger was associated with the acquired managers′ perception of cultural differences between their top management team and that of the acquiring firm. The authors also found that the change in shareholder value in related mergers was directly related to the degree to which the buyer's top management team tolerated multiculturism.

Hayes and Hoag (1984) used a perception measure of performance and asked respondents to report if the performance was better than, equal to or worse than before the acquisition. They found that the executives′ assessment of performance was strongly influenced by whether they had left or remained with the company.

Datta and Ellwood (1991) used equity prices to assess financial performance and predicted that if the gains to follow an acquisition were linked to the anticipation of "pruning of managerial deadwood", then the market reaction to the acquisition would vary positively with the subsequent top management turnover. However, the data gave no support to this hypothesis.

Canella and Hambrick (1993) used expert informants (executives and security analysts) to measure financial performance. They found that executive departure was significantly and negatively related to performance and that departure among more senior executives was more strongly correlated with post-acquisition performance than with pre-acquisition performance. They also found that pre-acquisition performance was completely uncorrelated with either pre-acquisition performance or pre acquisition return on investment. This implies, according to the authors, that acquisitions are very disruptive to the ongoing strategies of acquired firms, leading to large performance discontinuity.

The difficulties of measuring financial performance seem to have resulted in more extensive use of subjective, perceptual measures. Few studies seem to combine the two approaches. Since Kitching's (1967) path-breaking study nearly twenty years ago, the research testing features of integration in relation to financial performance has not come much further. The research is still dominated by a focus on contextual factors, though new, more human-related contextual factors such as organisational fit have been added. Although this research has been top management centred, it seems to confirm the importance of assessing the organisational fit before the merger or acquisition takes place. Datta and Ellwood (1991) and Hambrick and Cannella's (1993) studies of executive departure are particularly interesting, challenging established theories in the field of financial economics.

2.2.5 Process

Merger and acquisition processes is clearly an area where more research is needed, in particular to study the effects of changes over time. Three areas seem to be apparent when reviewing the work on process; stages of, and tasks in, merger and acquisition processes, pace of change, and cultural change.

Stages of, and tasks in, merger and acquisition processes

Research has indicated that mergers and acquisitions tend to follow a fairly predictable sequence of events (Buono and Bowditch, 1989). Ivancevich, Schweiger and Power (1987) say that the unfolding of stages is like peeling an onion. Each layer is a lot like the previous, but there are some distinct differences.

The broadest categorisation is to divide the combination process into three parts; pre-combination, closing and post-combination (Marks, 1982; Marks and Cutcliffe, 1988; Schweiger and Walsh, 1990; Somers and Bird, 1990). Other authors have used four stage models (Cox, 1981; Ivancevich, Schweiger and Power, 1987, Cartwright and Cooper, 1992), five stage models (Birch, 1983) and seven stage models (McCann and Gilkey, 1988; Buono and Bowditch, 1989). One contribution which explore these stages in depth is Buono and Bowditch (1989).

Buono and Bowditch (1989) divide the combination process into seven stages. In the first phase, the pre-combination, the respective organisations are relatively stable. Stage two, the combination planning, is characterised by increasing environmental uncertainty, but the firm is still relatively stable and discussions are confined to top management level. When the combination is announced, stage three, the environmental uncertainties continue to increase and influence the members of the organisation' expectations. In the initial combination process, stage four, the organisational instability increases, characterised by structural ambiguity and some cultural and role ambiguity. As the process evolves into the formal physical and legal combination, stage five, the organisational instability increases as structural, cultural and role ambiguities evolve, and conflict between members of the organisation increases. In the sixth stage, the combination aftermath, the structural ambiguity decreases, but cultural and role ambiguity remain highly characterised by lack of co-operation and "them/us " mentality. Finally, in the seventh stage, the psychological combination, the ambiguities are clarified, expectations revised and organisational stability recurs.

One interesting contribution which looks at the evolving process through the different tasks involved, is Shrivastava (1986). He identifies three types of post-merger integration: (1) procedural integration, (2) physical integration, and (3) managerial and socio-cultural integration.

Procedural integration involves combining the systems and procedures of the merged companies at the operational, management control, and strategic planning levels. Physical integration of resources and assets usually accompanies procedural integration and involves the consolidation of product lines, production technologies, R&D projects, plant and equipment, and real estate assets.

Managerial and socio-cultural integration involves a complex combination of issues related to the selection or transfer of managers, the changes in organisational structure, the development of a consistent corporate culture, and a frame of reference to guide strategic decision-making, the gaining of commitment and motivation from personnel, and establishment of new leadership.

The division of mergers and acquisitions into a number of stages is useful when describing the evolving process. However, there is little consistency among the contributors concerning the number of stages, and few build upon the work of other contributors. Buono and Bowditch's (1989) and Shrivastava's (1986) contributions are particularly interesting because they focus on the socio-cultural or psychological combination. Unfortunately, the tendency in the literature has been to assess the effects after a relatively short period of time. Few go beyond two years, many focus on the first months or year of transition. Hence there is a need for research which examines the integration of the companies over a longer period of time.

Timing change

There are two basic schools of thought when it comes to the timing of changes in merger and acquisition processes (Searby, 1967; Jones, 1982; Robino and DeMeuse, 1985; Buono and Bowditch, 1989; Business International, 1992; Schweiger, Csiszar and Napier, 1993 and 1994). The first suggests that the changes should be made as quickly as possible to minimise the employee trauma associated with prolonged uncertainty and insecurity. Authors in favour of this school have argued that immediately after the merger there is a period when people in the new organisation expect and perhaps even want change.

The second school of though suggests that a longer time scale should be employed, and the firms should study and learn as much about each other as possible before changes are designed and undertaken. Slow change will enable the two cultures to adjust to each other, rather than clash right from the start. Moreover, it may be wise to hold off some controversial changes such as re-organisations and re-allocations. By attempting to change too much too fast, companies often "shoot themselves in the foot" (Yunker, 1983).

However, management has not total control over the timing of changes, as other factors impinge upon it (Schweiger et al., 1993). First of all, the size of an acquisition and performance commitments made by a buying firm's management to stockholders and bankers may influence the process. Secondly, the change process is often incremental and experimental as the combinating partners learn about each other (Schweiger et al., 1992).

One interesting study which seems to confirm the notion that the combination process is only weakly linked to the planning process is Shanley (1994). Shanley links pre-acquisition factors; planning intensity, acquirer's experience, acquirer's size and acquired firm's performance to post acquisition changes. He finds that planning intensity and target performance problems are significantly and negatively related to major changes.

The timing of changes is also likely to be influenced by the integration design (Haspeslagh and Jemison, 1991b, 1994). In symbiosis combinations, for example, where there is a high degree of strategic interdependence and need for organisational autonomy, the degree of integration is expected to evolve over time.

As the above discussion of the two schools of thought has revealed, the research has been inconclusive in this area. The notion of the combination process as an evolving, not fully controllable process, seems to be receiving increasing support in the literature. However, it seems reasonable to assume that some mergers and acquisitions will be easier to plan and predict than others. Hence there is a need for research that explores under which conditions the two schools of thought are most likely to prevail.

Cultural change

Cultural change in mergers and acquisitions is compounded by the additional uncertainties, ambiguities and stress inherent in the combination process (Buono and Bowditch, 1989). Sales and Mirvis (1984) examine the collision of cultures through three generic processes; threat to culture, cross cultural contact and acculturation. It has been argued that organisational integration can lead to sharp inter-organisational conflict as the different top management styles, organisational and work unit cultures, systems and other aspects of organisational life come into contact (Blake and Mounton, 1983; Sales and Mirvis, 1984; Schweiger and Walsh, 1990; Kleppestø, 1993; Cartwright and Cooper, 1993b). Sales and Mirvis (1984) describe this development of inter-organisational conflict in the form of three cognitive processes; polarisation, evaluation and ethnocentrism.

Acculturation is the stage that seems to have received most attention in the literature. Acculturation has been defined as "changes induced in (two cultural) systems as a result of diffusion of elements in both directions. This process involves mutual influence of two autonomous systems and occurs at the group and individual levels in the three stages of contact, conflict and adaptation" (Nahavandi and Malekzadeh, 1988, p. 81 and 1994, p. 294). As mentioned above, acculturation seems to embody policy, process and outcome at the same time.

Nahavandi and Malekzadeh (1988, 1994) propose four modes of acculturation based upon Berry's (1984) framework. These modes define ways in which the two groups adapt to each other and resolve emergent conflict. Integration involves a relatively balanced give-and-take of cultural and managerial practices between the merging parties and no strong imposition of cultural change in either company. When integration occurs, the culture of both firms is preserved. In assimilations one organisation dominates the other. This domination is not forced, but rather welcomed by the acquired organisation. In separations two companies remain separate with limited managerial and cultural exchanges. Deculturation is the most destructive and, according to the authors, the most common method. It involves cultural disintegration of one group due to unwanted and extreme pressure from another to impose its culture and practices.

Contributors who have focused on acculturation processes have suggested that acculturation will be influenced by different aspects of culture and (1) relatedness of the merging parties, (2) congruence of preferred mode, (3) power differences, (4) organisational integration and (5) socialisation efforts. Different aspects of culture include the acquiring company's preservation of own culture, the degree to which the acquiring firm is multicultural, cultural distance and impact, and cultural differentiation.

Relatedness of the merging parties and congruence of preferred mode. Nahavandi and Malekzadeh (1988 and 1994) and Malekzadeh and Nahavandi (1990) say that the course of acculturation depends on the way in which the acquirer and the acquired company approach the implementation of the merger. From the acquired company's point of view the degree to which members value preservation of their own culture and the strength of the culture will determine their preferred mode of acculturation. In the case of the acquirer, the degree to which the firm is multicultural, the type of leadership and structure and the degree of relatedness will determine the degree of acculturation.

The success of a merger will to a great extent depend on the two organisations agreeing on which mode should be implemented. When the two organisations agree on the mode, less stress and conflict ensue, and organisational resistance is decreased. Over time the two merging parties may each move from one acculturation mode to another, changing the degree of congruence between the parties′ preferred modes. Thus, acculturation is not a static event, but a dynamic process.

Power differences. Sales and Mirvis (1984) say that acculturation following an acquisition is often marked by conflict for three reasons. One is the power differential which raises the question as to whether the acquired company is allowed to choose how to accommodate and relate to the acquirer. The other aspect is that it involves a unidirectional flow of cultural elements from the dominant group, and this raises the question of whether the acquired group has a positive relationship with its owner. Thirdly, it involves resistance on the part of the subdominant group, or rather the question of whether the acquired group is allowed to retain its identity.

According to David and Singh (1993), power differential or asymmetry is present in all acquisition transactions, even in mergers of "equals". A related concept to power asymmetry is relative deprivation. David and Singh say that whereas power asymmetry only represents a potential for non-compliance, relative deprivation refers to the threat to effective integration of post acquisition activities due to a social mobilisation of non-compliant behaviour.

In line with power asymmetry cultural distance can pose potential problems for all co-ordinated activity. Cultural impact refers to the threat to effective integration of post-acquisition activities due to imperfectly shared meanings. Together with relative deprivation, cultural impact constitutes the process of acculturation risk.

David and Singh suggest three different processes of bridging the cultural distances. One process is through inter-organisational learning where the cultural diversity is enlisted, another process is cultural imposition where the cultural diversity is eliminated. The third process is a result of an unspecified cultural policy of the acquiring firm.

Organisational integration. Elsass and Veiga (1994) view acculturation as a dynamic tension between the processes of cultural differentiation and organisational integration. The forces of cultural differentiation are the perception of differences and structure of inter group relationships, whereas the forces of organisational integration are acquisition motive and implementation processes.

Socialisation efforts. Larsson (1990, 1991) suggests a more positive and limited definition of acculturation as the development of jointly shared meanings fostering co-operation among between the joining firms. Larsson (1989, 1991) finds that acculturation is strongly positively related to socialisation efforts, and negatively related to cultural conflict. Moreover he finds that international mergers and acquisitions have lower acculturation than domestic combinations.

Although the underlying assumption in many of these contributions is that organisational performance following an acquisition is directly and positively related to a lack of conflict, few studies have examined this relationship. Elsass and Veiga (1994) suggest that organisational performance can be considered both an outcome of the acculturative process and an input into the forces of cultural differentiation and organisational integration. As an outcome, performance is inversely related to the level of acculturative conflict within the organisation. As an input the authors suggest that the forces of cultural differentiation will be strongly enhanced under conditions of poor organisational performance, and that performance improvements may be attributed to one's own group and performance declines to the out-group.

The research on acculturation is one of the most interesting areas in the organisational field of mergers and acquisitions in terms of its development of theory and borrowing from other fields. However, it is still an area in its infancy, dominated by inductive studies that produce their own interpretations of the process.

Summary

The research on merger and acquisition processes is a fairly new area in the organisational field of mergers and acquisitions, and hence there is a substantial need for empirical, longitudinal research. Of the three areas discussed above; stages and tasks, timing change and cultural change, the latter seems to have been the most fruitful. Most recent contributions are theoretical drawing from other fields of research. Although the potential of borrowing from other fields is far from exhausted, there is also a need for empirical research that can test, build upon and further explore the theoretical propositions.

2.3 CONCLUSIONS AND POSITIONING OF STUDY

This review has sought to identify the features and factors studied in the area of merger and acquisition implementation, and to investigate the links between contextual factors, features of integration, individual, organisational and cultural outcomes, financial performance and process.

As previously mentioned, the organisational stream of research on mergers and acquisitions is still in its infancy and has, as the review has demonstrated, been dominated by explorative and inductive studies. The focus of these studies has been primarily to identify factors and features for investigation rather than proposing links to other features, studying the evolving processes and testing hypothesis. The purpose of this review has been to organise these various concepts into a comprehensive framework, and to show where there is a need for future research.

There seems to be reasonable agreement among researchers in the field that future research should be directed in two ways. First, the research should be extended beyond the descriptive to the quantitative (Cartwright and Cooper, 1990). The theoretical propositions put forward in recent contributions need to be tested, and this would involve using larger samples within and across industries (Napier, 1989). Thus survey research or other large-sample research can relate the incidence of particular attributes of the two firms (such as compatibility of incentive systems and organisational structure) to post-acquisition outcome (David and Singh, 1993).

Secondly, researchers have suggested that there is a need for longitudinal field studies examining the cultural dynamics and employee responses to cultural change over time

(Cartwright and Cooper, 1993) and the management of implementation (Datta, 1991). David and Singh (1993) say that extensive case studies can highlight the sequence and choice of post-acquisition management techniques used in particularly successful or unsuccessful acquisitions.

This thesis will be concentrated on the second part. The main reason for this approach lies in my choice to study the process of organisational integration. As this review has revealed, this is an area that is not very well understood in the organisational stream of merger and acquisition literature. Before I can test how other features would relate to this outcome, I have to elaborate on this concept and suggest how this outcome can be assessed. Moreover, many of the features that were expected to influence the outcome variable need to be further investigated. Third, the most appropriate approach of studying the process of organisational integration seems to be a longitudinal depth study. This is further discussed in chapter six

In the forthcoming chapter I will use the proposed framework as a point of departure. I will start by outlining my choice of outcome variable. Then I will discuss the selection of cases. Based upon the review of the organisational stream of merger and acquisition literature, the choice of outcome variable and the selection of cases, I outline the model for empirical research.

Chapter 3:
Development of model

This chapter will be divided into six parts. The first section deals with the choice of outcome variable, which is organisational integration. Then, I explore the state, process and dimensions of organisational integration. These dimensions include integration of tasks, unification of power and integration of identification and cultures. The next two sections justify the selection of cases and outline the model for the empirical studies. Finally, the content of the chapter is summarised.

3.1. CHOICE OF OUTCOME VARIABLE

In chapter two I mentioned four categories of outcome variables; employee reactions, combination success, cultural outcome and financial performance. Use of financial performance as outcome variable would have several problems in my study. First, accounting and market measures are often strongly influenced by exogenous variables, and isolating the merger or acquisition from other events therefore becomes very difficult (Datta and Grant, 1990). Due to the banking crisis and the recession in the Norwegian economy in the late 1980s and the early 1990s, this is a particular valid problem in the study of the bank merger. The improvement in the merged bank's performance was inevitable as the banking crisis subsided and the economy recovered. Disentangling the effects of the merger from the impact of the crisis in the financial sector is therefore an almost impossible task in this particular case.

Secondly, abnormal gain or wealth effects to stockholders as a result of an acquisition or merger announcement or consummation, merely reflects performance expectations, not actual outcomes (ibid). Thus strategy theorists have been less persuaded that the immediate stock market reactions provide a good measure of ultimate ex post performance (Cannella and Hambrick, 1993).

Recent research (Chatterjee et al., 1992) has found that investors do appear to consider human related contextual factors such as cultural fit when valuing a merger. However, since the event studies focus on the immediate shareholder wealth effects, factors and features that are associated with the post-combination process are neglected in this stream of research. Furthermore, the event studies assume that the future is predictable. Thus they do not take into account that the change process is often incremental and experimental as the combination partners learn about each other (Schweiger, Csiszar and Napier, 1993), or that it is virtually impossible for managers to specify every integration decision prior to or even just after the closing (Schweiger, Ridley and Marini, 1992).

Use of stock market performance would also restrict the sample of mergers and acquisitions to companies listed on the stock exchange. This would be a particular problem for the combination in the insurance industry, where the acquiring firm was a mutual company.

Perceptual measures where respondents are asked to rate performance, have the advantage over strictly mathematical formulae in that they overcome the difficulties of combining historically different accounting procedures and practices (Cartwright and Cooper, 1992). However, perceptual measures do have the disadvantage of being subjective and are more unreliable than accounting measures. Hayes and Hoag (1984) for example, found that executives' assessments of performance were strongly influenced by whether they had left or remained with the company. Moreover, it is reasonable to believe that the informants will experience the same problems of disentangling the merger or acquisition from other events as in the case of other performance measures.

Because of the many difficulties and problems associated with the use of financial performance in my study of mergers and acquisitions, other outcome variables should be considered. Employee reactions, success and cultural outcome are all intermediate outcome variables, and as such it is necessary to relate these outcomes to financial performance. One advantage of using intermediate outcomes is that it brings the employees as stakeholders into consideration. This adds to the financial economics perspective that views the shareholder as the pre-eminent stakeholder. Furthermore, it adds to the the industrial economics perspective that focuses on the implications for the society as a whole.

Though not empirically tested, the research on employee reactions predicts that dysfunctional outcomes are harmful to financial performance. However, for outcomes such as turnover the relationship to performance is less clear cut. In horizontal combinations voluntary turnover may be one of the ways of realising efficiency gains, and as such it may be positively related to performance. On the other hand, research also suggests that the departure of acquired executives and other key employees is disruptive and negatively related to post acquisition performance (Cannella and Hambrick, 1993).

As for the accounting and market measures it seems reasonable to assume that employee reactions such as turnover, absenteeism and intention to quit, will be influenced by exogenous variables such as economic climate. One would for example expect less voluntary turnover and more lay-offs in recessions than in periods of economic growth. Thus in studies where the impact of economic climate cannot be controlled, isolating the effects of the merger and the environmental impact will be an almost impossible task.

Apart from the research on executive departure, few studies on employee reactions have, as mentioned above, examined the same set of factors or applied the same methodology. Many studies suffer from insufficient reporting and lack of statistical tests. Taking the existing research on employee reactions into consideration, I would suggest that there is a need for quantitative studies testing consistent sets of features and factors in relation to these outcomes within and across different mergers and acquisitions. Moreover, surveys of employee reactions can be useful when used in combination with other data collection methods.

Regarding the third outcome variable, combination success, most studies using combination success as their outcome variable fail to specify what they mean by success and how this feature has been assessed. In my view, this concept is too vague and inspecified to be used in my study.

Unfortunately, as is the case with combination success, the literature focusing on cultural outcomes of mergers and acquisitions is not very well developed in the sense of a coherent concept being developed and tested. Contributions often employ phrases such as making one from two (Blumberg and Wiener, 1971; Blake and Mounton, 1983), spirit of unity (Jones, 1982), creating a viable new organisation, establishing a cohesive entity and development of sense of unity (Ollie, 1994) without elaborating on what is actually meant by these concepts and how they can be assessed.

However, since a primary objective of this dissertation is to study how merger and acquisition processes evolve over time, attention is directed to the process features discussed in chapter two. In particular it is desirable to choose an outcome variable that can reflect the on-going process as well as the state of the combination.

The discussion on process in chapter two was divided into three parts. These included stages of and tasks in merger and acquisition processes, timing change and cultural change. Since the requirement is that the variable should reflect both the state and the process, stages in the process and timing change are excluded. The variable discussed in the section on process that best seems to fit my requirements is organisational integration.

Besides being an important feature in the merger and acquisition literature, organisational integration is a factor often mentioned in the interviews which this study relies upon. Moreover, the process of integration will be especially important in horizontal combinations where the two companies are closely related in products and markets and where the realisation of efficiency gains is often dependent on the elimination or absorption of activities.

The two contributions in the section on process that treat the concept of integration in some depth are Shrivastava (1986) (tasks in merger and acquisition processes) and Elsass and Veiga (1994) (cultural change).

In line with the literature on cultural outcome, Shrivastava (1986) argues that the primary problem in effectively managing merged firms is integrating them into a single unit. In contrast to the literature on cultural outcomes and cultural change, Shrivastava focuses on post-merger integration at several levels, including integration of procedures, physical assets and cultures.

While Shrivastava looks at the integration process in mergers and acquisitions in particular, Elsass and Veiga (1994) focus on the concept of organisational integration defined as the organisational need for cultural groups to work together. However, in line with other literature on cultural change, Elsass and Veiga limit their attention to cultural integration. I intend to combine Shrivastava's (1986) and Elsass and Veiga's approaches.

Following Elsass and Veiga I intend to focus on the concept of organisational integration, using mergers and acquisitions as the context for studying the phenomenon. Moreover, in line with Shrivastava (1986) I wish to focus on more than one dimension of organisational integration.

According to Lawrence and Lorsch (1967) organisational integration can be defined as "the state of collaboration that exists among departments that are required to achieve unity of effort by the demands of the environment" (p. 11). Elsass and Veiga use Lawrence and Lorsch's (1967) description of organisational integration as their point of departure, but argue that in addition to the interdepartmental integration, organisational integration in mergers and acquisitions also include organisation-wide cultural integration, smaller intradepartmental sub-groups and individual integration.

While Lawrence and Lorsch use the term integration primarily to refer to the state of interdepartmental relationships, they also use it to describe the process by which this state is achieved and the organisational devices used to achieve it. The latter aspect of organisational integration, is further elaborated in Galbraith (1973) and Mintzberg (1979) (see Larsson (1990) for an extensive discussion of the literature on co-ordination).

I will argue that the use of organisational devices influences the state of organisational integration, and therefore should be separated from the concept of organisational integration. Organisational devices correspond to the features of integration in my model.

Thus, I will limit the definition of organisational integration to include the state of intraorganisational relationships as defined by Elsass and Veiga (1994) and the process by which this state is achieved.

I will now turn to the discussion of how state and process can be assessed in my dissertation and which dimensions to include in the concept of organisational integration.

3.2 STATE, PROCESS, AND DIMENSIONS IN ORGANISATIONAL INTEGRATION

State. To assess the state of organisational integration, I intend to examine the degree of organisational integration at different stages in the merger and acquisition process. In particular I will assess whether the state of organisational integration can be characterised as low, middle or high.

It is often argued that the socio-cultural integration takes the longest time to achieve (Shrivastava, 1986, Buono and Bowditch, 1989). In fact, some argue that in some combinations cultural integration may never occur (Shrivastava, 1986; Cartwright and Cooper, 1992). Integrating tasks on the other hand, is often viewed as a less complicated and time-consuming process. This implies that the time it will take to achieve integration will differ according to the various dimensions (see discussion of dimension below).

The various dimensions are also likely to differ according to the ease with which one can assess the achievement of integration. The integration of tasks is relatively easy to assess compared to cultural integration. As one moves from task to cultural integration, the assessment will be more and more subject to the perceptions of the members of the organisation.

Process. When it comes to how organisational integration can be achieved, the literature on integration options and acculturation mentions a number of typologies that can be applied. Since the focus of this thesis is to study combinations where integration in all three dimensions is an objective, the various categories reflecting preservation of the two organisations will not be included. Furthermore, the categories that imply only structural integration, and hence retainment of the organisational identities and cultures, will be excluded.

Using Schweiger et al.'s (1993, 1994) typology for integration options, organisational integration can be achieved through assimilation or novation. Assimilation is a form mentioned by many authors (Haspelaph and Jemison, 1991b; Mirvis and Marks, 1992; Nahavandi and Malekzadeh, 1988, 1994; Elsass and Veiga, 1994), and it implies that one unit is absorbed into another. Schweiger et al. (1993, 1994) distinguish between forced and voluntary assimilation and suggest, in line with other contributors, that the former is the easiest. Novation occurs when the two units are combined and a new identity is created. Mirvis and Marks (1992b) discuss two forms of cultural novation: cultural integration and transformation. The difference between these two forms is that the change in both companies is much higher in cultural transformation.

Dimensions. Few studies have explored the underlying dimensions of organisational integration. The only exception to this seems to be Shrivastava (1986) who focuses on both the integration of tasks and culture. I indent to extend Shrivastava's framework by adding a third dimension which is power. Hence, I argue that organisational integration should include the task, political and cultural features of the combination. This would be in line with recent contributions in the field that take all these three dimensions into consideration (Schweiger et al., 1993, 1994; Pablo, 1994), but do not discuss organisational integration explicitly. Moreover, it will reflect the features in the above presented framework.

By aiming to cover all these dimensions, my study will differ from the contributions that focus on the integration of tasks (Yunker, 1983) or cultures only (Buono, Bowditch and Lewis, 1985; Burke and Jackson, 1991; Pedersen, 1991; Cartwright and

Cooper, 1992, 1993b; Mirvis and Marks, 1992b). Exploring the political dimension of the concept reflecting the unification of power is of particular importance since this has not been included in previous research.

Shrivastava (1986) operates with three categories of integration; (1) procedural integration, (2) physical integration and (3) managerial and socio-cultural integration. Procedural integration involves legal and accounting integration and functional integration. Physical integration includes integration of product lines and production technologies. Managerial and socio-cultural integration include transfer of personnel, integration of organisational structure and socio-cultural integration.

Both <u>procedural</u> and <u>physical integration</u> will be included as parts of <u>task integration</u>. In addition <u>integration of personnel</u>, not only at management level, but also at middle management and employee levels. As to organisational structure and socio-cultural integration, these will be reflected in the two other dimensions.

As mentioned above, the political dimension has not been included in previous studies and needs to be further explored. Based on observations in the DnB-study which will be discussed in the next chapter, I will argue that possible indicators reflecting the <u>unification of power</u> include <u>control over power bases</u>, <u>prevailing style of leadership</u>, <u>presence of power struggles</u> and <u>congruence in communication</u> in the top management team.

As for socio-cultural integration, I will include both the <u>organisational identities and cultures</u> (Kleppestø, 1993). As mentioned in chapter two, some suggestions for measuring cultural integration have been proposed in the literature including <u>mentioning former organisations</u>, <u>keeping a score of appointment or promotion</u> (Burke and Jackson, 1991) and <u>presenting consistent views of post-merger culture</u> (Cartwright and Cooper, 1993b).

Hence, the dimensions and indicators in organisational integration will be as follows:

Figure 3.1. Organisational Integration

Integration of tasks
- Procedural integration
- Physical integration
- Integration of personnel

Unification of power
- Control over power bases
- Prevailing style of leadership
- Precense of power struggles
- Congruence in communication

Integration of cultures and identities
- Mentioning former organisations
- Keeping score of appointments and promotions
- Presenting consitent views of post-merger culture

Since organisational integration is an intermediate variable, it is necessary to establish the relationship to financial performance. I will argue that in horizontal combinations, organisational integration in all three dimensions will be positively related to financial performance. The rationale for this is that the existence of double positions and functions, power struggles and two organisational cultures will be expected to be disruptive to the realisation of efficiency gains. In other types of mergers and acquisitions, the relationship between organisational integration and financial performance may be more subtle as suggested by Haspelaph and Jemison (1991b). Datta and Grant's (1990) findings, for example, suggest that the extent of autonomy given in unrelated acquisitions is positively related to performance.

3.3 SELECTION OF CASES

In some mergers and acquisitions it will not be an objective to integrate the organisations along the task, power, and identification and culture dimensions. If the strategic goal is financial diversification for example, the organisational integration is likely to be minimal (Buouno and Bowditch, 1989). As mentioned above, I will focus on combinations where achieving organisational integration along all three dimensions has been an objective.

According to Buono and Bowditch (1989) the strategic type of merger or acquisition is a significant determinant of the desired degree of integration. The highest level of integration is expected to occur in horizontal combinations where the firms involved have similar products and operate in the same or closely related markets.

To match this requirement in the outcome variable, I have chosen to study cases where the parties are closely related in products and in markets, and where full integration of the companies' task, political and cultural features has been an objective. This implies that there is no variation in the strategic objective in terms of type of merger and in the integration design at the company level.

Taking the explorative nature of the study, the complexity of the outcome variable and the need for processual data into consideration, I chose to limit the study to two cases. By limiting the number of cases I can study the combinations in depth by collecting data at top management, middle management and employee levels. Moreover, I can achieve the objective of studying the combinations over time, collecting data twice in each case, with one and a half and two years intervals respectively. As mentioned above, studies of mergers and acquisitions have normally applied a short-term perspective, and researchers have called for a sustained examination of mergers and acquisitions over time.

An list of the data collection periods is given in Table 3.1 below.

Table 3.1. Data Collection Periods for Studying the Two Combinations

	Bergen Bank - DnC	**Gjensidige - Forenede**
Announcement of intention to merge/acquire	October 1989	December 1991
Concession granted by the Norwegian government	February 1990	June 1992
First data collection	Autumn 1991/ Winter 1992	Winter 1993/ Spring 1994
Second data collection	Spring 1994	Autumn 1995

As shown in the table above, the data collection in the DnB merger began first. Since I had detailed knowledge of this merger, I wanted to find another combination that differed from the DnB-merger in a number of the contextual features. This was based on an assumption that variation in the contextual factors would imply variation in the features of integration. These variations in the contextual features are shown in Table 3.2. below.

Table 3.2. Features of the Combinations

Feature	Bergen Bank - DnC	Gjensidige - Forenede
Degree of friendliness	Friendly	Hostile
Relative power	Equal size Merger Large performance differences	Unequal size Acquisition Acquirer performing better than target
Discretionary slack	Low	High
Type of industry	Banking sector	Insurance sector
Environmental impact	Economic crisis	Economic recovery

Degree of friendliness and merger or acquisition. Gjensidige's acquisition of Forenede can be characterised as a hostile take-over bitterly resisted by the management of the Forenede organisation. In line with other acquisitions, the offer of a take-over was made directly to the shareholders of Forenede. The combination between Bergen Bank and DnC was a merger (friendly by definition) where a letter of intent between the management of the two companies was signed first.

Relative size. Comparing Bergen Bank and DnC, the two banks were of equal size both in terms of total assets and number of man-labour years. In contrast, Gjensidige employed nearly twice as many employees as Forenede and was more than 30 per cent larger in terms of total assets.

Operating performance. Both Bergen Bank and DnC had suffered large losses on their loan portfolios through the late 1980s. However, the losses in DnC had been substantially larger, and the profit and loss account showed negative results three years in a row. Bergen Bank had not been hit as hard by the Norwegian banking crisis and had avoided negative results in the years before the merger. As far as Gjensidige and Forenede go, neither of them had negative results prior to the combination, but Gjensidige seems to have performed significantly better than Forenede in the years preceding the acquisition. The financial highlights for all four companies are shown in Table 3.3. below.

Table 3.3. Financial Highlights for the Companies

	Man-labour years	Total assets (mill. NOK)	Profit before extraordinary items (Mill. NOK and in % of total assets)
DnC - 31.12.89	3320	98 087	- 261 (- 0.34)
Bergen Bank - 31.12.89	3183	101 339	846 (1.01)
Gjensidige - 31.12.91	2460	25 361	643.5 (2.54)
Forenede - 31.12.91	1317	16 195	68.1 (0.42)

Type of industry, environmental impact and discretionary resources. Although the combinations differed in terms of sector, they both took place in the financial service industry. At the time of the merger, Bergen Bank and DnC were the second and third largest commercial banks in the Norwegian banking sector. The merger took place shortly after the banking sector had been deregulated, and both banks had gone through a period of substantial losses on their loan portfolios. Through the years of recession the banks' discretionary resources had been drained substantially.

When Bergen Bank and DnC announced the merger in the autumn 1989, they presumed that the recession in the financial sector was over. Unfortunately, the recovery in the economy was still to take some time, and this put the merged company in a strained economic situation where it became highly dependent on financial support from the State. Due to a continuing period of recession the bank's scant discretionary resources quickly diminished.

The combination between Gjensidige and Forenede took place in the insurance sector in which life-insurance is still highly regulated. Throughout the 1980s both companies had expanded substantially, building up their own finance companies. Though both companies had suffered losses as a result of the crisis in the financial service sector, these losses did not have any major impact on their main businesses, i.e. life and non-life insurance. In contrast to the merger between Bergen Bank and DnC, this combination took place during a period of recovery in the economy. Furthermore, Gjensidige was known to be a solid company with substantial discretionary resources.

3.4. PRELIMINARY MODEL

I will now turn to the discussion of a preliminary model based on the review of the literature, choice of outcome variable and selection of cases. On the basis of the preliminary findings in the DnB-study, a selection of literature from other fields and final analysis of the two cases, this model will be revised and extended. In particular, this model will be divided into three parts, reflecting the three dimensions in organisational integration.

In the review of the merger and acquisition literature in chapter two, I mentioned that the most commonly used typologies for assessing the strategic fit in mergers and acquisitions seem to be the one of the Federal Trade Commission (FTC) which classifies mergers and acquisitions into horizontal, vertical, product extension, market extension and pure conglomerate, and the classification of mergers and acquisitions into related and unrelated (Salter and Weinhold, 1981). Since both combinations can be characterised as horizontal or related, there is no variation in the type of merger or acquisition. However, since the strategic objectives behind such mergers or acquisitions often are complex compositions of a number of motives (Shrivastava, 1986), it is reasonable to expect that the strategic objectives will differ to some extent in the two combinations. Thus, I will include this feature in the model.

Regarding acquisition experience, both acquirers (Gjensidige and Bergen Bank) had relatively little experience. This feature will therefore be excluded. As mentioned in the review, the scant research linking acquisition experience to other features has also raised doubts its exploratory power.

In the section discussing type of industry in chapter two, I said that the distinction between service and manufacturing industry seemed to be the most commonly used. Although my combinations differ in terms of sectors, they both took place in the financial service industry, and I will therefore not include this feature in my model.

The feature reflecting individual characteristics and situations would in my view be more relevant for inclusion if the aim was to assess attitudes and expectations towards the combination at the individual level. As mentioned in the review chapter, research in the 1980s and 1990s has focused more on contextual variables at the organisational level than the individual level trying to explain post-acquisition success. This study will be in line with this trend. As for the other contextual variables, they are all included.

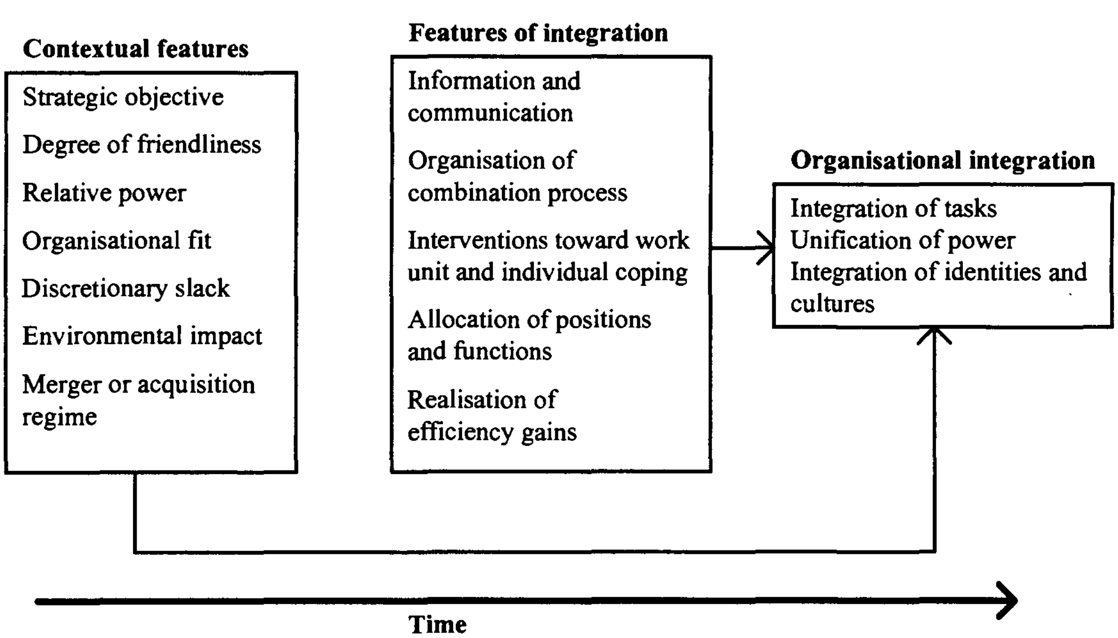
According to Cartwright and Cooper (1990) previous research in the organisational field of mergers and acquisition has focused on the role of pre-acquisition factors affecting interpersonal relationships at the group level, usually the senior managerial level. Besides looking at the how the contextual factors influence the outcome variable, I will focus on how they influence the features of integration.

Since the aim of both combinations has been full scale integration, there is no variation in the configuration options between the combinations. Since my aim is to look at the various parts of the implementation process, the feature regarding overall post-merger management will not be included. All other implementation features are included in the model. On the basis of previous research, I will argue that the decisions the managers make in the post-combination integration process will influence the outcome of the merger or acquisition.

Studying mergers and acquisitions over time is a much stated objective, but seldom carried out in empirical research. To represent the process features in the model, I have chosen to draw a "time-line" across the model. This is to indicate that the post-merger integration is a process and that time in itself has an impact on the features in the model.

The model is outlined in figure 3.2. below.

Figure 3.2. Preliminary Model



3.5 SUMMARY

This chapter has been divided in four major parts. In the first section I discussed four categories of outcome variables; financial performance, employee reactions, combination success and cultural outcome. None of these outcome variables seemed to fit the requirements or design of my study, and this turned my attention to the process features. One of the variables discussed in this stream of research which provided a good fit was organisational integration. Choosing this phenomenon as my prime concept, I argued that it should include both the state of intraorganisational relationships and the process by which this state was achieved.

In the second section I discussed how to assess the state and process of organisational integration and three dimensions in the outcome variable. I claimed that the state could be assessed according to a low, middle or high degree of integration. Moreover, the process of integration could be achieved either through assimilation or novation.

Regarding the dimensions to be included in organisational integration, these included integration of tasks, unification of power and integration of identification and cultures. Incorporated in the integration of tasks was procedural, physical and managerial integration. Possible indicators reflecting the unification of power were suggested to be control over power bases; prevailing style of leadership, presence of power struggles and congruence in communication in the top management team. As for the socio-cultural integration, I included both the organisational identities and cultures. Suggestions of measuring cultural integration included mentioning former organisations, keeping a score of appointment or promotion and presenting consistent views of post-merger culture.

In the third section, I justified the selection of cases by matching them to the requirements in my outcome variable. Then I discussed how the combinations varied in terms of degree of friendliness, relative power, discretionary slack and environmental impact.

Finally, I outlined the preliminary model for the empirical studies including contextual features, features of integration, organisational integration and time. Strategic objective, degree of friendliness, relative power, organisational fit, discretionary slack, environmental impact and merger or acquisition regime were incorporated in the contextual features. Features of integration included information and communication, organisation of integration process, interventions toward work unit and individual coping, allocation of positions and functions and realisation of efficiency gains. Organisational integration was assessed along the three dimensions of integration of tasks, unification of power and integration of identities and cultures.

Chapter 4: Preliminary Findings

In this chapter I will report the most important findings in phase one of the merger between Bergen Bank and DnC. A more detailed description including both phase one and two will follow in chapter 7. This chapter will be divided into five parts. In the first two sections I will discuss the organisational fit and power relationships between the merging parties. Then there will be a discussion of the implementation approach and the impact from the environment. Finally I will make some preliminary suggestions with regard to the outcome variable.

4.1 ORGANISATIONAL FIT

DnC was founded in 1857. In the beginning of the 1980s the total capital in DnC amounted to 20,6 billion NOK. By the end of 1987 the total assets in the bank had reached 90 billion and the number of man-labour years was 4358. Until 1987 DnC was the largest and most professional commercial bank in the Norwegian financial market. In the late eighties DnC ran into deep financial trouble, the CEO left the organisation and the Board of Directors was replaced. The new board recruited a new CEO from outside the financial sector.

The appointment of a new CEO marked the start of a turnaround operation. 50 percent of DnC's old management left the organisation in this period, and costs were cut by nearly 30 percent. At the time of the merger with Bergen Bank, the number of man-labour years had fallen to 3320. The new CEO replaced all the top managers but one. Most of these new managers were like the new CEO recruited from the industrial sector, and they represented a very different style of leadership and culture compared to the old management in DnC.

Bergen Bank was formed in 1975 as a result of the merger between Bergen Privatbank, founded in 1855, and Bergen Kreditbank, founded in 1928. In the year of this merger it had a total capital of 8,5 billion NOK and 2300 employees. At the end of 1989 the bank's total capital had grown to slightly more than 89 billion NOK and it employed 3183 people.

As opposed to DnC which had its head office in Oslo, the capital city of Norway, Bergen Bank had two head offices, one in Oslo and one in Bergen where the company originally was founded. The top management in Bergen Bank was split between the two headquarters. The headquarter in Oslo served the large industrial customers, whereas the management in Bergen was in charge of the whole retail sector of the bank. This division between the two headquarters seemed to result in the development of two distinct sub-cultures.

Findings in the DnB-study suggest that focusing on the differences between the two parties' organisational cultures may be too impresise to detect long-term changes in the cultures. Thus I chose to focus on the sub-cultures at the top management, middle management and sub-unit levels respectively. Besides opening for a more detailed and richer description of the cultures, this approach opens for the possibility of having sub-cultures where both merger parties are represented.

The merger between Bergen Bank and DnC was a horizontal merger requiring a high level of integration, and the integration of the top management cultures was indeed a critical aspect in the merger as predicted in the literature. However, the cultural differences seemed to be more a result of the professional cultures rather than organisational affiliation (David and Singh, 1993 and 1994). Most of the top managers in DnC had recently been recruited from the industrial sector, whereas the top managers in Bergen Bank were typically bank managers.

At the middle management level, the representatives of the "old" culture in DnC felt much closer to the organisational culture in Bergen Bank, compared to the industrial culture at the top management level in DnC. Thus, one would expect alliances to be formed between the middle managers from Bergen Bank and from DnC. To explain why this did not happen, one has to look at the type of merger and the realisation of efficiency gains. As in other horizontal mergers, cutting costs was one of the main objectives in this merger. This cost reduction resulted in a scarcity of positions, and rather than forming alliances, the representatives from the two organisations competed for positions in the new organisation.

Since Bergen Bank and DnC both had head offices in Oslo, it was hardly surprising that an alliance was formed by the head offices in this city. In fact, managers in Bergen Bank, Oslo said they felt culturally closer to DnC than to their colleagues in Bergen. Whereas the balance between the two headquarters in Bergen Bank had been 50/50, the balance in the new bank was clearly in favour of Oslo.

Besides focusing on the sub-cultures, findings in the DnB-study suggest that important events prior to the merger may have had an important impact on the combination process. While DnC had been through a period of substantial cost cutting and lay-offs, Bergen Bank was still very profitable and in no need of laying off employees. Thus the employees' experiences in the two organisations were very different at the time of the merger. As might be expected the turnaround operation in DnC had resulted in eroded trust in the top management. However, through the period of lay-offs the DnC employees also become more adaptable to change and had obtained a critical skill in negotiating with top management.

4.2 RELATIVE POWER AND MERGER REGIME

Unfortunately the turnaround operation did not bring DnC out of its strained economic situation. The profit and loss account showed negative operating results three years in a row, and DnC was forced to find a solution to its capital problems. To try to find a solution for survival the CEO contacted a few foreign commercial banks as well one domestic one.

At the time DnC ran into financial problems, Bergen Bank was the third largest commercial bank in Norway. Due to DnC's downscaling of activities and Bergen Bank's substantial growth through the 1980s, Bergen Bank had become slightly larger than DnC in terms of total assets at the time of the merger. The attempt to merge with DnC was in line with its offensive growth strategy, the purpose being to better match its partners in the Scandinavian Banking Partners alliance and to lower its relative costs.

When the parties entered into negotiations, Bergen Bank had two distinct advantages that put it in a stronger negotiating position. First, it was profitable and could maintain the status quo if the negotiations turned out to be unsuccessful. For DnC, on the other hand, the merger was a matter of survival, and this became more and more obvious as its loan portfolio continued to deteriorate throughout the negotiations. If it was to survive, DnC had no alternative but to merge with Bergen Bank.

Secondly, Bergen Bank's decision to merge with another Norwegian Bank was a result of long, ongoing discussions in the board of directors and in the top management. A substantial amount of documentation had been prepared, and this documentation was used by both parties in the negotiation phase. In DnC the merger discussions were conducted in a much shorter time period and concentrated in a smaller group, with the CEO as the key actor.

Although the exchange relationship between the two parties was asymmetric, Bergen Bank decided not to attempt a take-over, but to negotiate an initial agreement with

DnC's management on the basis of a merger between two equal parties. The decision to enter into negotiations as equal parties seems to have constrained Bergen Bank's use of power, and resulted in equal distribution of positions and functions at top management, middle management and sub-unit levels. However, taking the size and history of DnC into consideration, it is likely that a take-over attempt would have been met with resistance and as such would have been very difficult to implement.

4.3 IMPLEMENTATION APPROACH

The DnB-case clearly demonstrates how important it is to follow the combination process over a longer period of time than the first one or two years. Two years after the intention to merge was made public, there was a change of CEO and subsequent changes in organisational structure. Thus the merger was implemented through two distinct steps prior to and after the change of CEO.

Implementation phase one. The merger between Bergen Bank and DnC was a highly complex operation affecting more than 10.000 employees scattered all over Norway. The new management feared that introducing too much change could put the whole merger at stake, and thus it was decided only to implement minor changes. However, when the intention to merge Bergen Bank and DnC was made public, the new management also signalled that the selected organisation structure was probably not going to last for long. The prediction was that the organisational structure would be revised two or three years after the physical integration had taken place. A possible change of CEO was also discussed in the initial negotiations. Bergen Bank's CEO, who was in his late fifties, signalled that he considered leaving the organisation two years after the merger was implemented.

The chosen organisational structure only differed from the two former organisations in one respect, and that was the creation of an internal operations division. It was decided that although cutting costs was desirable, lay-offs should be avoided as far as possible. Though it took some time to convince the employees from DnC that this was the intention, the avoidance of lay-offs seems to have contributed to organisational integration in terms of the cultures and identities.

Another important contribution in this sense was the balanced approach in the allocation of positions and functions. In the top management team seven members were recruited from DnC and six from Bergen Bank. Equal distribution also seemed to be the case at the middle management level where 13 members where recruited from Bergen Bank and 12 from DnC. Both Bergen and Oslo continued as head offices. Although this balanced approach had some distinct advantages, it also resulted in an unstable political situation as managers with highly divergent and incompatible management styles were set to work closely together.

There were some areas, though, where Bergen Bank dominated. First, there seemed to be no doubt that the CEO of the new organisation was going to be the CEO from Bergen Bank. He had a substantial network and a good reputation in the banking sector. The CEO of DnC on the other hand had only recently been recruited into the sector. The selection of the chairman of the board was a bit more tricky. The choice of Bergen Bank's chairman of the board was mainly based on the assumption that he probably would have a better working relationship with the CEO from Bergen Bank than the chairman from DnC.

Interestingly, although the top management claimed that these decisions were based on rationality, they were not interpreted as such by the employees of the organisation and the press. They all interpreted these decisions in a political frame viewing Bergen Bank as the winning party in the merger. This win-lose frame of reference seems to have stimulated the territorial battles between the parties in the distribution of positions and functions.

The task orientation in the first phase of the merger clearly reflected the former Bergen Bank style of leadership. As opposed to the former DnC management which can be characterised as process-oriented, the emphasis in this process was on the structural features of the combination, and little was done to facilitate political and cultural integration.

Although the implementation of the merger was dominated by the former CEO´s wishes and his style of leadership, his behaviour also reflected that he wished to be perceived as the CEO of the new organisation. Trying to behave fairly and neutrally, he recruited most of his closest advisers from former DnC and stressed more than once that he was the CEO of DnB, not of former Bergen Bank. Interestingly, former Bergen Bank executives felt that the CEO had let them down, showing more consideration towards the other party than to his own party. As for DnC managers, they still perceived the CEO as acting in former Bergen Bank's interests.

One problem in the merger was the lack of <u>involvement</u> of employees or employee representatives prior to the merger. The two banks had succeeded to keep the on-going negotiations secret, and the announcement of the merger came as a total surprise to the employees and the public as a whole. However, in the transitional period, after the merger was announced and before the legal combination, the employees became highly involved through union representatives. Union representatives from both sides became members of all the project groups which were established.

Two areas seemed to be particularly critical in the communication of this merger. One aspect concerned the balance between creating enthusiasm for the merger and revealing the more problematic sides of the combination. Clearly in this merger the management focused too much on trying to create a positive atmosphere and the merger newsletter was nicknamed "Pravda". As time went on and the crisis in the environment began to be reflected in the loan portfolios, the lack of congruence between what was communicated by the top management and the employees' experiences on their particular sites became increasingly more apparent. My findings suggest that this lack of congruence resulted in eroded trust in the top management.

Another problem was the lack of congruence in the communication from the top management team. The lack of congruence reflected that there were two divergent management styles and cultures in the top management team. Unfortunately, no interventions such as a team building programme was introduced to help them overcome these problems and to facilitate a unified top management team. This reflected the task orientation of the former Bergen Bank management.

Implementation phase two. As the procedural and physical integration between the two organisations came to an end, the CEO of the bank made his final decision to leave the organisation. A new CEO was recruited from outside the combined bank. When comparing the implementation of the merger which was conducted under the leadership of the former Bergen Bank CEO and the changes following the appointment of the new CEO, it is apparent that the changes in the second phase were more fundamental and extensive. It was also evident that this change of CEO prolonged and disrupted the cultural integration.

These major changes caused the positions and functions to be redistributed. The industrial coalition, the DnC middle management and the headquarter in Oslo were all strengthened, and these changes seem to have produced a more stable political situation.

The middle managers experienced a new period jostling for positions. This time concerns of fairness and equality between the merger parties seemed to be less prominent, and the outcome was no longer a balanced number of executives from the two former banks.

The employees experienced a new period of change and disruption in their work. Comparing this process with the former, it had some distinct differences. Firstly, this time lay-offs were conducted and the resistance to the process was much higher. Secondly, although the employees were involved in the project groups as in the first phase, they felt that their influence was substantially less in this process than the former, and the gap between the top management and the employees increased.

4.4 ENVIRONMENTAL IMPACT

At the time Bergen Bank and DnC merged, Bergen Bank was considered to be a kind of white knight saving DnC from bankrupcy. However, as time went by, there were signs that Bergen Bank's loan portfolio was not much better than DnC´s. This changed the perception of Bergen Bank as the strong party.

As the crisis in the financial sector continued, the discretionary slack diminished rapidly and DnB became increasingly more dependent on financial support from outside. In order to support DnB financially, the banking authorities required that DnB should cut its costs substantially. This put pressure on the realisation of efficiency gains, and several employees were laid off or left the organisation voluntarily.

The diminishing discretionary slack and downsizing seem to have disrupted and prolonged the cultural integration process, at the same time as creating a more stable political situation. In fact, the recession in the macro-economic climate seemed to have strengthened the same sub-groups that gained power in the restructuring of the new bank.

Firstly, experience from downsizing and cutting costs became a critical resource. The banking sub-group in the top management had never obtained this skill working in a regulated environment. The executives in the industrial sub-group though, had gained this critical skill by working in industrial organisations where downsizing and cutting costs were quite common. Besides that, the industrial sub-group also seemed to have more experience lobbying which was yet another critical skill for the organisation in this period.

As for the sub-units, it became increasingly important to be situated in the vicinity of the major important financial actors. Most of these actors were situated in Oslo, and Bergen seemed to lose much power in the organisation in this period.

4.5 ORGANISATIONAL INTEGRATION

Clearly it was too early to look at the organisational integration in all three dimensions in the first stage of the data collecting process. However, some preliminary observations may be of some use.

As mentioned above, the management of Bergen Bank was very task-oriented, and its dominance in the first phase of the merger was reflected in the substantive attention given to the integration of tasks. Six months after the announcement of the intention to merge, Bergen Bank and DnC became one legal entity named DnB. Shortly afterwards, the two banks' accounting systems were merged.

Particular attention was given to the integration the two banks computer systems. Unlike many other combinations in the financial industry, the integration of computer-systems did not take several years, but was in place approximately a year after the announcement of the merger. This was partly due to the fact that the two banks had the same data supplier, but the considerable attention given to this task was also an important factor.

At the same time as the procedural integration, substantial effort was made to integrate the organisational structures, localisations and personnel. In many cities and districts the two banks' offices were located side by side, and integrating these different units was a major task. In Oslo and Bergen some double functions were allowed to continue. Moreover, the reduction in personnel was restricted to voluntary turnover.

One year after the announcement of the merger, most of the important tasks seemed to have been integrated. However, the process towards unification of power and creating one organisational identity and culture was far from over. When the two banks merged there was an unstable political situation in the top management team characterised by power struggles, lack of congruence in communication and different styles of leadership. This situation changed with the change of CEO and a resultant strengthening of industrial coalition. When the crisis hit the bank, this coalition commanded the necessary critical skills, and was thus further fortified. The fortification of the industrial coalition in the bank also led to strengthening of the DnC middle managers and the headquarters in Oslo. In my view this redistribution of functions and positions in the second phase of the implementation was a significant step towards the unification of power.

The process of creating one culture was not over when I finished the first data collection, and this aspect of the outcome variable was therefore further explored in the second data collection. However, the emerging culture of the new bank in phase one of the study seems to resemble the former DnC more closely than Bergen Bank. One reason for this seems to be the dominance of former DnC mangers and their alliances formed through the implementation process.

4.6 SUMMARY

When it comes to the contextual factors, findings in the DnB-study stress the importance of studying sub-cultures and taking the history of the two organisations into account. Furthermore the study suggests that negotiation variables such as preparations and alternatives in the negotiations should be included in the relative power feature. Of particular importance are the findings that link the implementation process to the events in the environment. This is an area that has received scant attention in the organisational literature on mergers and acquisitions.

As for the integration features, the data in the DnB-case clearly demonstrates how important it is to follow the combination process over a number of years. In particular it draws attention to the distribution and redistribution of position and functions and the need to explore the participation feature further.

Finally, the findings support the inclusion of a political dimension in the organisational integration concept. Interestingly, the analysis suggests that the influence of features and factors on unification of power and cultural integration may in some instances be in opposite directions.

Recently researchers in the organisational field of mergers and acquisitions have started to utilise theory from other fields, in particular literature on organisational culture, cultural anthropology, psychology, strategic management and organisational theory. The potential for shedding light on merger and acquisition phenomena by borrowing from other fields has been far from fully exhausted, and a number of perspectives can be expected to contribute to the field. Schweiger and Walsh (1990) say:

> M&A theorists and researchers must look beyond the current M&A literature to the wealth of other literatures that may help them better understand and study this complex phenomenon. While the extant M&A literature (especially the practitioner literature) has helped in the identification of important issues to study, it is time that theorists and researchers both challenge this literature and indeed move beyond it.

My choice of literature from other fields will be based upon the perspectives that are highly relevant for studying organisational integration processes in mergers and acquisitions. Of particular relevance is the literature on strategic and organisational change, power and politics, social justice, and social identity theory. These various fields will be discussed s in the follwing chapter.

Chapter 5: Literature of Relevance for Studying Integration Processes in Mergers and Acquisitions

This chapter will be divided into six parts. In the first part I justify why the literature on strategic and organisational change, power and politics, social justice and social identity theory are relevant for studying organisational integration processes in mergers and acquisitions. In the next four sections I discuss contributions within these literatures and suggest how they raise new themes and questions. Then, I examine their implication for the three dimensions in organisational integration, i.e. integration of tasks, unification of power and integration of cultures and identities. Finally, the chapter is summarised.

5.1 SELECTION OF RELEVANT LITERATURES

The review of the organisational stream of merger and acquisition literature in chapter two revealed a number of weaknesses both in terms of theoretical development and empirical research. The purpose of this chapter is to contribute to theoretical development in the merger and acquisition literature by borrowing from other fields. The selection of perspectives is based on literatures identified as particularly relevant for studying organisational integration processes in mergers and acquisitions. The four literatures I have selected are (1) strategic and organisational change, (2) power and politics, (3) social justice, and (4) social identity theory.

Strategic and organisational change. There are a number of reasons why the literature on strategic and organisational change is relevant for studying mergers and acquisitions. First, research within the merger and acquisition field shows that change is inevitable when two organisations merge or one organisation is acquired by another. This is especially the case when the two organisations are closely related in in terms of markets and products.

Secondly, organisations going through these types of changes are likely to experience a great deal of turbulence characterised by rapid and unpredictable change (Cameron, Kim and Whetton, 1987). It is also reasonable to believe that the parties in horizontal combinations experience organisational decline defined as reduction in resources within the organisation itself (ibid).

The literature on strategic and organisational change is also relevant for studying the factors that trigger the change processes. First, mergers and acquisitions are often triggered by changes in environmental conditions and performance crisis. Moreover, research on mergers and acquisitions shows that they are often followed by changes in top management and organisational structure.

Power and politics. There are a number of reasons why the literature on power and politics is particularly relevant for mergers and acquisitions. Researchers in the field have suggested that politics in organisations are particularly prominent in times of change, in major decisions and when there is a scarcity of critical resources.

Firstly, as discussed above, mergers and acquisitions are associated with major change and politics in organisations are particularly prominent in times of change. Pettigrew (1985, p. 42) says: "While the concern of organisational resources is likely to be a continuing feature of organisational life, and may be expressed differently in one organisation than another, <u>politics in organisations breed in times of change</u> " (my underlining).

Secondly, political behaviour is expected to be a special feature of major decisions that are likely to threaten the existing pattern of resource-sharing (Pettigrew, 1973). Madison et al. (1980) identified reorganisations as the most political situation, followed by personnel changes. Pfeffer (1992, p. 37) says:

> ...power is more important in major decisions, such as those made at higher organisational levels and those that involve crucial issues like reorganisations and budget allocations; ...and in instances in which there is likely to be uncertainty and disagreement.

In my view mergers and acquisitions can in many ways be compared to reorganisations, though mergers are more complicated in the sense that there will also be an integration of cultures. It seems a reasonable assumption that use of power will be particularly prominent for decisions in the combination process that concern the distribution of positions and functions.

Thirdly, the resource dependency theory predicts that political behaviour will be prominent when there is a scarcity of critical resources. To the extent that resources are insufficient to meet the various demands of organisational participants, choices have to be made concerning the allocation of resources. The greater the scarcity compared to the demand, the greater the power and the effort that will be expended in resolving the decision. Furthermore, the more critical the resource is to the unit's survival and development, the more power will be exercised to obtain the resource.

Social justice. The preliminary findings in the DnB-study suggest that the distribution of positions and functions can only be partially explained by the theories on power and politics. This is in line with the view of Cook and Emerson who (1987) argue that equity or justice concerns constrain the use of power. They say:

> Our findings suggest that normative concerns operate as constraints upon the use of power in exchange networks.... The findings clearly demonstrate that equity processes and power processes are interrelated in interesting ways. Further research should be conducted concerning the specific character of the link between power and justice processes.

Deutsch (1985) suggests that perceived fairness is especially important during times of scarce resources, such as organisational downsizing. Taking into consideration that one of the aims of horizontal mergers and acquisitions is often to realise efficiency gains, the theories of organisational justice become particularly relevant for studying the integrational processes in these combinations.

Social identity theory. The essence of merger and acquisition processes is the integration of two formerly independent groups. Social identity theory is especially relevant for studying what happens when these two groups meet and for exploring the features that promote and inhibit identification with the common organisation.

In particular, social identity theory can contribute to the understanding of what impact important contextual features such as friendliness and economic climate have on the integration process. Moreover, the theory is relevant for studying how various managerial actions such as positioning and downsizing, communication and participation, affect the cultural integration process.

5.2 STRATEGIC AND ORGANISATIONAL CHANGE LITERATURE

This section starts by identifying change processes in mergers and acquisitions in a strategic change framework. Secondly, the characteristics of large-scale, revolutionary change are discussed. The third part examines the triggers of change including environmental impact, performance crisis, change of CEO, and change of ownership. Finally, I explore the organisational consequences of large-scale, revolutionary change in the form of actions and reactions.

5.2.1 Classification of Change Processes in Mergers and Acquisitions

Before I start to discuss the characteristics, triggers and organisational responses to change, it is necessary to place mergers and acquisitions in a strategic change framework. Thus the purpose of this section is to discuss how mergers and acquisitions can be characterised as large-scale, revolutionary changes.

There are two streams within the literature on strategic and organisational change that classify types of change relevant to mergers and acquisitions. The first stream is concerned with defining large-scale change, whereas the other stream distinguishes between two generic types of change.

Large-scale change. One contribution that treats the phenomenon of large-scale organisational change in some depth is Mohrman et al. (1989). They define large-scale organisational change on three dimensions. The first dimension of large-scale organisational change is depth of change - the extent to which the change involves shifts in the beliefs and values of members of the organisation and changes in the way in which the organisation is understood. The second dimension concerns the pervasiveness of change - i.e. the proportion of the organisation's elements and subsystems that are changed. Finally, there is the question of the organisation's size. The assumption is that the larger the organisation, the larger the change needed to alter its character and performance.

Nadler and Tushman (1989) suggest that large-scale organisational changes can be considered along two dimensions, the scope of change and the position of change in relation to key external events. The scope of change relates to Mohrman et al.'s (1989) pervasiveness dimension and concerns whether the change focuses on individual components with the goal of maintaining or regaining congruence or whether the changes address the whole organisation, including strategy. The second dimension contrasts changes that are clearly in response to events or a series of events, called relative changes, and changes that are initiated in anticipation of external events that might occur, anticipatory changes. The relative intensity of change is expected to increase as one moves from incremental and anticipatory to strategic and relative changes.

Evolutionary - revolutionary change. Models of organisational change developed by Miller and Friesen (1980), Pettigrew (1985), Tushman and Romanelli (1985) and others articulate a distinction between two generic types of change, emphasising the difference between revolutionary, metamorphic, or discontinuous change on one hand,

and evolutionary, incremental, or convergent change on the other. These models of change postulate a fundamental difference between periods when organisations experience stability, convergence, or momentum and periods when they experience reorientation, divergence, or revolution. They claim that the kinds of organisational change processes that occur in each of these periods are fundamentally distinct.

Tushman and Romanelli (1985) suggest that convergence periods are relatively long time spans of incremental change and adaptation. They characterise convergence as a process of incremental and independent change activities and decisions that are designed to achieve a greater consistency of internal activities with a strategic orientation, and which have the effect of impeding radical or discontinuous change. Reorientations, on the other hand, are shorter periods of change characterised by simultaneous and discontinuous shifts in strategy, the distribution of power, the firm's core structure and the nature and pervasiveness of control systems. Re-creations are reorientations which also involve discontinuous shifts in the firm's core values and beliefs. Tushman, Newman and Romanelli (1986) characterise framebreaking change as revolutionary changes to the system as opposed to incremental changes in the system.

Tushman and Romanelli (1985) claim that the longer and/or more successful the prior convergent period, the greater the inertial forces, the greater the degree of turbulence and risk of failure associated with reorientation. These degrees of turbulence and risk of failure are expected to be accentuated in re-creations.

When applying the dimensions discussed above to mergers and acquisitions, it is important to take into consideration that mergers and acquisitions involve more than one organisation.

In particular, it is reasonable to argue that the depth, scope and type of change in mergers and acquisitions will vary according to the type of combination and the relative power. Firstly, a horizontal combination where the two organisations are closely related in products and markets (cf. chapter two) will often involve deeper and more extensive and revolutionary changes than an unrelated combination with a low level of integration.

Secondly, research suggests that large, acquiring organisations often psychologically crush and dominate smaller organisations after a combination (Levinson, 1970). Thus, one would expect the target company in horizontal acquisitions to be more subject to deep, extensive and revolutionary changes than the acquirer. In horizontal mergers between equals, neither party has the power to impose its own frame of reference unilaterally on the other company (Ollie, 1994), and hence it is reasonable to believe that both parties will experience deep, extensive and revolutionary change.

As for the anticipatory dimension, it is important to emphasise that while a combination can be characterised as an anticipatory move for the merger parties and the acquiring company in acquisitions, it will probably be similar to a reactive move for the target companies.

5.2.2 Key Characteristics of Large-scale, Revolutionary Change

There are a number of key characteristics of large-scale, revolutionary change mentioned in the change literature. According to Nadler and Tushman (1989) large-scale change often entails multiple transitions, incomplete transitions, uncertain future states and transitions over long periods of time (p. 195).

> *Multiple transitions*. Rather than being confined to one transition, complex changes often involves many different transitions. Some may be explicitly related, other are not.
>
> *Incomplete transitions*. Many of the transitions that are initiated are never completed. Events overtake them, or subsequent changes subsume them.
>
> *Uncertain future states*. It is difficult to predict or define exactly what a future state will be; there are many unknowns that limit the ability to describe it. Even when a future state can be described, there is a high probability that events will change the nature of that state before it is achieved.
>
> *Transitions over long periods of time*. Many large-scale organisational changes take long periods of time to implement - in some cases, as much as three to seven years. The dynamics of managing change over this period of time are different from those of managing a quick change with a discrete beginning and end.

These characteristics suggest that large-scale, revolutionary change in mergers and acquisitions evolve over a long period of time with a high degree of ambiguity involved.

The view that large-scale changes unfold over a number of years is supported by Miller and Friesen (1982). They found that the average period for restructuring an organisation in their population was 4 years. They claim that a period of five years was long enough to reflect a sequence of structural changes that aimed at responding to a key change in strategy, goals or environment. Shorter periods tended to portray only pieces of the adaptive scenario. This supports the view in the organisational stream of merger and acquisition literature that these kinds of changes take several years to accomplish.

There seem to be few papers in the field that deal with the issue of pace in any detail. The few contributions dealing explicitly with pace seem to have little to add to the discussion on pace in the review of the organisational stream of merger and acquisition literature.

One exception to this trend is Tushman, Newman and Romanelli (1986). Supporting the first school of timing change discussed in chapter two (p. 47) the authors claim that the more effective examples of framebreaking change were implemented rapidly. "It appears that a piecemeal approach to framebreaking change get bogged down to politics, individual resistance to change, and organisational inertia" (p. 38). One of the main reasons for rapid, simultaneous implementation is that reorientations are disruptive and fraught with uncertainty, and the more rapidly they are implemented, the quicker the organisation can reap the benefits of the following convergent period. Furthermore the authors claim that pockets of resistance have a chance to grow and develop when framebreaking change is implemented slowly.

In the review of the organisational literature on mergers and acquisitions it was suggested that three to five years was not an unusual transitional period, and indeed it could be much longer (Walter, 1985). It seems likely that the during this period other events will occur and have an impact on the ongoing integration process. However, as suggested above, the characteristics of the change process are likely to differ according to strategic type and power relationships. I will argue that horizontal mergers between equal parties are likely to take longer time, be more unpredictable and therefore more likely to be interrupted by other events than unrelated acquisitions with an unequal power distribution. These issues will be further explored in the analysis chapter.

5.2.3 Triggers of Large-scale, Revolutionary Change

Having established that the parties in horizontal mergers and the acquired party in horizontal acquisitions are likely to go through large-scale, revolutionary change, it is important to discuss the forces that lead to revolutionary change in mergers and acquisitions.

Miller and Friesen (1982) claim that momentum tends to culminate in a revolution only under significant pressures. Because of the interdependencies among the structural elements in the organisation, the cost of destroying or resurrecting complementarities among the structural elements will often be high (Miller, 1982). Many elements must change together and this can be expensive. Hence Miller argues, structural changes must be delayed until the anticipated costs of the structure being out of sync with the environment or strategy are larger than the cost destroying the structural complementarities within the organisation.

Many authors have suggested and found that revolutionary change occurs in response to or in anticipation of major environmental changes (Miller and Friesen, 1980; Pettigrew, 1985; Tushman and Romanelli, 1994). Other triggers of change discussed in the literature include performance crisis and change of top management, in particular the CEO, and change of ownership (Goodstein and Boeker, 1991; Miller, 1994; Tushman and Romanelli, 1985, 1994). These four forces of change will be discussed subsequently. However, it is important to emphasise that several triggers often act in relation to each other (Pettigrew, 1985) and that it may be difficult to distinguish between what is the original stimulus and what is merely a catalyst for change (Grinyer et al. (1988). "External intervention, internal recognition, the acquisition of new blood, and the threat of change of ownership could all result in action. The one which is the decisive factor could be very much the result of an accident" (p. 49).

Environmental impact

One of the most cited triggers of large-scale revolutionary change in the strategic and organisational literature on change is environmental impact. Pettigrew (1985) found that strategic change could come only after the environmental changes had led to a performance decline for the company. "Real change only came when the...culture was threatened by a punishing change in the business and economic environment; only then did ICI become sufficiently dissatisfied with its performance to act" (p. 426). Similarly Tushman, Newman and Romanelli (1986) claim that most framebreaking change is postponed until a financial crisis forces drastic action.

Change in the environment is however a rather broad and imprecise concept, and hence there is a need for exploring the features of change in the environment suggested in the literature. Researchers have suggested a number of features of environmental change including technological innovations, change in regulatory and institutional conditions, changes in environmental uncertainty, complexity, and turbulence, major economic change, change in demand for an organisation's product and changefulness or dynamism of competitors, customers, etc. (Miller and Friesen, 1980; Miller, 1982; Tushman, Newman and Romanelli, 1986; Tushman and Romanelli , 1994)

These characteristics of the environment can be grouped into four dimensions, the economic, the business, the political and the social environment (Pettigrew, Whipp and Rosenberg, 1989). The most relevant features for analysing my cases are the economic climate (economic environment), the organisation's competitors, suppliers and customers (business environment), the regulators and institutional conditions (political environment) and the social trends (social environment).

Mergers and acquisitions are likely to experience environmental pressures of various kinds. Firstly, horizontal combinations will often be conditional on governmental approval given that they might result in reduced competition in the market. Secondly, the findings in phase one of the DnB-study suggests that the economic climate may seriously effect the integration process. Thirdly, research on mergers and acquisitions suggests that organisations going through these types of events are often vulnerable to attacks from competitors.

Performance crisis

Studies that have explored the influence of organisational performance on fundamental transformation have showed that organisations tend to persist in established activity patterns when performance is good or improving (Tushman and Romanelli, 1994). These activities are altered when performance is poor or declining.

However only long-sustained declines in performance are likely to trigger fundamental organisational transformations (ibid). The reason for this is that incumbent management teams may tend to minimise the importance of performance declines or seek to explain them opportunistically in terms of a greater commitment of resources. Prolonged incremental change in support for inappropriate strategic orientation leads to further crisis and to internal pressures fundamentally to change the firm's orientation.

Goodstein and Boeker (1991) relate declines in performance to changes in the external environment and suggest that declines in performance motivate changes in strategy, particularly if changes in the external environment accompany changes in performance.

Performance crises will often make companies more vulnerable to take over attempts, and as such may be a trigger of change of ownership. In the case of Bergen Bank's merger with DnC for example, DnC's performance situation forced the company to find a solution to its problems.

Change of CEO

The literature on strategic and organisational change has showed that the process of executive succession provides an important mechanism through which organisational inertia can be overcome, particular when the successor is an outsider (Helmich and Brown, 1972; Tushman and Romanelli, 1985). Both Miller (1994) and Tushman and Romanelli (1994) found that succession of CEO positively influenced revolutionary transformations or broke the organisational momentum.

There are a number of reasons why change in leadership is a necessary precondition for change (Miller, 1994; Tushman and Romanelli, 1994). Firstly, established CEOs identify with and often commit themselves publicly to administrative arrangements that they have helped to design. Such commitment will make them reluctant to change as they wish to appear resolute and consistent and because they attribute their success to existing policies. New executive officers, on the other hand, stand uncommitted to the strategies and policies established by their predecessor.

Secondly, established CEOs often become victims of selective perception and attention. Over time they learn to depend on the sources that have proven most useful in the past, and this narrowing of their advisors, routines, and information systems blinds them to the need for change. New executive officers on the other hand may have experience and information that lead them to a different understanding of effective or appropriate organisational actions than their predecessors had.

Finally, experienced CEOs are often content to leave things as they are. They have had ample time to shape their organisations according to their wishes. This in contrast to new CEOs who often begin work in an atmosphere of expectancy of change.

Research has also suggested that there is a significant difference in the likelihood to initiate revolutionary change between inside and outside successors. A successor's origin is a highly visible attribute and seems to convey the clearest signal among the messages implicit in successions (Friedman and Singh, 1989). "Successors from the outside tend to be seen as harbingers of, if not torchbearers of, changes in mission, strategy and personnel. On the other hand, inside successors represent stability" (726).Tushman, Newman and Romanelli (1986) refer to the Columbia research program that found that externally recruited executives were more than three times as likely to initiate framebreaking change than existing executive teams.

However, the choice between internal and external executives is not just straightforward, and Tushman and Romanelli (1985) present an interesting paradox to the implementation of revolutionary changes. They claim that outside successors are more likely than inside successors to initiate major changes, but they will often face substantial resistance in their implementation. Inside successors on the other hand, will probably not face substantial resistance in the implementation, but seldom be the initiator of major changes.

Research on mergers and acquisitions shows that these combinations are often followed by high turnover among senior managers. When focusing on mergers and acquisitions however, it is important to take into consideration that an executive recruited from one of the organisations will be external to the other organisation.

Change of ownership

A significant part of the change in mergers and acquisitions is the change of ownership. Goodstein and Boeker (1991) claim that earlier research has been biased towards the power of the company's CEO, not taking into account the power its owners or boards of directors might independently hold. They suggest that ownership changes can lead more or less to a concentration of control in the hands of management and fundamental transfers of control.

Change of ownership is the essence of mergers and acquisitions. However, it is important to emphasise that both parties involved do not necessarily experience change of ownership. In acquisitions for example, only the acquired company will have new owners.

5.2.4 Organisational Responses to Large-scale, Revolutionary Change

There are two streams of literature within the literature on organisational change that are particularly relevant for analysing the responses in mergers and acquisitions. The first stream of literature concerns organisational effects of decline and turbulence, whereas the second stream regards downsizing.

Organisational effects of decline and turbulence. This literature is particularly relevant for exploring the reactions of top management and employees in situations of decline and turbulence. As mentioned in the introduction above, it is reasonable to believe that parties in horizontal combinations with a high level of integration will be subjected to shrinking resources and turbulence. Cameron, Kim and Whetton (1987) and Cameron (1994) mention a number of attributes associated with organisational decline and/or turbulence (p. 227 and 195 respectively). These features are summarised in Table 5.1 below.

Table 5.1 Attributes Associated with Organisational Decline and/or Turbulence

Centralisation. Decision-making is pulled towards the top of the organisation. Less power is shared.	**Loss of trust.** Leaders lose the confidence of subordinates, and distrust among members of the organisation increases.
Short-term, crisis mentality. Long-term planning is neglected. The focus is on immediacy.	**No slack.** Uncommitted resources are used to cover operating expenses.
Loss of innovativeness. Trial and error learning is curtailed. Less tolerance for risk and failure associated with creative activity.	**Increasing conflict.** Fewer resources result in internal competition and fighting for a smaller pie.
Resistance to change. Conservatism and the threat-rigidity response lead to "hunkering down" and a protectionism stance.	**Restricted communication.** Only good news is passed upwards. Information is not widely shared because of fear and distrust.
Decreasing morale. Infighting and a "mean mood" permeate the organisation.	**Lack of teamwork.** Individualism and disconnectedness make teamwork difficult. Individuals are not inclined to form teams.
Politicised special interest groups. Special interest groups organise and become more vocal. The climate becomes more politicised.	**Lack of leadership.** Leadership anaemia occurs as most competent leaders leave, leaders are made scapegoats of, priorities are unclear, and a siege mentality prevails.
Non-prioritised cutbacks. Across-the-board cutbacks are used to ameliorate conflict. Priorities are not obvious.	

Cameron et al. (1987) also distinguish between the reactions of top management and members of the organisation. Top management reactions are associated with centralisation, no long-term planning, non-selective cuts and turnover, whereas organisation member responses are characterised by making scapegoats of leaders, resistance to change, low morale, fragmented pluralism, lost leader credibility, conflict and no innovation. However, it is important to emphasis that all members of the organisation do not experience the effects of crisis with equal severity (Milburn, Schuler and Watman, 1983).

Smart and Vertinsky (1977) argue in line with Freeman and Cameron that centralisation is a key feature in crises. They claim that key decisions in crises often are made by a small, tightly knit group of individuals who face the need for quick and short realignments of problem-solving procedures and mobilisation of resources. Specifically the individuals included in the decision unit tend to be from the highest levels of the organisation and have the personal confidence of the head of the organisation. The group is usually insulated from the rest of the organisation by the sense of shared responsibility, trust, and mutual support.

Milburn, Schuler and Watman (1983) suggest that one of the short-term organisational responses is a breakdown of cohesiveness among the groups in the organisation. However such a breakdown is more likely to result when the crisis has been precipitated by organisational susceptibility rather than the external environment. As such the authors refer to the numerous examples in which crisis precipitated by the external environment have resulted in increased organisational cohesiveness. "The external condition becomes in essence a superordinate goal uniting the organisation" (p. 1170). Interestingly Starbuck, Greve and Hedberg (1978) claim that organisations facing crisis perceive the crisis as having originated in their environment. Rather than attributing the difficulties to internal deficiencies, managers blame conditions in the environment.

According to Marks and Mirvis (1985) management often behave in a crisis management manner in mergers and acquisitions. This implies that this literature is highly relevant when studying the actions and reactions of top management and employees in such combinations. Moreover, as discussed in chapter four, the DnB-merger happened in the midst of a crisis in the banking sector.

Downsizing. Related to the literature on organisational decline are the contributions on organisational downsizing. Freeman and Cameron (1993) distinguish between decline and downsizing saying decline happens to an organisation, and is unintentional on the part of the organisation and its managers. Downsizing on the other hand, can be both functional and intentional. In horizontal combinations with a high degree of integration, downsizing is often one important way of realising gains from the integration.

The discussion of downsizing in the merger and acquisition literature has been particularly focused whom is dismissed, how termination is carried out and how trauma of job loss for those whose employment has been terminated has been dealt with (Cabrera, 1982; Ivanchevich, Schweiger and Power, 1987; Ivancevich and Stewart, 1989; Leana and Feldman, 1989; Schweiger, Csiszar and Napier, 1993; Schweiger et al., 1994; Schweiger and Weber, 1989). However, there is lack of research assessing the effects of downsizing on outcome variables.

Freeman and Cameron (1993) define organisational downsizing according to four key attributes. The first which was discussed above, is that downsizing is an intentional endeavour. Secondly, downsizing usually involves reductions in personnel, although it is not limited solely to personnel reductions. The third characteristic of downsizing is that it is focused on improving the efficiency or effectiveness of the organisation. That is, downsizing may be implemented as a defensive reaction to decline or as a offensive strategy to improve performance. Finally, downsizing affects work processes, wittingly or unwittingly. When the work force contracts for example, fewer employees are left to do the same amount of work, and this has an impact on the work that gets done and how it gets done. This definition of downsizing is much more precise than what is found in the organisational stream of the merger and acquisition literature.

Cameron (1994) investigated the organisational effects of downsizing and found that a gradual, incremental approach to downsizing is a strategy associated with organisational improvement and effectiveness. "The firms that improved their performance were those that prepared for downsizing in advance. They invested time and resources in systematically analysing tasks, personnel skills, resource needs, time use, process redundancies, and inefficiencies" (p. 201). This strategy outperformed the strategy chosen by the majority of managers which was to apply a "rapid, quick-hit approach to downsizing" (p. 201). In fact, the author found that downsizing through layoffs negatively influenced effectiveness.

Increased communication and participation of employees in the downsizing process were also associated with improvement in organisational performance. "When the middle- and lower-level employees were involved in the downsizing decisions, when suggestions were sought from them when and how downsizing should occur, and when discretion was provided to them to help implementing downsizing, performance improved" (202).

The most powerful factor for deteriorating performance was downsizing via attrition, that is imposing freezes and/or not replacing individuals who leave the organisation.

According to the authors this is a common approach, but it often leaves the organisation without crucial skills and human resources. In addition the authors show that downsizing that leads to more work on remaining employees also short-circuits performance. This is partly because the remaining employees become overloaded and are required to do tasks for which they may not be trained. Organisations that changed the reward and appraisal systems by eliminating cost-of-living increases, salary freezes, and implementing a forced ranking of all employees in performance appraisals were also associated with deteriorating performance.

Seen in relation to the research on mergers and acquisition, these studies on downsizing are particularly interesting because they define the feature and evaluate the effectiveness of different downsizing strategies.

5.2.5 Contribution

The purpose of this section is to discuss how the literature on strategic and organisational change raises new questions and themes in relation to the merger and acquisition literature. Some of these themes will be further explored in chapter ten which analyses the two cases in the light of the literature.

The first section on classification of types of change, can help explore why change processes in various mergers and acquisitions are likely to be different. In particular I suggest that the degree of change would probably vary according to the power balance between the parties and the degree of integration.

As for the discussion of characteristics of large-scale, revolutionary change, this contributes to an understanding of how merger and acquisition processes evolve over time. This is particularly interesting because so few studies within the merger and acquisition field have explored what happens in these processes beyond the first one or two years.

Mergers and acquisitions will by definition involve change of ownership for one or both parties. However, as discussed above, it is likely that other triggers of change will be present as well. According to Schweiger, Ridley and Marini (1992) merger integration processes are too often discussed as if they occur in a vacuum. In the section on environmental impact in chapter two, I concluded that there has been scant research investigating the impact of the environment the integration processes. The discussion of environmental impact in this chapter may be helpful in identifying what kind of environmental pressures mergers and acquisition processes are likely to be subject to and which implications these pressures have for the following integration process.

As for performance crisis, this feature may help explore why change processes are likely to vary in accordance with the target's performance.

When it comes to change of CEO, research within the merger and acquisition field shows that these combinations often result in a change of management. The literature on strategic and organisational change is interesting because it addresses the pros and cons of insiders versus outsiders.

The literature on decline and turbulence is particularly helpful in the analysis of how different groups of members of the organisation act and react when faced with shrinking resources and turbulence in merger and acquisition processes. The literature has also interesting implications for assessing how these organisational responses affect cohesiveness which is closely linked to cultural integration in mergers and acquisitions.

The literature on downsizing on the other hand may help explore how different approaches to downsizing in mergers and acquisitions affect performance.

5.3 POWER AND POLITICS

This section is divided into four parts. The first part examines five different sources of power. Secondly, a discussion of exercise of power follows. Then I explore the dynamics of power. Finally, I discuss which new themes and questions the literature on power and politics raises in relation to the merger and acquisition literature.

Before I go on to the discussion of the various power sources, it is important to make a distinction between the structural and the relational aspects of power (Pettigrew and McNulty, 1994). The structural analysis of power refers to the possession and control of power sources, and hence reflect the potential power. Potential power is just like a tool. One can utilise it or not. The relational aspect of power on the other hand, defined as influence, refer to the "will and skill in creating and using the power sources potentially available" (ibid, 1994, p. 11). This relational aspect of power acknowledge that power is a property of social relationships, not an attribute of the actor. Hence, power is generated, maintained and lost in the context of relationship with others.

5.3.1 Sources of Power

In this section I will discuss sources of power that can be applied to mergers and acquisitions. The selection of power sources is based upon observations made in the first phase of the DnB-merger. Five bases of power will be examined including legitimate power, expert power, relationship power, availability of alternatives and prestige power.

Formal or legitimate power is perhaps the most cited type of power and is a power base grounded in formal organisational structure and hierarchical authority (Finkelstein, 1992). French and Raven (1959) define this power source as the power that stems from the internalised values in one actor which dictate that another actor has the legitimate right to influence him or her and that he/she has an obligation to accept this influence. Because of the socially shared, institutionalised nature of hierarchical position, it is regarded as one of the strongest sources of potential power and one of the most immutable structural constraints on power (Brass and Buckhardt, 1993).

The importance of this source of power is reflected in the nature of the allocation processes in mergers and acquisitions. The rationale behind horizontal mergers and acquisitions is often to reap economies of scale by eliminating overlapping functions and positions thus creating scarcity of critical resources. Indeed, Marks (1991) claims that the management in merger or acquisition processes is preoccupied with how the merger will affect them and their careers. In their study of a merger between two banks, Buono et al. (1985) describe a phase in the merger process they call "the arm wrestling phase".

Emerson (1962) claims that the dependency of one party provides the basis of the power of the other. This means that a's potential power over b is determined by and equal to b's dependence on a, and vice versa. The dependence on actor a in this relationship is directly proportional to actor a's interest in or need for the resources provided by b, and inversly propotional to the availability of that resource outside the a-b relationship (Emerson, 1962). Emerson's view postulates that actors that possess and control scarce resources are the powerful ones. Two sources of power relevant to mergers and acquisitions can be derived from this view. These two sources of power; expert power and relationship power, will be discussed subsequently.

Many researchers have identified the ability to deal with environmental contingencies and contribute to organisational success as an important source of power (Hickson et al., 1971; Pfeffer and Salancik, 1974). Managers with relevant expertise may have significant influence on a particular strategic choice and are often sought out for their advice (Finkelstein, 1992). Pettigrew (1973) found that the resource of technical knowledge played a significant part in his study of organisational decision-making in Michaels. This expert power tends to accrue best when a manager's expertise is in an area critical to an organisation.

It seems reasonable to believe that managing the integration process in mergers and acquisitions requires special skills. Thus one would expect that experience from major change processes would be a critical skill in the post-combination process. Moreover, expertise in interacting with regulatory authorities would probably be another source of expert power.

Another important resource is access to powerful and influential actors within the organisation or relationship power. According to Pettigrew (1973) generating support for a demand is conditional on the structure of the individual's direct and indirect personal networks. He says: "For a variety of reasons certain people may want to help a particular individual seeking support more than others. It may be a matter of marriage of convenience based on communality of interests. As well as being alert to common interests, the support-seeker must be sensitive to the relative power of the people he endeavours to attract" (p.240). Similarly, McNulty and Pettigrew (1994) suggest that relationship to other board members is an important power base in their study of boards and directors.

Relationship power base is particularly interesting in horizontal mergers and acquisitions because of the high job insecurity in such combinations. Mergers and acquisitions also represent occasions where many relationships will be formed, changed and lost. Hence, one's relationship with people in powerful positions may be of vital importance. Relationship power will also be an important power source for members of the top management team. In the DnB merger for example, one of the reasons for choosing Gade Greve from Bergen Bank as opposed to Kristian Rambjør from DnC, was Gade Greve's strong and long-standing relationships in the banking community.

The second aspect of Emerson's (1962) definition of dependence, availability of the resource outside the a-b relationship, is particularly useful for studying the parties' alternatives both at horizontal and vertical level. This is a feature that has received much attention in the negotiation literature where the development of alternatives to negotiated agreement is regarded as an important way to strengthening one's negotiating position (Fisher and Ury, 1981).

Focusing on alternatives outside the relationship is particularly relevant for analysing the power bases in the pre-combination negotiations and in staffing decisions. In the pre-combination process the development of alternatives will strengthen one's power base. Similarly, the employees will be in a stronger position for negotiation if they can find alternative employment elsewhere.

Personal prestige or status is another base of power relevant in mergers and acquisitions, in particular when relating the integration process to events in the environment. According to Finkelstein (1992) managers' reputations in the institutional environment and among stakeholders influence other people's perception of their influence. Institutional environments are comprised of those members of society such as governments and other important actors external to the firm, that individual organisations must to look for support and legitimacy.

In addition to expert power, prestige power is a source that is helpful in assessing the relative power in mergers and acquisitions between the top management groups in the two organisations.

5.3.2 Exercise of Power

Whereas the structural analysis of power focuses on the possession and control of power sources, the relational treatment of power defined as influence "tilts the analyst to explore will and skill in creating the power sources potentially available" (Pettigrew and McNulty, 1994, p. 11). In this subsection I will start by distinguishing between decision-making, non-decision-making and symbolic power. Then I examine the will and skill in mobilising and using power.

Decision-making, non-decision-making and symbolic power. First, it is important to distinguish between overt and covert power (Pettigrew, 1986). Situations of overt power are circumstances where power resources are used to produce preferred outcomes in the face of conflict between declared and active opponents. Covert power on the other hand, is used to ensure that conflict does not occur.

Hardy (1994) distinguishes between two forms of overt power, i.e. decision-making power and non-decision-making power. The objective of the research on decision-making power has been to determine who makes the decisions. These studies typically focus on key decisions that are likely to illustrate the prevailing power relationships.

Non-decision-making power is defined as a process whereby issues can be excluded from decision-making, confining the agenda to safe questions (Hardy, 1994). This form of covert power explores the barriers that are available in restricting participation in the decision-making process. According to Hardy this non-decision-making allows more powerful actors to determine outcomes behind the scenes and is typically used by dominant groups to protect the status quo.

As for the use of covert power, Pettigrew (1986, p. 134) says: "Political actors may define success not so much as winning in the face of confrontation but as the ability to section off spheres of influence where domination is perceived as legitimate and thus unchallenged. The use of power in this situation revolves around attempts to create legitimacy and justification for certain agreements, so that they are never questioned by others". This dimension reflects the use of symbolic power.

Pfeffer (1981) distinguishes between the substantive and the sentiment outcomes of power. Whereas the first largely depend upon resource dependency considerations, the latter reflect the way people feel about the outcomes and are mainly influenced by the symbolic aspects of power (Pettigrew, 1986; Hardy, 1994). Pfeffer (1992, p. 44) says: "We are sometimes perplexed as to why so much effort and energy are expended over seemingly unimportant decisions".

It is important to take all three dimensions of power into consideration when analysing the use of power in mergers and acquisitions. First, it is important to focus on the key decisions made in mergers and acquisitions, and analyse who benefits from these decisions. Secondly, observations from the first phase of DnB suggest that there may be some sensitive areas in mergers and acquisitions that reflect the power of non-decision-making. Finally, the symbolic dimension directs attention to the employees' interpretation of the outcomes.

The role of will and skill. The political decision model (Pfeffer, 1981) postulates that those interests, sub-units or individuals who possess the greatest power, will receive the greatest reward from the interplay of politics. Evidence from the DnB merger suggests that the power relationships in the pre-merger phase could not solely explain the allocation of positions and functions in the third phase of the merger.

Two possible explanations for this findings can be derived from the merger and acquisition literature (Mintzberg, 1983; Pettigrew and McNulty, 1994). First, the exercise of power requires action. "The individual must act in order to become an influencer, he or she must expend energy, use the bases of power" (Mintzberg, 1983, p.25). In other words exercise of power requires the will to use one's power sources. Secondly, there is a question of skill. According to Pettigrew and McNulty (1994, p.28) individuals do differ in their needs for power, in their willingness to act, and their behavioural tactics and skill in acting."

In their research on boards and directors, Pettigrew and McNulty (1994) suggest that non-executive directors often will be deficient in structural sources of power relative to their chief executives or executive board members. Thus, their prospect of influence will be dependent on will and skill in mobilising the resources available to them.

There are a number of groups in mergers and acquisitions that face a similar situation as described by Pettigrew and McNulty. One group that in many ways can be compared to the non-executive directors in terms of limited power sources, is the middle managers. This is a particularly important group in mergers and acquisitions, because without their support the integration between the two organisations will be at stake.

Two researchers that have investigated the role of middle managers in the implementation of strategies are Guth and MacMillan. Their research suggests that middle managers will be willing to intervene or use power when their self-interest is at stake. Using expectancy theory they propose that individual managers will put little effort into the implementation of a particular strategy if (Guth and MacMillan, 1986, p. 20):

> 1) They believe that they have a low probability of performing successfully in implementation the strategy; or
>
> 2) they believe that even if they do perform successfully individually, that performance has low probability of achieving the organisationally desired outcome; or
>
> 3) the organisationally desired outcome does not satisfy their individual goals.

Guth and MacMillan (1986) suggest that active intervention from middle managers can range from persuasive individual arguments against the prevalent strategy in meetings and in memos, to seeking other members of the organisation (coalitions) who will agree to stand in opposition to the strategy; to deliberately taking ineffective action or creating "roadblocks to implementation; to outright sabotage of the strategy to prove that it was not a good decision in the first place.

On the other hand, passive intervention can occur, taking the form of giving low priority to implementation actions, resulting in unnecessary delays and in general "foot-dragging" all of which can seriously compromise the quality of implementation, if not postpone it beyond the time that it is effective.

The authors also show that the success and risk involved in intervening is dependent on whether one takes a position during the decision-making process or resists decisions after the decision has been made.

In another paper, MacMillan and Guth (1985) explore the issue of middle management coalitions in particular. They suggest that coalitions of middle managers with low or negative commitment to the strategies formulated by their senior management can pose formidable obstacles to implementation. They build their argument on coalition theory which says that coalitions are groups of individuals who pool their efforts to achieve a jointly desired outcome on some issue to be resolved in the organisation.

MacMillan and Guth found that middle managers do participate extensively in organisational coalitions and that these coalitions are concerned with issues that in many cases reach beyond that of the manager's immediate department.

Although MacMillan and Guth focus on middle managers, their reasoning also applies to other groups of stakeholders in decision-making processes. In many of the relationships in mergers and acquisitions one party does not have legitimate power over the other party, and hence does not have the opportunity to impose their decisions on the other party. This is for example often the case in balanced combinations. Their influence is therefore based on willingness and skilful use of other power sources. In mergers this would, for example, apply to the relationship between the two top management teams where neither party has legitimate power over the other.

5.3.3 Dynamics of Power

In addition to exploring the sources and exercise of power, it is important to recognise the highly situational character of the quest for power and influence (Pettigrew and McNulty, 1994). "In the way that change processes are often shaped by features of the content and context in and around change, so also are political processes in organisations" (Ibid, p. 12).

Pettigrew (1973, p. 10) underlines the importance of the dynamic character of power:

> The distribution of power at any point in time is a major factor in determining who will gain disproportionate share of new resources as these become available. Consideration is given, therefore, both to the pattern and the dynamics of redistribution in the context of an innovative decision process.

Change in the relationships of power will often occur as a consequence of large-scale and evolutionary change. Thus it is important to relate the changes in power relationships to the triggers of change discussed in the section on strategic and organisational change above, or as Pettigrew and McNulty say: "The ebb and flow of power relationships can also occur because of the destabilising effects of externally or internally induced crisis and change" (p. 12).

As discussed above, power is organised around critical and scarce resources. When the organisation is dependent on the environment to obtain these scarce and critical resources, participants who furnish these resources will gain power in the organisation. Changes in the environment will often change the distribution of power in the organisation. Pfeffer (1992) argues that changes in the environment are one of the important ways in which power is lost, because new approaches, new skills, and new relationships are required. This view suggests that environmental changes will change the basis of expert power.

By focusing on changes in the relative status of the major occupational groups in the British computer industry, Pettigrew (1973) relates changes in the environment to changes in the prestige power bases. Pettigrew argues that the relative power between these occupational groups in Michaels (the firm Pettigrew studied) should be considered in an environmental context: "As the technological environment in which they operated changed, so the distribution of power resources between the two groups altered" (p. 272).

As for change of CEO, this decision is often characterised as one of the most political decisions in an organisation (Pfeffer, 1981). Change of CEO will often alter the distribution of power in an organisation. According to Pfeffer (1992), new chief executives typically set in motion a series of actions which are designed to solidify and institutionalise the executives′ power, such as changing the top management team and organisational structure. As mentioned above, externally recruited executives are more likely to initiate framebreaking changes than internally recruited executives. Hence, successors from the outside may represent a threat to executives as they will probably execute a greater number of strategic replacements than an inside successor (Helmich and Brown, 1972).

In addition to replacements of executives, new executives will often make changes in organisational structures. Pfeffer (1992) claims that these changes are one of the more important strategies to exercise power. By changing the structure one can divide or conquer the opposition. Further one can place oneself or one's allies in positions to exercise more control over resources.

In my view focusing on the dynamics of power is particularly relevant for studying the evolving integration process in mergers and acquisitions. In the DnB-merger there was a mixture of externally and internally generated situations which brought about changes in power relationships. As for the externally generated situation, a recession in the Norwegian economy seemed to change the bases for expert and prestige power. The change of CEO on the other hand, can be looked upon as an internally induced change, resulting in strategic replacements and major structural changes.

5.3.4 Contribution

There are a number of areas in which the literature on power and politics can contribute to the understanding of merger and acquisition processes. The most commonly used indicators for measuring relative power in the pre-combination process are relative size and whether the combination is a merger or an acquisition. Evidence from the DnB-merger suggests that in mergers between equals, it is necessary to go beyond these power sources to understand the power balance between the merging parties. The literature on power and politics is interesting in this connection because it brings in <u>how the alternatives to negotiated agreement affects the parties' negotiation positions.</u>

The discussion of allocation of positions and functions in the merger and acquisition literature has been dominated by staffing decision issues. Few studies have focused on the outcome of allocation processes and the distribution of power in the post-combination process. The literature on power and politics can contribute to the merger and acquisition field by exploring and identifying <u>which power sources are important in the post-combination process</u>.

As for the research on the exercise on power, the literature on decision-making power may provide some explanationof how some of the sensitive issues in mergers and acquisitions, such as the allocation of head office functions, are excluded from decision-making. The literature on the exercise of power also brings one's attention to the importance of incorporating will and skill in the analysis. In particular I would suggest that the literature can contribute to the understanding of how will and skill influence the allocation of positions and functions in mergers and acquisitions. As for symbolic power, this may be helpful in assessing how members of the organisation react to the allocation of positions and functions.

The literature on dynamics of power emphasises that power is not static, but rather subject to change. In the section on strategic and organisational change, it was suggested that one of the key characteristics of large-scale, revolutionary change in mergers and acquisitions was the uncertain future states and the transitions over long periods of time. Hence, it is probable that the power relationships in the initial combination will change over time. I would argue that the literature on power and politics can contribute to the understanding of both how and why power relationships change over time.

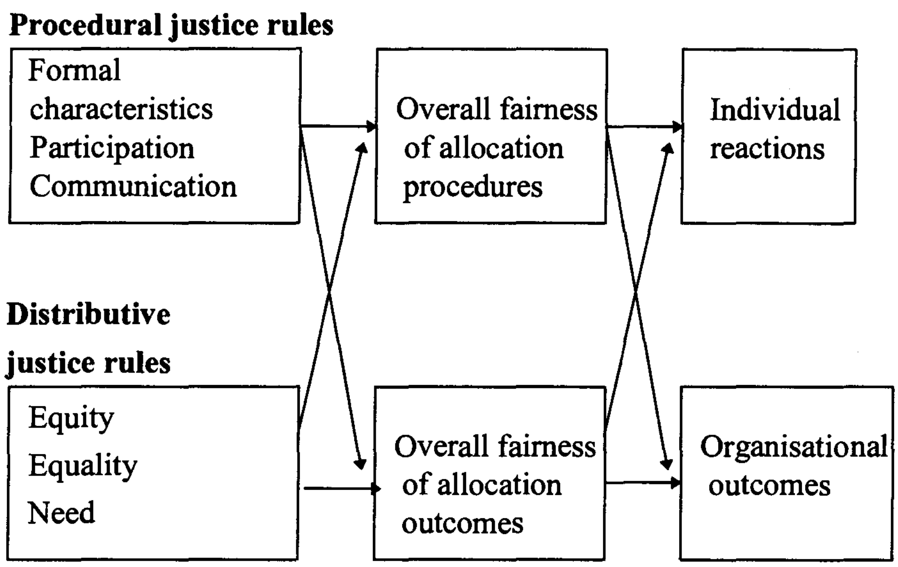
5.4 SOCIAL JUSTICE

Traditional discussion of organisational justice has emphasised the role of distributive justice, that is the manner in which resources are distributed, and on the responses to these distributions (Greenberg and Folger, 1983). Another form of justice in organisations that has received much attention in the last decade is procedural justice, defined as rules and procedures through which resources are allocated (Lind and Tyler, 1988).

The purpose of this section is to give a brief review of both perspectives, and apply them to the integration process in mergers and acquisitions. The section on distributive justice will focus on the rules of distribution and the purposes behind and trade-offs between them. The discussion of the procedural justice perspective will examine the procedures of allocation including formal characteristics, participation and communication and discuss the purposes of adopting these procedures. Thirdly, I will examine how these two types of organisational justice interact, and the outcome variables studied. Finally, I will discuss the new questions and themes the literature on social justice raise in relation to merger and acquisition processes.

Models of organisational justice propose that procedural and distributive justice rules influence the individual's perceptions of overall fairness of process and outcome, which in turn influence individual and organisational outcomes. The discussion in this section will draw on the following framework based on Gilliland (1993):

Figure 5.1 Distributive and Procedural Justice



5.4.1 Distributive Justice Rules

The purpose of this first section is to discuss the distribution rules most commonly discussed in the social justice literature, and examine the purposes behind and the trade-offs between them. Authors of distributive justice propose that individuals will evaluate distributions of outcomes with respect to some distributive rule (Gilliland, 1993). Three distributive rules have been identified in the distributive justice literature; equity, equality and special needs. Although equity is clearly the dominant rule that guides perceptions of distributive fairness, other procedural rules may become more salient under some circumstances.

The equity distribution rule which builds upon equity theory (Adams, 1965), suggests that people should receive rewards that are consistent with the inputs they contribute to a distribution situation, relative to a referent. This referent comparison can be made in relation to another person, for example a peer; a generalised other, such as an occupational group (Greenberg, 1987); or oneself, comparing current input/output ratio with a past input/output ratio or an ideal input/outcome ratio held for the situation (Gilliland, 1993).

Deutsch (1975) extended equity theory by incorporating rules of equality and need as two other distributional rules influencing perceptions of relative fairness. Equality suggests that all individuals should have an equal chance of receiving the outcome, regardless of differentiating characteristics such as knowledge or ability (Meidl, 1989; Gilliland, 1992). Equality signifies that the different members of a relationship have equal value as individuals, and emphasises members' "common fate", thus promoting solidarity and social cohesiveness (Kabanoff, 1991).

The needs distribution rule suggests that resources should be distributed on the basis of individual needs (Gilliland, 1993). Special needs in an employment situation for example, may be referred to as preferential treatment for a sub-group of disadvantaged employees.

Literature on distributive justice has suggested that the choice of distribution rule will be dependent on the goal(s) pursued, short-term and long-term considerations, the value context, whether the needs are made salient and the relative power between the parties.

Kabanoff (1991) suggests that equity will be the chief principle of distributive justice when economic productivity is the goal, while equality will be the dominant principle when the fostering or maintenance of enjoyable social relationships is the common goal. Lind and Tyler (1988) argue that there is a trade-off between short-term and long-term goals. They say that equity in reward distribution is generally thought to foster efficiency and productivity in the short term, while equality in reward distribution is generally thought to foster group harmony and commitment to the group in the long term.

Meidl (1989) argues that managers operating in different value contexts and with different situational goals are likely to arrive at different distributive solutions. He suggests that parity will be substituted for equity solutions as a result of a belief on the part of managers that productivity in highly interdependent situations is best accomplished by individuals who are cohesive and/or that such egalitarian patterns are the most efficient way to deal with a conflicting value context.

> Thus, for example, managers who are in organisations adopting "team building" as a dominant value context - either single mindedly or alongside other values or goals - can be expected to display a movement away from the highly differentiated allocations associated with equity principles toward the equality associated with a parity-based logic, even

> when the accurate specification of and assessment of individual contributions (performance) is feasible (p. 271-272).

As for the needs, research has suggested that reward allocation decisions are influenced by the needs distributive rule to a greater extent when individual needs are made salient to the allocator (Gilliland, 1993). This finding is strongest when the needs are externally and unintentionally caused rather than internally or intentionally caused.

Kabanoff (1991) relates justice and power perspectives and contrasts the distributive orientations and conflict behaviour in equal and unequal relationships. He argues that as the power difference in an organisational relationship increases, the psychological orientation of both parties tends to reflect a greater, though not necessarily equal, acceptance of equity as the distributive rule. Moreover, he argues that the greater the power difference, the less likely that the weaker party perceives inequitable distributions which favour the more powerful party as inequitable. However, increased power differentiation is also associated with an increased potential for non-directed conflict based on decreased social integration and loss of cohesiveness.

Equal parties on the other hand, feel free to disagree about many issues, including the most efficient way to allocate their joint resources, who contributed most to a particular outcome, whether some inputs are more or less important for achieving certain outcomes, and so on. In a sense, Kabanoff says, negotiation, rather than allocation, becomes the process of achieving distributive justice. Thus Kabanoff argues that as power differentiation in an organisational relationship decreases, the potential for overt conflict based on issues of equity increases. Paradoxically and in contrast to unequal power relationships, these relationships are also postulated to be associated with higher levels of cohesiveness or solidarity.

As mentioned above the preliminary findings in the DnB-study suggest that the outcomes in the distribution of positions and functions in the first phase of implementation could only partially be explained by the theories on power and politics. The literature on distributive justice supplements the power and politics perspective in adding three rules of distribution. Hence allocations can be based on use of power, equity, equality or need.

Findings in the DnB merger suggests that the use of power, equality and equity are the most relevant for studying mergers and acquisitions. I will argue that the application of equality or equity will restrain the use of power, and as such moderate the relationship between pre-acquisition power and outcome of allocation.

5.4.2 Procedural Justice Rules

The research on procedural justice acknowledges that individuals are not just concerned about the outcome of decisions, but also about the fairness of procedures used in making decisions. In fact, research suggests that people are affected by such procedures regardless of the perceived fairness of the decision itself (McFarlin and Sweeney, 1992).

In this section I will discuss three perspectives on procedural justice that focus on the procedures for allocation and identify a number of rules that may help promote the attainment of justice (Greenberg, 1987).

Leventhal (1980) proposed that procedural justice was a function of the extent to which a number of procedural rules were satisfied or violated. He proposed six procedural rules that people would use to evaluate the fairness of allocation procedures (Bies and Moag, 1986, p. 45):

> ***Consistency rule*** - allocative procedures should be consistent across people and over time;
>
> ***Bias suppression rule*** - personal self-interest and blind allegiance to narrow preconceptions should be prevented;
>
> ***Accuracy rule*** - decisions based on as much good information and informed opinion as possible;
>
> ***Correctability rule*** - opportunities must exist to modify and reserve decisions;
>
> ***Representativeness rule*** - the allocation process must represent the concerns of all important sub-groups and individuals; and
>
> ***Ethicality rule*** - the allocation process must be compatible with prevailing moral and ethical standards.

Applying Leventhal's (1980) ethicality rule, Brockner et al. (1994) argue that advance notice, the period between the time at which employees are notified about a decision and the time at which the consequences of the decision take effect, should be included as one principle central to procedural due process. Brockner et al.'s findings are discussed in the paragraph on interactional justice and in section 5.4.3 below.

The other perspective on procedural justice arises from the work of Thibaut and Walker (1975). Approaching procedural justice from a legal perspective, they were in particular concerned with the role of process control or "voice" of the individual in fairness processes. Thibaut and Walker found that procedures were perceived as more fair when affected individuals had an opportunity to either influence the decision process or offer input.

Voice, defined as allowing individuals affected by the decision to present information relevant to it, is regarded as one of the primary means of maximising fairness perceptions. In a selection domain, voice can be interpreted as having adequate opportunity to demonstrate one's knowledge, skills and abilities (Gilliland, 1993). Voice does not however ensure perceptions of fair process unless the decision maker acknowledges and shows consideration of others' input (Korsgaard et al., 1995).

Korsgaard et al. (1995) investigate the impact of two aspects of decision-making procedures; consideration of member input and influence over a decision. They claim that by distinguishing between consideration and influence, the procedural justice perspective provides some insight into the mechanisms of participation. This is particularly interesting regarding the scant empirical research on participation in the organisational literature on mergers and acquisitions. Manipulating consideration and influence, the researchers found that consideration of member input and influence both had a positive and significant effect on perceptions of procedural fairness.

Korsgaard et al. (1995) also investigate how perception of fairness mediates the decision procedures and outcomes. They find that perceived fairness partially mediates the effects of consideration and influence on decision commitment, provides a weak, partial mediation of the effects of consideration on the attachment to the group and fully mediates the impact of consideration on trust.

The third perspective, which is more recent, was first outlined by Bias and Moag (1986). Their view of procedural justice which they name interactional justice, is concerned about the fairness of interpersonal communication. As such, interactional justice refers both to what is said to individuals during the decision process and how it is said (Gilliland, 1993).

Brockner et al. (1994) say that two factors are particularly relevant to the interactional aspect of procedural justice: (1) whether people believe that the reasons underlying a resource allocation decision were clearly and adequately explained to them, and (2) whether those responsible for implementing the decision treated them with dignity and respect. Recent research has demonstrated that justification for an adverse decision can lessen negative consequences associated with that decision (Gilliland, 1993).

Applying these rules to a downsizing context, the authors stress the importance of clear and adequate explanations of the reasons for lay-offs, and dignified treatment of those who leave and those who stay. Combining these two rules with advance notice, their findings suggest that if lay-offs are perceived to be procedurally fair, the reactions of lay-off victims, survivors and "lame ducks" (people who have been told they were to be laid off, but have not yet departed from their organisation) in terms of respondents' trust in and support for their organisation, will be less affected by outcome-related factors.

Bringing the three perspectives together, procedural justice rules consists of (1) formal characteristics including consistency, bias suppression, accuracy, correctability, ethicality; (2) participation in terms of input and influence, and (3) communication in the form of providing an explanation for a decision and treating people with dignity and respect.

Procedural justice theorists have argued that fair procedures serve two purposes. The first purpose is to protect the individual's interests and is thus associated with positive attitudes toward a decision, such as satisfaction, agreement, and commitment. The second function of fair procedures is symbolic and "helps to strengthen individuals' relationship with a group, leader, organisation" (Korsgaard et al., 1995, p. 66) and promotes group harmony, trust in leader, and organisational commitment. Similarly, Lind and Tyler (1988) argue that procedural justice enhances commitment and loyalty to groups and institutions.

Lind and Tyler (1988) argue that procedural justice judgements will be based on the balance of goals that the perceiver seeks in the relationship. In long-term relationships within groups or organisations, goal trade-offs generally involves balancing the need to be productive and efficient, leading to high levels of outcome for the entire group, against the need to build group loyalties and commitment to the group, which lead to long-term group maintenance. Thus, the authors postulate that procedural justice is crucial to the long-term maintenance of positive social relationships within groups. They say (p. 227):

> ...procedural judgements should have strong effects on group cohesiveness and loyalty, because fair procedures will reassure members that their interests will be protected and advanced through group membership.

The discussion on procedures for allocation above can contribute to the analysis of the two combinations in several areas. Firstly, it introduces the importance of evaluating the procedural rules, not just the allocation outcomes. Secondly, it relates participation and communication to individual and organisational outcomes through the perception of fairness. In terms of participation, mergers and acquisitions are in many ways a unique context for studying fairness in employment selection. In contrast to "normal" selection processes, employees in merger and acquisition processes are often not evaluated in the same stringent way, and it is likely that they will have less opportunity to demonstrate their knowledge, skills and abilities. By distinguishing between input and influence, the perspective also contributes to the understanding of participation in particular in the integration process. As for communication, the interactional justice perspective is particularly interesting in relation to downsizing.

5.4.3 Interaction between Distributive and Procedural Justice

According to McFarlin and Sweeney (1992), the few studies done in organisational settings have tended to support the notion that the predictive role of procedural and distributive justice depends on the nature of the outcome in question. These results suggest that procedural justice may be a more important predictor than distributive justice for outcomes related to evaluating a company as an institution and its representatives, such as organisational commitment and trust in supervisor. Distributive justice in the other hand, may be a more important predictor of personal outcomes, such as satisfaction with pay.

However, research in this field has also suggested that the two forms of justice interact. According to Brockner et al. (1994) individuals' perceptions of fairness of procedures will also influence their reactions to the outcomes received. They say that if the depriving party acts in a procedurally fair manner, recipients have fewer reasons for reacting negatively to adverse outcomes. When procedural justice is low and outcomes are negative however, individuals have the strongest reasons for thinking that different outcomes should have resulted. In their study of interaction effects Brockner et al. found that when procedural justice was low, there was a marked relationship between outcome negativity and individuals′ reactions. However, when procedural justice was perceived to be high, there was little relationship between outcome negativity and reactions.

Similarly McFarlin and Sweeney (1992) found that although employees who felt that procedures were fair tended to have higher levels of organisational commitment than those who felt that procedures were unfair, this gap was much larger when distributive justice was low.

The discussion of interaction effects directs attention to when fair procedures are most important. This research suggests that when a decision does not meet individuals' preferences, they are more apt to assess carefully the procedures followed in making a decision. In relation to mergers and acquisitions, this would indicate who the managers and employees that are negatively affected by the event, would also be the ones most concerned about the fairness of the applied procedures.

5.4.4 Contribution

The discussion of distributive justice adds to the merger and acquisition literature by suggesting which factors influence the choice of distribution rules, the trade-offs between them and their influence on perception of fairness and individual and organisational outcome variables in the short and long run.

The literature on procedural justice directs attention to the procedures followed in decision-making. In relation to the merger and acquisition literature, the research on procedural justice can help identify which procedural rules are most important in the positioning and downsizing process. Secondly, the literature offers insights into the mechanisms of participation and emphasises the importance of including both voice and influence.

The interactional justice perspective contributes to the understanding of which features are important in assessing the quality of communication in merger and acquisition processes. Finally, the literature on procedural justice explores how these procedural rules influence the perception of fairness and individual and organisational outcomes.

The research on interaction between distributive and procedural justice may help in identifying which groups are likely to be mostly concerned about procedural justice. In particular the literature suggests that the more negative the outcomes, the more the members of the organisation will be concerned about fairness of procedures.

5.5 SOCIAL IDENTITY THEORY

In this section I give a brief review of social identity theory (SIT) and apply it to my studies of integration processes in mergers and acquisitions. The first parts gives a brief review of the most important aspects in the theory. Then I distinguish between group and organisational identities. Third, I discuss the factors suggested in the literature as promoters for social identification. Finally, I discuss how SIT provides new questions and themes in relation to the mergers and acquisition literature.

5.5.1 Social identity theory

According to SIT, people will tend to classify themselves and others into various social categories, such as members of the organisationhip, religious affiliation, gender, and age cohort (Tajfel and Turner, 1985). Tajfel (1982) defines social identify as the part of individuals′ self-concept which derives from their knowledge of their membership of a social group (or groups), together with the value and emotional significance of that relationship. Hence, social identity is related to group membership, memberships that can be self-assigned or assigned by others (Kleppestø, 1993). Moreover, social identification enables the individual to conceive, and feel loyal to an organisation or corporate culture (Ashford and Mael, 1989) .

Social classification serves two functions. First, it cognitively segments and orders the social environment, providing the individual with a systematic means of defining others. Second, social classification enables individuals to locate him- or herself in the social environment (Ashforth and Mael, 1989). The classification of oneself and others into social categories implies that social identities are of a comparable nature.

As a result of these categorisation processes, within group differences become minimised and between-group differences become exaggerated (Tajfel, 1982). Moreover, there is a tendency by members of an in-group to consider members of out-groups in a relatively uniform manner. The result of this process is the depersonalisation and dehumanisation of the out-group. However, in making comparisons, individuals do not only strive to maximise differences, but also to secure an evaluative advantage for the in-group (Hogg, 1992). Hence, the basic hypothesis in SIT is that pressures to evaluate one's own group positively through in-group/out-group comparisons, lead social groups to attempt to differentiate themselves from each other (Tajfel and Turner, 1985).

These dynamics of comparisons need to be qualified by the relative status of the groups (Ashford and Mael, 1989). According to Tajfel (1982), relative status is one of the reflections of differences in power. The identity of a low status group is implicitly threatened by a high status group. A high status group however, is less likely to feel threatened, and thus in less need for affirmation. Accordingly, while a low status group may go to great length to differentiate itself from a high status comparison group, the latter may be relatively unconcerned about such comparisons and form no strong impression about the low-status group (Ashford and Mael, 1989).

Theories on organisational or corporate culture, cultural anthropology and psychology have all contributed to the understanding of integrating cultures in mergers and acquisitions. Indeed, the cultural field is probably the most commonly applied in the organisational stream of mergers and acquisitions.

However, the research on cultural integration is still in its infancy: the various concepts lack precision and the number of empirical studies are fairly few. Social identity theory contributes to the understanding of cultural integration by operating with more precise concepts than the theories on culture. Secondly, the theory gives insight into why the integration of cultures cannot simply be explained by focusing on cultural differences. Kleppestø (1993, p. 236) argues that:

> The general notion that difficulties in integration due to a merger or acquisition can be explained by cultural differences between the two companies involved is not satisfactory. It cannot be assumed that companies with similar cultures face fewer obstacles to integration. Furthermore, efforts to achieve cultural uniformity do not necessarily lead to better integration or co-operation. The differences emphasised by the actors are not primarily the result of the different cultures *per se* but of the integration.

By its comparative nature, the theory also contributes to the understanding of integration of cultures in mergers and acquisitions. Moreover, SIT give some insights into which party is likely to feel most threatened by the integration.

5.5.2 Group or Organisational Identification

Research on categorisation and identification processes has generally focused on three distinct levels of social identification (Kramer, 1991). These can be characterised as (1) a personal or individual-level identity that leads individuals to define their interdependence at the interpersonal level, (2) a group-level identity that leads individuals to define their interdependence at the group level, and (3) a superordinate-level identity that causes individuals to define their interdependence at the organisational or collective level.

The personal identity reflects an individual's conception of him or her-self that is defined primarily in terms of those unique individual attributes that differentiate oneself from others. Group-level identity, in contrast, is defined as the level of primary organisational group in which an organisation holds membership. The attributes of the individual that are associated with this level of identity include all of those attributes which the individuals share with other members of that category and which distinguish them from members of other categories in the organisation. Organisational identity is defined at the level of the organisation as a whole. The constellation of attributes that is salient at this level of identification includes those characteristics that are generally common to all of the members of the organisation, such as organisational culture (ibid).

Ashforth and Mael (1989) argue that organisational identification is one form of social identification. Furthermore, an individual's social identity may be derived from his or her work group, department, union and so on. They present two views of identities in organisations. The first view implies that individuals across sub-units share a common identity (holographic organisations) in contrast to the view that individuals display sub-unit identities (ideographic organisations).

SIT suggests that in the absence of a strong organisational identity, which indeed is the case in mergers and acquisitions, the desire for comparisons generates much conflict between differentiated and clearly bounded sub-groups. This is especially so if a group's status is low or insecure.

If one applies a view that individuals across sub-units in the respective organisations share a common organisational identity, merging two organisations will imply that the level at which the individuals identify is changed from the organisational level to group level. Hence, in the first phase of the merger there will be two distinct group identities. The purpose of organisational integration will be to create a new organisational identity which includes both former organisations.

However, as suggested in the discussion of the preliminary findings in the DnB-case, the focus on sub-cultures or sub-groups seemed to be more fruitful in that particular merger, thus viewing the organisation as ideographic. The purpose of merging ideographic organisations will be to tear down the boundaries between the various sub-groups in the two merging organisations, and hence create new identities across the former organisational boundaries.

5.5.3 Promoters of Identification

The SIT literature suggests several factors which may increase the tendency to identify with groups. These factors are group distinctiveness and prestige, out-group salience, and group formation factors (Ashford and Mael, 1989).

The first factor is distinctiveness of the group's values and practices in relation to those of comparable groups. Distinctiveness serves to differentiate a group from others and provide a unique identification. Tajfel (1982) argues that in conditions of salient categorisation, groups will tend to work harder at establishing their distinctiveness from the out-groups that are perceived as similar than from those which are perceived as dissimilar. Turner (1978) for example, found that in competitive situations, groups with similar values displayed more discrimination when they were dealing with out-groups which were more directly comparable with the in-group.

One of the main characteristics of mergers and acquisitions is that they bring identities in close contact to each other, and thus increase the awareness of in- and out-groups. This is line with Kleppestø (1993) who argues that mergers and acquisitions represent a threat to important identities and that the groups therefore engage in attempts to secure their own identities. Moreover, taking into consideration the need to establish distinctiveness from similar groups, merging institutions with similar cultures may not be as unproblematic as suggested in the merger and acquisition literature.

A second and related factor that increases identification is the prestige of the group. This is based on an argument that through comparison, social identification affects self-esteem.

Third, identification is likely to be associated with the salience of out-groups. Awareness of out-groups enforces awareness of in-groups. Awareness of the out-group underlines the existence of a boundary and causes subjects to assume homogeneity. The effects of competition on in-group identification is a special case of this principle. During competition, group lines are drawn more sharply, values and norms are underscored, and them/us differences are accentuated. This tendency is exacerbated by competition between sub-units for scarce resources and by reward and communication that typically focus on sub-unit functioning and performance.

As discussed in chapter two, the first phase of a merger or integration process is likely to be characterised by competition for scarce resources such as positions and functions. Thus one can expect a further increase in the differentiation between the groups.

Finally the set of factors traditionally associated with group formation (interpersonal interaction, similarity, liking, proximity, shared goals or threat, common history and so forth) may affect the extent to which individuals identify with a group.

Two of these factors, shared threat and common history, are of particular interest in studying organisational integration in mergers and acquisitions. Tajfel (1981) says that there is a clear convergence in the literature that suggests that external conflict does increase internal cohesion *under certain conditions*. The external conflict needs to invoke some threat, affect the entire group and all its members equally and indiscriminately, and invoke a solution. Furthermore, the group must be able to provide its members with emotional comfort and support. The external threat applies to my sample of mergers and acquisitions in two situations. The first is the external threat posed by an unfriendly take-over. The second is the crisis in the environment.

As for common history or rather the lack of it, that is as discussed above one of the main features of mergers and acquisitions. Whereas each party in the combination has its common history and culture, the new entity formed by the two parties has little or no common history. Moreover, as suggested in the section above on power and politics, the various groups are likely to differ in terms of prestige and status.

The factors discussed above can either act as promoters of or inhibitors to organisational integration. If the other organisation is looked upon as an external enemy, as is often the case in unfriendly take-overs, the differentiation between the groups across the organisations is likely to increase. However, if the external environment is felt to be a common enemy for both former organisations, this is likely to facilitate integration.

5.5.4 Contribution

The literature on social identity can contribute to the field of mergers and acquisitions in a number of ways. First, it can provide explanations of what happens when two organisations are brought in close contact with one another. Secondly, it explores how them/us differences are accentuated during competition for scarce resources. This is particularly relevant for studying what happens to the two groups during positioning and downsizing processes.

SIT can also contribute to the understanding of how and under what conditions external threats increase internal cohesion. This is particularly relevant for studying how unfriendly take-overs and changes in the environmental climate affect the cultural integration process.

5.6 IMPLICATIONS FOR ORGANISATIONAL INTEGRATION

The purpose of this section is to examine the implications for the three dimensions in organisational integration including integration of tasks, unification of power and integration of cultures and identities.

The literature on strategic and organisational change is most important for understanding the pace and key characteristics of change in the organisational integration process. In particular the literature suggests that large-scale, revolutionary change will be characterised by multiple and incomplete transitions, uncertain future states, and transitions over long periods of time.

For task integration, this implies that there is probably more than one step involved in finding optimal and efficient solutions. Moreover, it is difficult to plan the integration of tasks in detail in advance. The rationale is that under conditions with high ambiguity, there is little correlation between initial acquisition goals and implemented changes. This view takes the informational and organisational impediments to implementation into consideration and argues for the need for iterative readjustment of the acquirer's goals (Shanley, 1995).

As for unification of power, it is probable that the power relationships under such conditions will evolve and change over time, particularly if there is a change of CEO or other major changes during the process.

As mentioned in chapter three, the cultural integration process is generally regarded as the most time-consuming process. According to Walter (1985) three to five years is not an unusual transitional period, indeed it can be much longer. This long transitional process implies that it is likely that the cultural integration process will be disrupted by new events overtaking the integration process or influencing it in other ways.

The literature on power and politics is first and foremost important for analysing the unification of power. The analysis of various power bases in the post-combination phases will give indication of how stable the political situation is. If there is a balanced power relationship in the initial combination phase, it is likely that the political situation will change over time.

The literature on power dynamics contributes to the understanding of how and why the political situation changes over time. In particular, the literature suggests in line with strategic and organisation change, that changes in the environment and in senior management are two important ways in which power is lost.

The literature on social justice is important for analysing how different distributive rules foster the three dimensions in organisational integration in various ways. This is particularly reflected in the discussions of how equality promotes solidarity and social cohesiveness, whereas equity facilitates productivity (Kabanoff, 1991).

In relation to organisational integration this implies that the use of equality is likely to foster cultural integration, whereas the application of equity probably facilitates the integration of tasks. This relationship may however be moderated by the power difference. According to Kabanoff (1991) the greater the power difference, the more likely that the weaker party will accept equity as the distributive rule.

The literature on procedural justice on the other hand, has important implications for cultural integration. In particular the literature suggests that fair procedures promote group harmony and help to strengthen individuals' relationship with group, leader and organisation (Koorsgaard, 1995).

The social identity theory also has strong implications for cultural integration. In the section on social identity theory, I argued that the purpose of merging ideographic organisations was to tear down the boundaries between the various sub-groups, and create new identities across the former organisational boundaries. The literature give insights into which factors promote and impede this process. Hence, factors that strengthen the old cultural boundaries will impede the cultural integration process, whereas features that tear down the boundaries will facilitate cultural integration.

Identity as opposed to culture might also be a better concept to reflect the change of identities that happens during the process. The reason for this is that social identity theory acknowledges that individuals have multiple identities in different situations. This will be further explored in the case chapters and analysis below.

5.7 SUMMARY AND CONTRIBUTIONS

In the first part of this chapter I justified the selection of four theoretical perspectives including strategic and organisational change, power and politics, social justice and social identity theory.

In the section on strategic and organisational change I placed mergers and acquisitions in a change framework, and suggested that for the parties in mergers and the acquired party in acquisitions, the combination process can be characterised as a large-scale revolutionary change. Then I examined the characteristics of large-scale, revolutionary change and discussed how mergers and acquisitions processes are likely to evolve over long periods of time under high ambiguity. In the third part I addressed four triggers of change: environmental impact, performance crisis, change of CEO and change of ownership and applied these triggers to mergers and acquisitions.

In the next part on organisational responses to large-scale, revolutionary change, I suggested that the attributes associated with decline and turbulence could be applied to the integration process in mergers and acquisitions. As for the studies of downsizing, they were particularly interesting because they helped to define the concept and to evaluate the effectiveness of different downsizing strategies.

In the next section I drew on the literature on power and politics. First, I examined four sources of power relevant to mergers and acquisitions including legitimate, expert and relationship power, power of alternatives outside the relation and personal prestige. In the section on exercise of power, I distinguished between three dimensions. These dimensions were decision power, non-decision power and symbolic power. Then I examined the will and skill in the exercising power, and focused on middle management in particular. Finally, I focused on the dynamics of power, suggesting that changes in the environment, top management team and/or organisational structure would have implications for the distribution of power.

In the next section, I proposed that the literature on social justice could complement the literature on power and politics, as well as shed light on communication and information and participation in the integration process. I discussed three rules of distribution; equity, equality and needs, and examined the purposes behind and trade-offs between them. The sub-section on procedural justice examined three perspectives on procedural justice, and suggested that formal characteristics, participation and communication were of special importance in the allocation process. When examining the interaction between the two forms of justice, I proposed that they might influence different outcomes and that procedural justice was particularly important when the outcome was negative.

In the section on social identity theory, I proposed that this theory could contribute by introducing more precise concepts and give insights into how unfriendly take-overs and events in the environmental may influence integration of cultures and identities. Furthermore, the theory can contribute to the understanding of the cultural integration process in itself. I started by characterising the main features of the SIT, suggesting that the comparative nature of the theory was of particular importance. Then I introduced two views of the organisation, and proposed that the purpose of merging two organisations was to tear down the boundaries between them. In the next sub-section, four promoters of identification were discussed. These were group distinctiveness and prestige, out-group salience, and group formation factors. I suggested that these factors were relevant in merger and acquisition processes.

In the final section I focused on the implications for organisational integration. I suggested that the literature on strategic and organisational change could contribute to an understanding of pace in the integration process. The literature on power and politics on the other hand was first and foremost relevant for studying the process of unifying power. As for the social justice theory, I argued that various distributive rules were likely to foster organisational integration in different ways. Finally, the social identity theory could contribute to an understanding of the cultural integration process.

Chapter 6: Methodology

This chapter reports the methodology underlying the empirical study. The chapter is organised as follows. First, I discuss the requirements and choices of research design. The second part of the chapter examines validity and reliability in qualitative studies, and focuses upon how these concerns have been addressed in my study. Next a presentation of sampling time and entities and the data collection methods follows. Finally, attention is given to the analysis of cases, and the process of building up the case from chronology to application of theory.

6.1 RESEARCH DESIGN

6.1.1 Requirements of Design

The first step in choosing a design is to specify the research problem and research objectives of the study (George, 1979). This includes (1) the kind of phenomena or behaviour the investigator has singled out for examination, (2) the existing theory that bears on those aspects of the phenomenon in question, and (3) the aspects of the existing theory that can be singled out for assessment and/or refinement and elaboration.

The phenomenon to be studied in this dissertation is the process of organisational integration in mergers and acquisitions. In the introductory chapter I outlined the two research questions for the study which were (1) To identify features and factors that facilitate or impede organisational integration, and (2) To study how the three dimensions in organisational integration, i.e. integration of tasks, unification of power and integration of cultures and identities, interrelate and evolve over time.

According to Crabtree and Miller (1992) the nature of the question, problem or event of interest allows one to make a judgement about what form of inquiry which is best suited for investigation. For the design to match the research questions and the framework for dissertation it needs to be explorative, provide depth and cover sensitive issues. Furthermore it should reflect the historical, contextual and processual character of the study. These requirements are explored subsequently.

Be explorative, provide depth and cover sensitive issues

The study's research questions are explorative in their nature and set the focus on building and extending existing theories in the organisational field of merger and acquisition literature rather than testing specific hypothesis.

The discussion in chapter four revealed that organisational integration was an important objective in mergers and acquisitions, but poorly defined in previous studies. Most research has been conducted in relation to the third dimension which concerns integration of cultures and identities, though the development of indicators for measuring the dimension has not come very far. Regarding integration of tasks, this has been studied to a certain extent, but seldom in relation to the cultural dimension. One exception is Shrivastava (1989). As for unification of power, this was a dimension that was included in the preliminary findings in the DnB-study, and which previously has not been included in the organisational integration concept. When studying political processes in organisations, it is important to bear in mind that these are sensitive issues that are not easy to gain access to.

One of the purposes of the dissertation is to give organisational integration a more precise meaning, develop the three dimensions and suggest how these dimensions can be operationalised. Moreover, the study aims to explore the interrelationships between the integration of tasks, unification of power and integration of cultures and identities.

Historical and contextual character

The contextual variables in the framework in chapter three consist of either pre-combination factors, such as friendliness and organisational fit, or outer contextual features such as environmental impact. Hence, the historical factors are embedded in the pre-combination factors in the framework.

Few studies within the organisational stream of merger and acquisition research examine how the past history of the organisations involved in the combinations influence the integration process in any depth. In particular, studies often acknowledge that culture is multifaceted and complex, consisting of sub-cultures, but nevertheless restrict their analysis to the dominant culture. One reason for this weakness is probably that few previous studies have collected data beyond the top management level.

As mentioned in chapter four, findings in the DnB-study suggest that focusing on the differences between the two parties' organisational cultures may be too impresise to detect long-term changes in the cultures, in particular when there are strong sub-cultures in the organisations. Hence, I intend to follow up the DnB-study by adopting a pluralist perspective focusing on sub-cultures at various levels and in different parts of the organisation. Beside opening for a more detailed and richer description of the cultures, this approach opens for the possibility of having sub-cultures where both merger parties are represented.

Besides focusing on the sub-cultures, findings in the DnB-study suggest that important events prior to the merger may have important impact on the combination process. Hence there is a need not only to explore the cultures of the organisations, but to focus on a more holistic picture of the organisations′ past.

Regarding the other pre-acquisition factors such as friendliness, relative power, discretionary slack and merger and acquisition regime, there is scant empirical research that explores their effect on the integration process. Here it will be important both to develop these concepts and give them a more precise meaning, as well as suggesting how they can be assessed.

There has been surprisingly little research that relates the integration process to the outer context, i.e. events in the environment. Indeed, Schweiger, Ridley and Marini′s (1992) findings based upon a case study suggest that environmental pressures may alter the integration process, and further investigation is needed to elaborate these effects. My study will respond to these weaknesses by adapting a contextual design bringing the regulatory environment and economic climate into the analysis.

Processual character

The emphasis in the literature so far has been on assessing effects of the acquisition or merger after a relatively short period of time. Few go beyond two years, many focus on the first months or year of transition. This is particularly surprising given that the integration of cultures in general is a lengthy process. Walter (1985) for example, claims that three to five years is not an unusual transition time, and it can be much longer. As mentioned in chapter two, a number of researchers have claimed that there is a need for sustained examination of mergers and acquisitions over time.

The aim of my study is to investigate the <u>causal effects</u> between the factors in the framework, i.e. contextual factors and features of integration, and organisational integration. Moreover, I intend to examine how the organisational integration process evolves over time by assessing the degree of integration at different stages in the process. Hence, there is a need to adapt a <u>processual design</u>.

6.1.2 Choice of Design

Fit to design requirements

I will in line with Pettigrew's (1990) recommendations argue that longitudinal research by means of the comparative case study method is a particular suitable design. This design reflects the processual, historical and contextual features and the need to explore complex, ill-defined and sensitive issues in depth.

The case study is an approach that is particularly suitable for in-depth exploration of sensitive or complex issues. Moreover, it can reflect the contextual, historical and processual nature of the study. Third, the case study is open to building theory and starting off with a conceptual framework.

In the table below I have compared several approaches to show how they fit to the requirements of my design:

Table 6.1 Different Design and Fit to Requirements of the Study

	Case study	**Grounded theory**	**Ethno-graphy**	**Classical experiment**	**Survey**
Theory building	x	x	x	x	
Theoretical framework prior to data collection	x			x	x
In depth exploration of sensitive or complex issues	x	x	x		
Contextual	x	x	x		
Historical	x	x	x		
Processual	x	x	x	(x)	

The difference between the case study approach and other qualitative methods such as ethnography and grounded theory is that the case study is open to the use of theory or conceptual categories to guide the research and analysis of the data.

Grounded theory (Glaser and Strauss, 1967) "is one that is inductively derived from the study of phenomenon it represents" (Strauss and Corbin, 1990, p. 23). As opposed to the case study, proponents of grounded theory give a basic warning in applying the methods by recommending to avoid premature use of theory or prior conceptual categories (Yin, 1993).

In ethnographic inquires (Fetterman, 1989; Jorgensen, 1989, Rosen, 1991) the researcher's goal is to gain direct experience with the phenomena under study. As such, participant observation is the preferred technique for conducting this type of research. As for the grounded theory approach, the theoretical perspectives are grounded in and emerge from the first hand data (Gioia and Chittipeddi, 1991).

My approach in this study is more deductive than the grounded theory or ethnographic approaches are open to. Building upon the framework proposed in chapter three, I intend to challenge the proposed relationships and build more refined and detailed models. Indeed, Hartley (1994) argues that without a theoretical framework, the researcher is in severe danger of providing description without meaning. As opposed to a survey that usually starts with theory that is closed and needs to be proven or disproved, my approach is to begin with theory or understanding that is to be modified and confirmed in the context of study.

The requirements of the research design regarding the need for exploring in depth sensitive and complex issues and the contextual and historical nature of the study exclude the quasi-experiment and the survey. Firstly, both approaches are ahistorical and acontextual in their nature. Secondly, the phenomenon to be studied is too complex and ill-defined to study in a classical experiment. As for the survey approach, this is unsuitable for exploring in depth issues given its aim to test theory.

Case studies are tailor-made for exploring new processes or behaviours or ones that are little understood (Hartley, 1994). Hence, the approach is particularly useful for responding to how and why questions about a contemporary set of events (Leonard Barton, 1990). Moreover, researchers have argued that certain kinds of information can be difficult or even impossible to tackle in other ways than qualitative approaches such as the case study (Sykes, 1990). These included sensitive subjects and topics that are ill-defined, ill-understood or conceptually complex (ibid).

The contextual nature of the case study is illustrated in Yin's (1993, 59) definition of a case study as an empirical inquiry that:

> Investigates a contemporary phenomenon within its real-life context, addresses a situation in which the boundaries between phenomenon and context are not clearly evident, and uses multiple sources of evidence.

Hence, the case study is a useful approach where it is important to understand those social processes in their organisational and environmental context (Hartley, 1994).

Process is both historical and idiosyncratic, and statistical analysis is unable to cover either of the two (Stoecker, 1991). Hence, the processual manner of the study calls for a longitudinal case study where time can be covered through a combination of retrospective and real time analysis.

Selection of cases

Case studies can involve single or multiple cases. The problem of single cases is limitations in generalisability and several potential biases. Eisenhardt (1989) says:

> People are notoriously poor processors of information. They leap to conclusions based on limited data, they are overly influenced by vividness, or by more elite respondents, they ignore basic statistical properties, or they sometimes inadvertely drop or disconfirm evidence. The danger is that investigators reach premature and even false conclusions as a result of these information processing biases.

One way to respond to these biases is by applying a multi-case approach (Leonard-Barton, 1990). Multiple cases augment external validity and help guard against observer biases. Moreover, multi-case sampling adds confidence to findings. By looking at a range of similar and contrasting cases, we can understand a single-case finding, grounding it by specifying how and where and, if possible, why it carries on as it does (Miles and Huberman, 1994).

Given these limitations in the single case study, it is desirable to include more than one case study in the study. However, the desire for depth and a pluralist perspective and tracking the cases over time implies that the number of cases must be fairly few. Several researchers (Pettigrew, 1990; Van de Ven and Huber, 1990) have pointed out that the sheer labour intensity required to study an organisational change process over time limits a researcher's capacity to study more than a few cases at time. Taking these considerations and my own capacity as a researcher into account, I have chosen two cases.

The logic of sampling cases is fundamentally different from statistical sampling. The logic in case studies is theoretical sampling where the goal is to choose cases that are likely to replicate or extend the emergent theory, or they may be chosen to fill theoretical categories and provide examples for polar types. (Eisenhardt, 1989).

Hence, whereas quantitative sampling concerns itself with representativeness, qualitative sampling seeks information richness and selects the cases purposefully rather than randomly (Crabtree and Miller, 1992).

In chapter three I discussed the rationale for choosing the DnB-merger and Gjensidige´s acquisition of Forenede as my two cases based upon George's (1979) and Pettigrew´s (1990) recommendations for selecting cases. The aim was to find cases which matched the three dimensions in the dependent variable and provided variation in the contextual factors thus representing polar cases (Pettigrew, 1990).

Another way to respond to researchers' and respondents' biases is to have more than one unit of analysis in each case (Yin, 1993). This implies that beside developing contrasts between the cases, researchers can focus on contrasts within the cases (Hartley, 1994).

I have chosen an <u>embedded design</u> to analyse my cases, i.e. within each case attention is also given to sub-units and sub-processes. In both DnB and Gjensidige I compare the combination processes in the various divisions and local networks. Moreover, I compare the three distinct change processes in DnB; before the merger, during the initial combination and after two years.

The overall and most important unit of analysis in my two cases is the <u>combination process</u>. In the pre-combination process this process occurs at an <u>inter-organisational level</u>. As the parties merge, the level of analysis shifts to the <u>intra-organisational</u> level.

The study also opens for studying contrasts within the cases.

6.2 VALIDITY AND RELIABILITY

The problems of validity in qualitative studies are related to the fact that most qualitative researchers work alone in the field, they focus on the findings rather than describing how the results were reached and are limited in processing information (Miles and Huberman, 1994).

Researchers writing in the field of qualitative methods have questioned whether the same criteria can be used for qualitative and quantitative studies (Kirk and Miller, 1986; Maxwell, 1992; Sykes, 1990). The problem of the forms of validity criteria suggested in qualitative research is that there is little consistency across the papers, each author suggesting a new set of criteria.

My approach in examining validity and reliability is to apply the criteria used in quantitative research. Hence, the criteria to be examined are objectivity/inter-subjectivity, construct validity, internal validity, external validity and reliability.

6.2.1 Objectivity / Inter-subjectivity

The basic issue of objectivity can be framed as one of relative neutrality and reasonable freedom from unacknowledged research biases (Miles and Huberman, 1994).

In a real-time longitudinal study, the researcher is in danger of losing objectivity, of becoming too involved with the organisation, the people and the process. Hence, Leonard Barton (1990) claims that one may be perceived as, and may even become, an advocate rather than an observer.

According to King (1994) however, qualitative research, in seeking to describe and make sense of the world, does not require researchers to strive for objectivity and to distance themselves from research participants. Indeed, to do so would make good qualitative research impossible, as the interviewer's sensitivity to "subjective" aspects of his of her relationship with the interviewee is an essential part of the research process (King, 1994, 31).

This does not imply, however, that the issue of possible research bias can be ignored. It is just as important as in a structured quantitative interview that the findings are not simply the product of the researcher's prejudices and prior experience. One way to guard against this bias is for the researcher to explicitly recognise his presuppositions and in the analysis of the data make a conscious effort to set these aside. Moreover, rival conclusions should be considered (Miles and Huberman, 1994).

My experience from the first phase of the DnB-study was that it was difficult to focus the questions and the analysis of the data when the research questions were too "loose" and broad. As such, developing a framework before collecting the data for the dissertation was useful both in guiding the collection and analysis of data. Nevertheless, it was important to be open-minded and receptive to new and surprising data. In the DnB-study for example, the positive effect of the reorganisation process on the integration of cultures came as a total surprise to me and thus needed to be further explored.

I also consciously searched for negative evidence and problems by interviewing outliers (Miles and Huberman, 1994) and asking problem-oriented questions. In Gjensidige the first interviews with the top management revealed a much more positive perception of the cultural integration process than I had expected. To explore whether this was a result of over-reliance on elite informants (ibid) I continued posing problem-oriented questions to outliers and people at lower levels in the organisation. Moreover, I told them about the DnB-study to be explicit about my presuppositions.

Another important issue when assessing objectivity regards whether other researchers can trace the interpretations made in the case studies or what is called intersubjectivity. To deal with this issue Miles and Huberman (1994) suggest that:

- The study's general methods and procedures should be described in detail
- One should be able to follow the process of analysis
- Conclusions should be explicitly linked with exhibits of displayed data
- The data of the study should be made available for re-analysis by others

Firstly, the data collection procedures and processing are described in detail in the next two sections. Secondly, I have displayed primary data in the form of quotations and extracts from documents to support and illustrate my interpretations of the data. Since the dissertation is in English, I have included the Norwegian text in the appendix of each case chapter. Finally, all the primary data from the study is accessible for the dissertation committee.

6.2.2 Construct Validity

Construct validity refers to whether there is substantial evidence that the theoretical paradigm rightly corresponds to observation (Kirk and Miller, 1986). In this form of validity the issue is the legitimacy of the application of a given concept or theory to established facts.

The strength of qualitative research lies in the flexible and responsive interaction between the interviewer and the respondents (Sykes, 1990). Thus meaning can be probed, topics covered easily from a number of angles and questions made clear for respondents. This is an advantage both for exploring the concepts (construct or theoretical validity) and the relationships between them (internal validity). Similarly Hakim (1987) says the great strength of qualitative research is the validity of data obtained: "Individuals are interviewed in sufficient detail for the results to be taken as true, correct, believable reports of their views and experiences."

Construct validity can be strengthened by applying a longitudinal multi-case approach, triangulation and use of feedback loops.

The advantage of applying a longitudinal approach is that one gets the opportunity to test sensitivity of construct measures to the passage of time. Leonard-Barton (1990) for example, found that one of her main constructs, communicability, varied across time and relative to different groups of users. Thus, the longitudinal study aided in defining the construct more precisely. By using more than one case study (cf. p. 6) one can validate stability of construct across situations (Leonard-Barton, 1990). Since, my study only consists of two case studies the opportunity to test stability of constructs across cases is somewhat limited. However, the use of more than one unit of analysis helps in overcoming this limitation.

The construct validity is strengthened by the use of multiple sources of evidence to build construct measures, which define the construct and distinguish it from other constructs. These multiple sources of evidence can include multiple view points within and across the data sources. This study responds to these requirements both in its sampling of interviewees and uses of multiple data sources. This is thoroughly discussed in the section on data collection.

Use of feedback loops or member cheeks implies returning to interviewees with interpretations and developing theory, actively seeking contradictions in data (Crabtree and Miller, 1992; King, 1994).

In DnB a report was written up and had to be approved by the bank's top management after the first data collection. Apart from one minor correction, the bank had no objections to the established facts. However, the report was not as positive as the management had hoped for, and negotiations had to be conducted to publish the report. The result of these negotiations was that the publishing of the report was postponed one and a half years.

Regarding their comments to my analysis some of the top managers felt that the political process had been over emphasised, and that the CEO's role in initiating a strategic process was undervalued. Hence, an important objective in the second data collection was to explore these comments further.

In Gjensidige I sent a preliminary draft of the case chapter to the corporation's top management for comments in addition to having second interviews with a small number of people. Beside testing out the factual description, these sessions gave me the opportunity to test out the theoretical categories established as a result of the within-case analysis.

6.2.3 Internal Validity

Internal validity concerns the validity of the postulated relationships among the concepts. The main problem of the internal validity as a criterion in qualitative research is that it is often not open to scrutiny. According to Sykes (1990) the researcher can always provide a plausible account and with careful editing, may ensure its coherence. Recognition of this problem has led to calls for better documentation of the processes of data collection, of the data themselves and of the interpretative contribution of the researcher (ibid). The discussion of how I met these requirements was outlined in the section on objectivity/subjectivity above.

However, there are some strengths in using qualitative methods too. First, the flexible and responsive methods of data collection allow cross-checking and amplification of information from individual units as it is generated. Respondents' opinions and understandings can be thoroughly explored. The internal validity results from strategies which eliminate ambiguity and contradiction, filling in detail and establishing strong connections in data.

Secondly, the longitudinal study enables one to track cause and effect. Moreover, it can make one aware of intervening variables (Leonard-Barton, 1990). Eisenhardt (1989, p.542) states:

> Just as hypothesis testing research an apparent relationship may simply be a spurious correlation or may reflect the impact of some third variable on each of the other two. Therefore, it is important to discover the underlying reasons for why the relationship exists.

6.2.4 Generalisability

According to Mitchell (1983) case studies are not based on statistical inference. Quite the contrary, the inferial process turns exclusively on the theoretically necessary linkages among the features in the case study. The validity of the extrapolation depends not on the typicality or representativeness of the case but upon the cogency of the theoretical reasoning.

Hartley (1994) claims (p. 225):

> The detailed knowledge of the organisation and especially the knowledge about the *processes* underlying the behaviour and its *context* can help to specify the conditions under which behaviour can be expected to occur. In other words, the generalisation is about theoretical propositions not about populations.

Generalisability is normally based on the assumption that this theory may be useful in making sense of similar persons or situations (Maxwell, 1992). One way to increase the generalisability is to apply a multi-case approach (Leonard-Barton, 1990). The advantage of this approach is that one can replicate the findings from one case study to another. This replication logic is similar to that used on multiple experiments (Yin, 1993).

Given that I only have two cases to analyse, the replication of findings across the cases is rather limited. However, by having more than one unit of analysis in each case the generalisability is strengthened.

6.2.5 Reliability

Reliability focuses on whether the process of the study is consistent, reasonably stable over time and across researchers and methods (Miles and Huberman, 1994).

In the context of qualitative research, the reliability is concerned with two questions (Sykes, 1990). Could the same study carried out by two researchers produce the same findings and could a study be repeated using the same researcher and respondents to yield the same findings ?

The problem of reliability in qualitative research is that differences between replicated studies using different researchers are to be expected. However, while it may not be surprising that different researchers generate different findings and reach different conclusions, controlling for reliability may still be relevant. Kirk and Miller's (1986) definition takes the particular relationship between the researcher's orientation, the generation of data and its interpretation. They say (p. 311):

> For reliability to be calculated, it is incumbent on the scientific investigator to document his or her procedure. This must be accomplished at such a level of abstraction that the loci of decisions internal to the project are made apparent. The curious public deserves to know how the qualitative researcher prepares him or herself for the endeavour, and how the data is collected and analysed.

My study addresses these requirements by discussing my point of departure regarding experience and framework, the sampling and data collection procedures and the analysis of data.

6.3 DATA COLLECTION

As concluded in chapter two, researchers who have reviewed the organisational stream of merger and acquisition literature have concluded that there are substantive problems with the literature's data collection methods (Marks, 1982; Hunt, 1988; Napier, 1989, Larsson, 1990; David and Singh, 1994). Many articles are prescriptive rather than descriptive, often based on a single observer's view of a single merger case with no alternative sources of data. The surveys are often plagued with low response rates, usage of weak measures and a disregard of how employees below management experience the merger. Furthermore, the case studies benefiting from theoretical guidance and systematic data collection are few.

My study responds to these weaknesses by applying a triangulated methodology, interviewing key multiple perspectives, using two observers in parts of the interviews and by letting the dissertation framework guide my research. The latter issue was thoroughly discussed in the first section.

This section is divided in two parts. The first section focuses upon sampling time, business areas, divisions and sites. The second part examines the data collection methods applied in the study.

6.3.1 Sampling Time, Business Areas, Divisions and Sites

Sampling time

According to Pettigrew (1990) time sets a reference for what changes can be seen and how those changes are explained. A good illustration of this phenomenon was explored in chapter four where the preliminary findings in the DnB-study were discussed. Here I argued that because the merger process was executed in two steps, studying the initial phase would only have given me half the picture. A discussion of how time was sampled in my study is presented in the third section on data collection.

I have chosen to cover the process by collecting real time and retrospective data at two points in time with one and a half and two years intervals in the two studies. Collecting data twice had some interesting implications for my interpretations of the data. In the first data collection in the DnB-study for example, I collected retrospective data about the pre-merger and initial combination phase and real time data about the second step in the combination process.

Although I got a picture of how the employees experienced the second stage of the combination process it was too early to assess the effects of this process at that stage. To do that I entered the organisation two years later and found interesting effects that I had not predicted the first time. Moreover, it was interesting to observe how people's attitudes towards the merger processes changed over time to be more positive and less emotional.

It would be desirable to have had the opportunity to collect data in the pre-combination processes. However, it is very rare that researchers are given access in this period. In any case, the secrecy that often characterises this phase implies that one is often not aware of what is happening until the public announcement. In the DnB merger for example, only a small group of key people in the bank and the authorities were informed at the pre-merger stage.

The emphasis in this study though, has been to focus on the post-combination process. As such the pre-combination events have been classified as contextual factors. This implies that it has been of foremost importance to collect real time data after the parties have been given concession to merge or acquire.

What would have been desirable would have been to get access earlier in the post-combination process. One reason why there is a time lag between the authorities' concession and the first data collection is the time needed for negotiating access. In the DnB-study this was further delayed by the change of CEO in the middle of the process. However, we were fortunate enough to follow the merger process through another project on the Norwegian banking crisis where we interviewed some of the key participants in the bank.

Regarding the second case I was restricted by the time frame of my dissertation. Hence, I had to choose between entering the combination process as soon as a concession was given or entering the organisation at a later stage. In the light of the previous studies in the field that have failed to go beyond the initial two years, and my need to collect data about the cultural integration process, I chose the latter strategy.

In Table 6.2 below I have listed the periods of time in which I collected data in the two combinations.

Table 6.2. Data Collection Periods for Studying the Two Combinations

	Bergen Bank - DnC	**Gjensidige - Forenede**
Announcement of intention to merge/acquire	October 1989	December 1991
Concession granted by the Norwegian government	February 1990	June 1992
First data collection	Autumn 1991/ Winter 1992	Winter 1993/ Spring 1994
Second data collection	Spring 1994	Autumn 1995

Sampling business area, divisions and sites

In both DnB and Gjensidige I chose to concentrate on the core businesses. In DnB this implied restricting the data collection to the traditional banking activities in Norway, thus excluding subsidiaries and foreign offices. Similarly, I chose to concentrate on the traditional insurance businesses in Gjensidige. I collected some data on Gjensidige's financial intermediaries, but chose to leave this out in the analysis to streamline and simplify the case description.

Secondly, I chose to focus on the divisions that had been most affected by the integration process. This implied that the parts of the organisations that were mildly affected or not at all.

When choosing sites the main emphasis was on the head offices where the most important decisions were made and most people affected. In addition I chose to visit a number of the regional offices to get the local middle managers' perspective into the analysis. In DnB I visited 8 regional offices selecting a mixture of former DnC and DnB managers and the offices most affected. In Gjensidige I visited three regional offices but went somewhat deeper in interviewing more than one person in each site.

6.3.2. Data Collection Methods

The triangulated methodology provides stronger substantiation of constructs and hypotheses and is in line with the case study approach which typically combines data-collection methods such as archives, interviews, questionnaires and observations (Yin, 1989).

I used three data collection methods; in-depth interviews with key informants, documentary and archive data and observational material. In the following paragraphs I will discuss the data collection methods and their contribution to the study.

Interviews

Use of the key informant interviews has been the most important data collection method throughout both studies. These interviews have provided me with depth, subtlety and personal feeling (Pettigrew, 1990).

In line with the explorative character of my study the goal of my interviews has been to see the research topic from the perspective of the interviewee, and to understand why he or she came to have this particular perspective. To meet this goal King (1994) recommends that one has "a low degree of structure imposed on the interviewer, a preponderance of open questions, a focus on specific situations and action sequences in the world of the interviewee rather than abstractions and general opinions." Hence, the collection of primary data in this study consists of unstructured interviews.

King (1994) suggests three sources of topics to be included in the interview guide: the research literature, the interviewer's own personal knowledge and experience in the area, and the informal preliminary work such as unstructured discussions with people that have personal experience of the research area.

In the first phase of the DnB-study (see Table 6.2 above) I used the organisational stream of merger and acquisition literature and important internal documents concerning the combinations as input to the guide used in the interviews. As the interviews continued, the guide was revised and new elements added. In the study of Gjensidige and in the second stage of data collection in both cases I used the experience of the previous study as input.

Each informant received an introductory letter from the company presenting me as the researcher and the purpose of the interview. Moreover, an interview guide that gave a review of the most important issues to be raised in the interviews was sent to most informants.

In the first data collection in DnB I carried out twenty interviews. In the second data collection I held another twenty interviews, among them seven people who I had interviewed before and ten middle managers. See Table 6.3 below.

In Gjensidige I held 29 interviews in the first data collection. In the second data collection I interviewed six people for the second time in addition to three interviewees who were new informants. See Table 6.3 below.

Using the key informant approach implies that I as a researcher use participants as observers and interpreters of the integration process (Van de Ven and Huber, 1990). The investigator as user of participants faces the problem of identifying the best key informants and ensuring that they correctly understand the investigator's queries and that they provide understandable answers (Leonard-Barton, 1990).

Following the desire of depth and studying sub-groups, my aim has been in line with Pettigrew (1990) to apply a pluralist view describing and analysing competing versions of reality seen by actors in the combination processes.

I have used four criteria for sampling informants. Firstly, I have drawn informants from populations representing multiple perspectives. Secondly, I have used multiple informants within each sub-group to test the validity of the reports. Thirdly, I have concentrated on selecting mainly key informants because of their lead role in the organisation or role in the combination process. Fourthly, I selected some informants that did not participate in the integration projects.

As mentioned above, few studies in the merger and acquisition literature go beyond the top management level, and many studies only have data from one of the parties involved in the combination. Moreover, the literature has to a large extent failed to investigate the sub-cultures in the combinations. I responded to these weaknesses by selecting informants from three levels in the organisation, from both parties and from several locations. The distribution of interviewees is outlined below.

The first data collection in DnB was primarily focused on the top management level. Moreover, most of the middle managers in the first data collection were employed at the head offices either in Bergen or Oslo. This was compensated in the second data collection when I included 8 local middle managers in the sample. The difference between the number of employees interviewed in DnB and Gjensidige is primarily due to the fact that Gjensidige has three unions whereas DnB only has one.

Table 6.3 Distribution of Interviewees

	DnB Phase 1	DnB Phase 2	Gjensidige Phase 1	Gjensidige Phase 2	
Level of organisation					
- Top management/ board	13	7	10	5	35
- Middle management	4	10	8	2	24
- Union rep. and employees	3	3	11	2	19
Organisational affiliation					
- Acquirer	10	7	15	4	36
- Acquired company	9	11	12	5	37
- Neither	1	2	2		5
Localisation					
- Oslo	13	12	11	3	39
- Bergen	6	2			8
- Trondheim			10	3	13
- Localisations outside headquarter cities	1	6	8	3	18
	20	20	29	9	78

The second criteria was to use multiple informants. According to Glick et al. (1990) an important advantage of using multiple informants is that the validity of information provided by one informant can be checked against that provided by other informants. Moreover, the validity of the data used by the researcher can be enhanced by resolving the discrepancies among different informants' reports. Hence, I selected multiple respondents from each perspective.

Third, I chose to focus on key informants who were expected to be knowledgeable about the combination process. These people included top management members and managers and employees involved in the integration project.

To validate the information from these informants I also interviewed managers and employees that had been affected by the process but were not involved in the project groups.

In both cases I used contact people within the companies to help me select the key informants. In addition I used snowball sampling, asking for names of possible interviewees from the informants.

Morse (1994) claims that the quantity, validity and reliability of the data are grounded in the skills of the investigator to establish relationships with informants. "They are achieved through an extended, trusting, and confidential relationship between the investigator and the informants..." (p. 286). Furthermore, Leonard-Barton (1990) claims that in longitudinal studies, delegating data-gathering leads to unacceptable losses in the investigator's grasp of important details.

Fortunately, I had the opportunity to follow the cases from the first data collection in DnB in 1991 to the last data collection in Gjensidige in 1995. The majority of the interviews were tape-recorded and hence I could concentrate fully on asking questions and responding to the interviewees' answers. In the few interviews that were not tape-recorded, most of which were conducted in the first phase of the DnB-study, I was fortunate enough to have another researcher present. This was useful both to be able to discuss the interviews later and to be given feedback on my role as an interviewer.

In hindsight however, I wish that these interviews had been tape-recorded despite the fact that we were two researchers present. Hence, in the next phases of data collection I tape-recorded all the interviews with two exceptions. These exceptions were people who strongly opposed the use of this device. All the interviews that were tape-recorded were transcribed by myself in full, and this provided me with closeness to and a good grasp of the data.

Documents

In Table 6.4 below I have listed the types of documents used in the analysis.

In Gjensidige I had my own copies of all the documents listed. In DnB I was not allowed to bring some of the documents listed with me, and as such I spent a number of days in the bank reading and taking notes. The advantage of this approach was that I got to know the people working in this part of the bank and met some of the people whom I later interviewed. In Gjensidige I used the same approach when copying some of their documents for my own use. All the documents I requested were provided, both in DnB and Gjensidige, apart from one document in DnB that had been subjected to selective deposit.

The documents were helpful in a number of ways. First and most importantly, the documents were used as inputs to the interview guide and saved time since I did not have to ask for facts in the interviews. The documents were also useful for tracing the history of the organisations and statements made by key people in the organisations. Third, the documents were helpful in counteracting the biases of the interviews.

Table 6.4 Documents Used in Analysis of the Combinations

Gjensidige	DnB
Strategic plan for 2000 Reports from the integration project groups Report from the recruiting committee Internal letters Letters to the Norwegian authorities Declaration of intentions Internal job announcement magazines Report from employee survey Internal newsletters Articles from the press Annual reports Acquisition prospect Union magazines Publication from the Association of Norwegian Insurance Companies	McKinsey reports from the pre-merger phase Reports from the integration project groups Guidelines for selecting and positioning in 1990 Minutes from top management integration groups Written submissions for the concession application Merger prospect Articles from the press Annual reports Publications and documents from the banking crisis projects

Direct observation

The major strength of direct observation is that it is unobtrusive and does not require direct interaction with participants. Moreover, one has the flexibility to yield insights into new realities or new ways of looking at old realities (Adler and Adler, 1994).

Observation produces rigour when it is combined with other methods. By providing the researcher access to group processes, direct observation can confront the researcher with discrepancies between what people said in the interviews and causal conversations, and what they actually do (Pettigrew, 1990).

The problems of observational research lie in the area of validity, i.e. observers are often forced to rely exclusively on their own perceptions (Adler and Adler, 1994).

The are four modes in which an observer may gather data. These include (1) the complete participant who operates covertly, concealing any intention to observe the setting; (2) the participant-as-observer, who forms relationships and participates in activities but makes no secret of his intentions to observe events; (3) the observer-as-participant, who maintains only superficial contact with the people being studied; and (4) the complete observer, who merely stands back and eavesdrops on the proceedings (Waddington, 1994).

This study makes use of the second and third mode. The use of the participant-as-observer mode which a lot of ethnographic research is based on, is rather limited in this study. There are three reasons for this. Firstly, the time available for collecting data was limited, and my judgement was that interviews made more effective use of this limited time than extensive participant observation. Secondly, people were rather reluctant to let me observe these political and sensitive processes before they knew me better and felt they could trust me. I was dependent on starting the data collection before having built sufficient trust to observe key groups in the integration process.

Nevertheless, Gjensidige gave me access to study two employee seminars to acquaint myself with the organisation. Here I admitted more role as an observer but participated fully in the activities.

Regarding the third mode, observer-as -participant, I attended a top management meeting at the end of the first data collection in Gjensidige and observed the respondents during interviews and in more informal meeting such as lunches. All these observations provided me with an opportunity to validate the data from the interviews.

Interestingly, both DnB and Gjensidige started to open up for more extensive observation when I was about to leave Norway. By then, I had built up the trust needed to undertake this approach. Unfortunately, this came a little late for me to take advantage of it.

6.4 DATA ANALYSIS

Published studies generally describe research sites and data collection methods, but give little space to the discussion of the analysis (Eisenhardt, 1989). Thus one cannot follow how a researcher arrives at the final conclusions from a large volume of field (Miles and Huberman, 1994).

I intend to respond to these weaknesses by going through the stages by which my data was reduced and analysed. This involved establishing the chronology, coding and writing up the data according to phases and themes, introducing organisational integration into the analysis, comparing the cases and applying the theory. These phases will be discussed accordingly.

The first step in the analysis was to establish the chronology of the cases. This was done by use of internal and external documents. The chronologies are included in the appendixes of each chapter.

The next step was to code the data into phases and themes reflecting the factors and features in the dissertation framework. For the interviews this implied marking the text with a specific phase and a theme and grouping the paragraphs on the same theme and phase together. The same procedure was followed in organising the documents.

I then wrote up the cases using phases and themes to structure them. Before starting to write up the cases, I scanned the information on each theme, built up the facts and filled in with perceptions and reactions which were illustrative and representative of the data.

The documents were first and foremost useful in establishing the facts, but they also provided me with some perceptions and reactions that were validated in the interviews. This included documents such as internal letters, internal newsletters and articles from the press. The interviews were less factual as intended and provided me with input to assess the perceptions and reactions. The limited observation was useful to validate the data from the interviews. The result of this step was two descriptive cases.

To make each case more analytical I introduced the three dimensions of organisational integration into the analysis. This helped to focus the case and to develop a framework that could be used to compare the cases. The cases were now structured according to phases, organisational integration and themes reflecting the factors and features in the dissertation framework. The result of this step is outlined in chapter 7 and 8.

All these steps were made to make me more familiar with each case as a stand alone entity. This is a process that according to Eisenhardt (1989, p. 540):

> ... allows the unique patterns of each case to emerge before the investigators push to generalise patterns across cases. In addition it gives investigators a rich familiarity with each case which, in turn, accelerates cross-case comparison.

The comparison between the cases provided the next step in the analysis. Here I used the categories from the case chapters, filled the features and factors and compared and contrasted the findings.

The idea behind cross-case searching tactics is to force investigators to go beyond initial impressions, especially through the use of structural and diverse lenses on the data. These tactics improve the likelihood of accurate and reliable theory, that is, theory with close fit to the data (Eisenhardt, 1989).

Now I had a number of overall themes, concepts and relationships that had emerged from the within-case analysis and cross-case comparisons. The next step was to compare these emergent findings with theory from the organisational field of mergers and acquisitions and literature from the four perspectives discussed in chapter five.

This method of generalisation is "analytical generalisation" in which a previously developed theory is used as a template with which to compare the empirical results of the case study (Yin, 1989). This comparison of emergent concepts, theory or hypotheses with the extant literature involves asking what it is similar to, and what does it contradict, and why. The key to this process is to consider a broad range of theory (Eisenhardt, 1989). On the whole, linking emergent theory to existent literature enhances the internal validity, generalisability, and theoretical level of theory building from case research.

According to Eisenhardt (1989, p. 544) examining literature that conflicts with the emergent literature is important for two reasons

> First, if the researcher ignores conflicting findings, then confidence in the findings is reduced. Secondly, and perhaps more importantly, conflicting literature represents an opportunity. The juxtaposition of conflicting results forces researchers into a more creative, framebreaking mode of thinking than they might otherwise be able to achieve. The result can be deeper insight into both the emergent theory and conflicting literature, as well as sharpening the limits of generalisability of the focal research.

Similarly, she claims that literature discussing similar findings is important because it ties together underlying similarities in phenomena not normally associated with each other. The result is often a theory with a stronger internal validity, wider generalisability and higher conceptual level.

The analytical generalisation in my study includes exploring and developing the concepts and examining the relationships between the constructs. In carrying out this analytical generalisation I act on Eisenhardt's (1989) recommendation to use a broad range of theory. First, my findings are compared and contrasted with the organisational stream on mergers and acquisition literature of which the framework is built. Then I draw from the four other theoretical perspectives outlined in chapter five, and study how these perspectives can contribute to my understanding of the findings. Finally, I discuss findings that cannot be explained by the merger and acquisition literature nor the four theoretical perspectives.

6.5 SUMMARY

This chapter was divided into four parts; research design, validity and reliability, data collection and data analysis. In the first section I argued that the nature of the research questions set the requirements for an exploratory in-depth study able to cover sensitive issues and the contextual, historical and processual nature of the study. I then discussed how the longitudinal comparable case study fitted these requirements as opposed to other approaches.

In the next section on validity and reliability five criteria were examined. I started to discuss the objectivity criteria and how this study has responded to it. Next, I concluded that the longitudinal comparative case study provided a strong design in terms of construct and internal validity. Moreover, I argued that the form of generalisability in these types of studies as opposed to quantitative is fundamentally different and follow the replication technique of quasi experiments. As for reliability, I argued that this criterion was relevant in qualitative as well as quantitative research.

In the third section the sampling and data collection procedures were addressed. The sampling procedures included the rationale behind the selection of time periods, business areas, divisions and sites. In the next sub-section the data collection procedures including interviews, documents and observation was discussed. The main emphasis was on the key informant interviews that provide the most important input to the analysis.

The last section in the chapter examined the process of data analysis. Here I presented the steps involved,including establishing the chronology, coding and writing up the data according to phases and themes, introducing organisational integration into the analysis, comparing the cases and applying the theory.

Chapter 7: Gjensidige's Acquisition of Forenede

7.1 INTRODUCTION

In the introductory chapter I stated that the purpose of the dissertation was to (1) identify the factors and features that facilitate or impede organisational integration, and (2) study how the task, political and cultural dimensions of organisational integration interrelate and evolve over time. There are three aspects of these research questions. The first concerns the dissertation's outcome variable, organisational integration, which was discussed in chapter three. In that chapter I suggested that organisational integration should include three dimensions being integration of tasks, unification of power and integration of identities and cultures.

The second aspect concerns identification of factors and features. One of the main purposes of the review of the organisational stream of merger and acquisition literature in chapter two was to identify possible candidates for inclusion in the dissertation framework. These were grouped into contextual factors and features of integration.

Finally, the third and last aspect regards the process of integration, i.e. the study of how organisational integration evolves over time.

I have chosen to structure this chapter according to the first and third aspect, i.e. organisational integration and process of integration. The first dimension reflects the three constructs in the organisational integration variable; (a) integration of tasks, (b) unification of power and (c) integration of cultures and identities. The second dimension includes the four phases in the acquisition process; (1) historical background and strategic objective, (2) pre-combination, (3) initial combination and (4) path towards organisational integration. The structure of the chapter is outlined in Table 7.1. below.

The themes discussed in this chapter draw upon the contextual factors and features of integration proposed in chapter four, with some minor changes. Regarding the features of integration, the allocation of positions and functions has been divided into three parts; organisation of a new entity, allocation of senior positions and functions and positioning and downsizing. Participation has been extracted from the organisational integration process. Interventions have been cut out because of this feature's minor contribution to the understanding of the organisational integration process in the cases. Regarding the contextual factors, strategic objective has been restricted to potential gains and organisational fit is included in the historical backgrounds.

Table 7.1 Structure of Chapter 7

Phases / Org. Integration	PHASE 1 *Historical background and Strategic objective*	PHASE 2 *Pre-combination*	PHASE 3 *Initial combination*	PHASE 4 *The Path towards Organisational Integration*
TASK	Potential gains Discretionary slack	Regulatory authorities	Regulatory authorities Realisation of gains	Economic climate and realisation of gains Regulatory authorities
POWER	Balance of power pre-combination	Balance of power	Organisation of integration process Organisation of new entity Allocation of senior positions and functions	Economic climate and power relationships Change in key management positions and structure
CULTURE	Historical backgrounds Merger or acquisition regime	Friendliness and reactions	Reactions and expectations Positioning and downsizing Participation Information and communication	Economic climate and downsizing Structural changes

I have included a review of the chronologies of the second and third phases in appendix 7.1.

7.2 PHASE ONE:
HISTORICAL BACKGROUND AND STRATEGIC OBJECTIVE
Before Christmas 1991

7.2.1 Introduction

From the mid 1980s Gjensidige's strategy was to grow substantially in the market for life-assurance. After a few years the corporation realised this expansion strategy would be difficult to achieve by purely organic growth. Forenede which was about half the size of Gjensidige, seemed to suit the aims Gjensidige was seeking, and the unstable ownership situation in Forenede made this company a viable candidate for acquisition.

Gjensidige faced a number of challenges in trying to acquire Forenede. Firstly, knowing that Forenede's strategy was to keep Forenede as an independent entity rooted in the Trondheim community, Gjensidige saw no choice but to make an unfriendly take-over attempt. This would imply a real fight and probably involve much commotion and publicity. Moreover, Forenede's articles of association implied that there was a substantial risk involved.

Secondly, Gjensidige faced the challenges of combining the two different organisations. These main differences are outlined in Table 7.2.

Table 7.2. Features of Gjensidige and Forenede

	Gjensidige	**Forenede**
Dominant activity	Non-life insurance	Life assurance
Head office	Oslo	Trondheim
Organisational structure	Co-operative	Line management
Decision-making process	Participative Time consuming	Centralised Swift
Core competencies	Technical skills	Marketing skills
Personnel policy	Caring Low turnover	Harsh High turnover

This section will be divided into three main parts which will discuss the implications for the integration of tasks, unification of power and integration of cultures and identities. In the first sub-section I discuss potential gains in the combination and discretionary slack. This is followed by a description of the balance of power between the parties before Gjensidige made its offer to Forenede. Finally, I review the historical background and discuss the acquisition regime chosen.

7.2.2 Tasks

Potential gains

When Helge Kvamme became CEO in Gjensidige in 1986, he initiated a strategic process in the company leading to an ambitious strategy to expand in the market for life assurance. In line with Gjensidige's traditions this expansion strategy was strongly rooted in its co-operative organisation. After a few years, the management realised that it would be difficult to obtain the growth it aimed at by purely organic growth. Hence, Gjensidige started to look for possible candidates for a merger, acquisition or some form of alliance.

By gaining a larger share on the life assurance market Gjensidige would obtain both economies of scale and scope. This was particularly important regarding the substantial investments in computer technology, investments that had accelerated in the changing regulatory environment. Moreover, a merger would be beneficial if it was to maintain itsGjensidige's full range of products and fine-meshed network of distribution, the latter being perceived as one of Gjensidige's competitive advantages in the market. Third, Gjensidige's operations were unevenly distributed between non-life insurance and life assurance, and its opportunities from cross-selling the two product ranges were far from utilised.

Forenede was about the same size as Gjensidige in the life assurance market, and there was a high potential for reducing the relative costs by merging the operations. Secondly, by merging operations, the number of customers with both life and non-life insurance contracts would increase substantially.

Forenede was also considered an interesting candidate because of its attractive portfolio of professional associations and trade organisations. Furthermore, Gjensidige was attracted to Forenede's competence within marketing and its ability to motivate its sellers. This core competence in Forenede will be further discussed in section 7.2.4 below.

Discretionary slack

Gjensidige was a co-operative organisation which in 1991 consisted of Gjensidige Skadeforsikring and Gjensidige Livsforsikring and a number of independent and local fire-insurance companies. All entities were mutual insurance companies, meaning that the policy holders were the owners of the company and were represented on the boards. According to Gjensidige's top management this structure allowed the company to plan and act with a long-term perspective, not having to adjust to short-term pressures from shareholders.

Gjensidige was among the most profitable and solvent companies in the insurance industry, in particular in the non-life insurance sector which traditionally had been its dominant activity. As for its co-operative ownership structure, this strong financial position gave Gjensidige´s management the opportunity to act on a long-term basis. In addition it gave the corporation resources to spend in facilitating the cultural integration process.

Implications for task integration

The plans for realising gains had important implications for the integration of tasks. First, to maximise cost reductions, a high level of integration would probably be desirable. However, this high level of integration was not necessarily compatible with preserving, and over time, transferring the core competence from Forenede.

Moreover, Gjensidige's ownership structure and financial resources would possibly affect the pace and extent to which synergies were realised. Firstly, synergies would probably be realised over time. Secondly, the pressure for realising gains might not be as strong as in a shareholder company with limited slack resources.

7.2.3 Power

Balance of power pre-merger

Both Gjensidige and Forenede had three major operations; life assurance, non-life insurance and financial companies. In Gjensidige the financial companies accounted for less than 20 per cent of the total assets and less than 10 per cent of the employees in 1991. In Forenede the financial companies accounted for 13 per cent of the total assets and 20 per cent of the employees. Since the bulk of the corporation's business was in the sectors of life and non-life insurance, I will concentrate on these sectors.

In terms of premium volume and man-labour years Gjensidige was more than twice the size of Forenede. However, these differences in size were unevenly distributed between the non-life and life assurance sectors, see Table A7.1.

Gjensidige was the second largest company in the market for non-life insurance in 1991 with a 15.7 per cent market share and was more than five times the size of Forenede in terms of premium volume. Forenede was the seventh largest company in the industry with a 2.8 per cent market share including Forenede Norge. Though Gjensidige was more profitable than Forenede and had a higher solvency margin, both companies performed well in comparison to the industry as a whole. Gjensidige had traditionally been the low cost producer in the market. The main reason for the relatively high costs in Forenede was that its portfolio was too small to reap economies of scale.

In the life assurance sector Gjensidige had gained market share in the past few years and in the early 1990s the size of the two companies' operations were approximately equal. Both Gjensidige and Forenede had higher operating expences than their main competitors. This was mainly due to the fact that both companies had a large part of their portfolio in the labour intensive private sector and substantial fixed investments in computer technology. However, whereas the relative costs in Gjensidige were reduced from 1990 to 1992, the trend in Forenede was one of increasing costs.

Forenede was listed on the Oslo Stock Exchange in 1981. In 1984 a new group of shareholders entered the company, and these shareholders were in constant opposition to the majority of the shareholders. Gaining influence in the Forenede Corporation was extremely difficult due to the strict articles of association. These articles stated that no shareholder could own more than 10 per cent of the company, or vote for more than 5 per cent. The reason for limiting the shareholder's influence in this manner was to keep Forenede as an independent company situated in Trondheim. The shareholders entering Forenede in the middle of 1980s were strongly restricted by this articles, not the least because they were consolidated as a group.

In the early 1990s the market started to react to the unstable ownership situation in Forenede, and the share price in the corporation fell from above 200 NOK in the Spring 1990 to just above 100 NOK in the Autumn 1991. On 10th October 1991 Gjensidige's Asset Management Division made a financial investment in Forenede, buying 8.8 per cent of its shares for 115 NOK. This acquisition of shares triggered the minority shareholders in Forenede to offer their shares to Gjensidige.

Implications for unification of power

At the time when Gjensidige made its offer to Forenede's management, Gjensidige was a larger, more profitable, less cost-intensive and more solvent company than Forenede. The differences in size would probably have significant implications for the integration process in the non-life insurance sector where Gjensidige was substantially larger than Forenede. The differences in profitability and level of relative costs would probably have less impact since Forenede was known to be a profitable and attractive company.

The unstable ownership situation implied that a large part of Forenede's shares could come into play if the minority shareholders represented by the Kinnevik group were offered an opportunity to withdraw from the company. Hence Forenede's ability to pursue its primary goal to survive as an independent Trondheim company was weakened.

7.2.4 Cultures and Identities

In this section I examine the historical background of Gjensidige and Forenede respectively. It is important to emphasise that the description of the corporations focuses on the differences rather than the similarities. The reason for this somewhat biased focus is to detect the areas in which problems of integration are likely to occur. A more thorough description of the two companies is included in appendix 7.3.

Dominant activity. The dominant activity in Gjensidige's insurance business was non-life insurance. Although the corporation had expanded its life assurance business substantially in the late 1980s, non-life insurance was still dominant. Life assurance was sold as a supplementary product to non-life insurance utilising the opportunity of cross-selling products in Gjensidige's fine-meshed network of offices. Gjensidige's strategy was to expand further into the market of life assurance to utilise this opportunity of cross-selling.

The core activity in Forenede was life assurance. Non-life insurance was sold as a supplementary product to life assurance. Forenede's strategy was to grow in the non-life insurance sector which was quite a profitable business for the company.

Head offices. Forenede's head office was situated in Trondheim. However, a substantial part of Forenede's operations took place in Oslo, and indeed there were more employees in Oslo than in Trondheim in the life assurance operations. As various positions and functions were re-allocated to Trondheim, the employees in Oslo began to feel insecure about their future in the company. Thus, the tension between Trondheim and Oslo was increasing.

Gjensidige's head office was in contrast situated in Oslo close to key corporate customers and the Norwegian authorities.

Decision-making. In 1991 Gjensidige had five regions with full business responsibility in addition to a number of legally independent mutual fire insurance companies and regional units, with 200 sales offices altogether. Although these entities were legally independent with full business responsibility and their own board of directors which appointed the managing director, there was a strong interdependence between the independent entities and the central units. This interdependence was reflected in group loyalty, commitment and co-operation.

Because of this constitutional structure the central units were not in position to command the legally independent units to follow their instructions, but had to "sell" their ideas and opinions. Managers and employees in Gjensidige describe decision making in the corporation as a democratic, time-consuming process where a large number of people were invited to participate and influence the process.

Forenede had a line management with centralised control in the Trondheim head office. Managers and employees in both Gjensidige and Forenede describe Forenede as a commanding organisation where a decision was taken at the top and expressed as an order through the system. In contrast to Gjensidige where there was a lengthy and time-consuming debate before making important decisions, the decisions in Forenede were made in a swift and dynamic manner.

Core competence and marketing approach. The core competence in Gjensidige were in the area of technical insurance. The corporation had a separate unit of development in this area.

Both in Gjensidige Skade and Gjensidige Liv professionals held the key management positions.

The driving force in Forenede was the marketing unit. This unit not only directed the corporation's marketing and sales initiative, but also product development in the corporation. Few professionals in Forenede were involved in product development, and no department was dedicated solely to this purpose.

Gjensidige's reward systems were directed towards preserving its customers, apparently no matter how much they contributed to the total earnings. Compared to Forenede, Gjensidige was less focused on selecting specific customer segments and less outreaching.

In Forenede, there was a close relationship between the assurers and the marketing management, and the insurance sales people were followed up on a daily to weekly basis. The assurers were rewarded and assessed in a manner that stimulated the sale of new insurance, more than the maintenance of customer relations.

Personnel policy. One of the most prevalent features of Gjensidige's culture as described by managers and employees of both former organisations was its caring orientation which was reflected in its attitude towards its customers.

The turnover in Gjensidige was extremely low. In the central units, it was below the average for the country, in the local units there was hardly any turnover at all. Gjensidige's caring culture was also reflected in the organisation's reluctance to lay off people.

The personnel policy in Forenede was in contrast quite harsh. The corporation had a high rate of turnover among its insurance agents. To lay someone off was perceived as mere routine in the company, and respondents claim that the company controlled their insurance agents by the means of threats.

Acquisition regime

To maximise the values of Forenede, Gjensidige decided not to act as an acquirer once it had gained control over the company, but to treat Forenede as an equal party. In line with this approach Gjensidige made a number of concessions in a letter of declaration to Forenede's board of directors. The rationale for this strategy is illustrated in the following statement from a representative in Gjensidige's top management group:

> If one organisation is substantially larger, then the larger and the leading organisation in the merger has a choice between two strategies. One strategy is to

> choose the victor's course, and cut off what can't be used in the smaller organisation and capitalise whatever possible. But one can also choose another strategy. Because of one's size one can afford to take longer to seek out what is valuable in the smaller organisation.
>
> We have chosen the latter strategy, because we believe this is a better way of securing the long-term values... Psychologicaly speaking, this variant has an important advantage. The people coming from the small organisation will not perceive this as a threat, and in addition, the large organisation will not feel run over because it is so big and is the owner anyway.

By presenting this approach to the broad layer of management in the company and giving them a chance to have a say, Gjensidige committed their leading managers to this approach.

The declaration of Gjensidige´s intentions was made on request from Forenede's board of directors after the first meeting between the two boards of directors in Gjensidige and the board of directors in Forenede on 15th December 1991. The declaration was made out by Gjensidige´s top management and according to representatives from the top management became a kind of a constitution for the process. This declaration contained a number of important concessions on behalf of Gjensidige, and demonstrated the corporation's attitude towards Forenede as an equal party in the process.

The most important concessions made in this document sent to Forenede's board of directors 20th December 1991 are outlined in appendix 7.4.

Implications for integration of cultures and identities

The structures and cultures in Gjensidige and Forenede were fundamentally different in many respects. However, this did not mean that they necessarily were incompatible.

First, the dominant activity in Gjensidige was non-life insurance as opposed to Forenede where there was a dominance of life assurance. However, both companies were aiming for a better balance between the two sectors. Hence, they fitted each other very well.

Secondly, the joint corporation faced the challenge of either maintaining both head offices or choosing between them. Maintaining both head offices would probably facilitate the cultural integration in the short term signalling to the employees in the Forenede organisation their value to Gjensidige. However, in the long run, this could result in the preservation of two cultures, and hence have a negative effect on cultural integration.

The organisational structures were incompatible. However, Gjensidige made it clear at an early stage in the process (see the concession made in appendix 7.4) that its co-operative structure would be chosen at the expense of Forenede´s line mangement structure.

Other areas where the two organisations seemed to be incompatible were the decision-making process and personnel policy. As for the organisational structures, a choice probably had to be made between them, and it is probable that this choice would be influenced by the area managers and the relative strength of the organisations.

As for core competencies, they seemed to be compatible, and the new organisation could benefit from having strong skills within technical insurance and marketing. Nevertheless, the new company would have to make changes in the reward and incentive structure to fit this mixture of core competencies.

An acquisition regime that stressed the preservation of key features in Forenede and invited participation had the potential to make up for some of the negative impression an unfriendly take-over would make on the management and employees in Forenede. However, to have a lasting positive effect on cultural integration, Gjensidige would have to act on their promises in the post-acquisition process.

7.2.5 Summary

Implications for the following phases. Due to Gjensidige´s high discretionary slack, i.e. strong financial position and its co-operative structure, it is likely that gains would be realised over a long-term perspective. Hence, the realisation of gains would be pursued both in phase three and phase four.

The power relationship between the parties, in particular the ownership structure in Forenede, would probably influence the negotiation positions in phase two. Moreover, the size distribution was likely to affect the organisation of integration process and a new entity and the allocation of positions and functions in phase 3.

Some of the potential conflicting features of the two organisations had already been resolved at this stage. However, it is probable that some of these incompatibilities would not be determined until the fourth phase of cultural integration, particularly if the management allowed ambiguity to exist.

It was also likely that the background characteristics would shape the reactions of the employees in phase two and three.

Relationships between task, power and culture. Regarding merger and acquisition regime, Gjensidige stated in the declaration of concessions that it wanted to preserve a number of key features in Forenede such as the head office in Trondheim and its life assurance entity. In the above discussion I argued that this approach would probably facilitate the cultural integration in the short term. However, preservation would also influence the integration of tasks, and probably impede the realisation of gains.

Secondly, I argued that the differences in power would influence the allocation of positions and functions and organisation of a new entity and process. A biased distribution would probably facilitate the unification of power. However, this could have a negative effect on the integration of cultures by signalling that one organisation was inferior to the other.

7.3 PHASE TWO: PRE-COMBINATION December 1992 - Autumn 1992

7.3.1 Introduction

The prelude to Gjensidige´s acquisition of Forenede was the unstable ownership situation in Forenede. This brought Gjensidige in a position where a take-over of the long desired Forenede became possible. By the time Gjensidige made contact with Forenede they had entered option contracts to buy 46 per cent of the shares in Forenede at a price of 145 NOK, 30 NOK above the prevalent market price.

Late at night on the 10th December Jan Willy Hopland, the CEO of Forenede, received a telephone call from Gjensidige requesting him to enter into a co-operative agreement. If not, Gjensidige would inform the Oslo Stock Exchange of its intention to acquire Forenede the following morning.

During that night Jan Willy Hopland got in touch with his board of directors and they agreed to invite Gjensidige to a discussion on the issue. However, the board emphasised that their primary goal was still to keep Forenede as an independent company. Gjensidige's and Forenede's board of directors meet on 15th December 1991, after which Gjensidige made a written declaration of its intentions as mentioned above.

When the news of Gjensidige's intentions reached the newspapers, the CEO of Codan in Denmark, owned by the British Sun Alliance, got in touch with Jan Willy Hopland and offered to buy shares at a price of 200 NOK.

In a meeting 6th January the board of directors in Forenede approved both the offers, but recommended Codan because the shareholders' interests would be best served with Codan as the acquirer. Nevertheless, the question of concession was up to the government. Hence, the board of directors chose to await the government's decision before making a final recommendation to the shareholders in Forenede.

This section will be divided in three parts. First I discuss the role of the regulatory authorities and its implication for the integration of tasks. This is followed by, an examination of combination climate and balance of power and their influence on the unification of power. Third, I explore how the reactions to the take-over affected the integration of identities and cultures.

7.3.2 Tasks

Role of regulatory authorities

The concession applications from Gjensidige and Codan put the Norwegian government in a rather difficult position. In 1990 the government had approved the merger between UNI and Storebrand. As a result of this merger, one company became very dominating in the Norwegian insurance market holding market, shares of 37.8 and 30.5 per cent in non-life and life assurance respectively. Hence it would be difficult for the authorities to turn down the application on the grounds of higher market concentration.

The Norwegian government faced three difficult issues in this process. The first was related to the fact that there were two applicants and the government had to decide whether they would grant concession to both, one of them or neither. Both Gjensidige and Codan expressed that they preferred their preference for a solution in which concession was given to one party.

Secondly, a group of shareholders refused to redeem their option contracts with Gjensidige after Codan offered to buy shares at a much higher price. In the beginning of June, the court ruled against the group that had sold options to both Gjensidige and Codan, and thus gave Gjensidige the right to claim 22 per cent of the group's shares.

Third, there was the issue of whether concession should be given to a Norwegian or a foreign company. If the government did not grant Codan concession, this could be perceived as a negative signal for foreign investors. On the other hand, there were strong pressure groups whose desire was to keep Forenede in Norwegian hands.

The government's final decision in favour of Gjensidige was not made until 30th June 1992. The concession was made on the condition that Gjensidige obtained two thirds of the shares by the end of August 1993 and owned Forenede wholly from the end of August 1993. Furthermore, Gjensidige had to make a special application if the corporation planned to change the legal structure of the Forenede Group.

Implication for task integration
The difficult issues the Norwegian government faced in processing the applications seemed to prolong the process towards integration of tasks. Moreover, the conditions stated in the approval implied that Gjensidige had to continue sending applications to the government in the post-integration process and risk further delays.

7.3.3 Power

Balance of power
In the pre-acquisition process there was a clear winner and a loser. It was a process in which Gjensidige took control over Forenede step by step against the latter company's will. The first step was to gain control over the supervisory board, which in turn could appoint a new board of directors. The day before the concession was granted there was a shareholder's meeting in Forenede. At this meeting Gjensidige proposed electing a new supervisory board to better represent the composition of shareholders. To Forenede´s disappointment the majority of the shareholders voted in favour of Gjensidige's proposal.

The problem of changing the articles of association was solved when Forenede ran into liquidity problems in the Autumn 1992. Forenede was in a position where one of its loans was due and had to be renewed. Gjensidige offered to solve Forenede's problems through a private placement on condition that the articles of association were changed. Hopland, Forenede's CEO, worked hard to try to find alternative solutions to the corporation's liquidity problems. However, the banks that were willing to grant loans were incapable of doing so because of Gjensidige's position in Forenede. When no other alternative remained, Forenede finally accepted the offer from Gjensidige.

Although the authorities had granted Gjensidige concession, Codan still had the potential for blocking the acquisition by its 10 per cent ownership in Forenede. However, at the end of October Codan entered into a contract with Gjensidige to sell its shares in Forenede. This agreement to sell left Codan with a loss of 40 million NOK.

As time went by, it became apparent to Forenede´s management how well planned Gjensidige´s attempt to acquire Forenede had been. By choosing to act through options

Gjensidige only took a limited risk, and the corporation never left its initial valuation of Forenede. Before the take-over plans became known to Forenede, 70-80 people in Gjensidige were involved. Approximately half of these worked in various committees with the main emphasis on pre-acquisition issues.

In Forenede the discussion of a possible change of ownership seemed to be concentrated round Jan Willy Hopland. In line with earlier practice, Jan Willy Hopland used most of his time dealing with the conflicts of ownership himself, and he only involved his management team to a limited extent. This lack of involvement made the management group feel somewhat left behind in the process, wishing that Hopland had involved them more and at an earlier stage in the process.

Moreover, because this was an unfriendly acquisition it was difficult for the management and employees in Forenede to prepare themselves for the forthcoming process. One representative from the top management in Gjensidige says:

> I don't see how they could prepare themselves for both outcomes. They knew the intentions, they knew Gjensidige´s organisation, but they did not know the strategy nor were they allowed to attend strategy meetings about the forthcoming process. I do not think they mentally or otherwise accepted that Gjensidige´s intention to acquire Forenede could become reality.

Furthermore, a key representative from the Forenede organisation says:

> We did some thinking, but more in terms of the fears we had. We did not make any constructive plans for that scenario. The starting point was that one was not going to go through with the take-over if it was not regarded as positive in the management and steering bodies. We experienced this as so unfriendly that we had problems seeing that we were being invited to real participation.

Implications for unification of power

Beside being the acquirer, Gjensidige had the advantage of being much better prepared than Forenede for the forthcoming process. This strength, together with the power bases discussed in the previous section, implied that Gjensidige was in a position to choose alone how to organise the process and the new entity and whom to allocate to key positions.

7.3.4 Cultures and Identities

Friendliness and reactions

In the notice of the meeting between the boards of directors dated 12th December 1991, Gjensidige wrote the following:

> Gjensidige has no desire to go through with an acquisition of Forenede if we cannot find solutions that will give a reasonable degree of satisfaction in both organisations. We wish to have a close and positive dialogue with Forenede´s board of directors and top management.

However, the move was definitely perceived as unfriendly by Forenede, particularly in Trondheim. In an interview with Adresseavisa on 16th January 1992, Jan Willy Hopland expressed his opinions about the take-over attempt and said that if Gjensidige had seriously wished Forenede's co-operation, the invitation would have been made in another manner.

The effect of the unfriendly take-over attempt seemed to be two-fold. According to one employee, the company became more closely-knit in this period, and people joined forces to fight the take-over. Thus the battle had a cohesive effect on the employees in Forenede.

Secondly, the unfriendly atmosphere meant that there little or no contact between the two parties. Because of this battle, the relationships between the employee groups became very tense. One union representative from Gjensidige gives a picture of the situation:

> It was a time characterised by fronts... Nobody dared talk to me, I belonged to the enemy, Gjensidige... In hindsight I think we should have been better at establishing contact and seeing our common interests as employees at an earlier stage... In our union we confused taking contact with siding with the enemy.

However, there were mixed feelings in Forenede as to which company would serve their interests best. The top management's perception was that the extent of change would be much higher if Gjensidige took control over Forenede, than if Codan did. Their preference would be to merge with Codan.

The employees would have preferred to maintain the status quo, but regarded Codan as the lesser of two evils. Their judgement was that their jobs were probably more secure if Codan, rather than Gjensidige, was to take over Forenede. To understand the reactions in Trondheim it is important to take into consideration that the bulk of Forenede's non-life operation was situated in Trondheim. It was quite clear from the declaration of Gjensidige's intentions that Forenede's non-life operations were to be integrated into Gjensidige's local entities. Hence, about a hundred employees would become superfluous in Trondheim.

For the employees in Oslo, Gjensidige represented an important alliance partner. They had recently experienced the removal of important functions to Trondheim. Although the employees in Oslo never expressed their opinions in public, they signalled their preferences privately to Gjensidige's top management. This is illustrated in the following quotation from a representative of the top management:

> I had a network of Forenede employees passing me information. Today I can honestly say that I never asked for it, but they came to me. These were even union people, though not situated in Trondheim. They balanced the picture, because there is no doubt that what came from Trondheim... gave a biased picture of the opinions of the organisation as a whole.

One employee in Trondheim says he felt he had two fronts to fight in this battle; Gjensidige and the employees in Oslo. He claims that the employees in Oslo were more concerned about their own jobs than being loyal to Forenede as a company.

Implications for the integration of cultures and identities.
The unfriendliness that characterised the pre-acquisition process had two major effects. First, it had a cohesive effect on the employees in Forenede in bringing them closer together. Secondly, it implied that the contact between the two parties was kept at a minimum. Both these effects would be expected to influence the integration of cultures and identities negatively ,enhancing the individual corporate identities.

However, because there were diverse opinions about which company would serve the interests of Forenede best, this effect was somewhat moderated. It is also interesting to note that the differences in reactions can to a large extent be traced back to the history of Forenede discussed in phase 1.

7.3.5 Summary

Implications for the following phases. By conditioning the concession the authorities still had a role to play in the post-acquisition process. In particular one would expect that the authorities' processing of applications would influence the pace of task integration in the forthcoming phase.

During the pre-acquisition phase the differences in power became very apparent. Hence it was up to Gjensidige to decide how to deal with important issues in the initial combination process. These were issues such as how to structure the new entity and whom to allocate to key positions.

The unfriendly take-over attempt would probably make the cultural integration process more difficult. However, there were indications of a different and less power-enforcing behaviour in the declaration of concession discussed in phase one, and this could moderate the negative effect on cultural integration.

Relationships between task, power and culture. Gjensidige's demonstration of its powerful position in the pre-acquisition phase resulted in a strong, negative reaction among the management and employees in Trondheim in particular. Thus the attempt to take-over Forenede against its will strengthened Forenede's corporate identity, and as such negatively influenced the cultural integration process. However, the pre-acquisition phase also made it very clear who was the powerful party in the combination. This stabilised the political situation in the new corporation.

The delay of task integration due to the authorities′ lengthy concession processing would also be expected to prolong the process of unification of power and integration of cultures and identities. The reason for this is that until an answer was given by the authorities, Gjensidige could not start the process of integrating Forenede. Indeed, the longer the processing time, the longer time it would take to build up resistance in the organisation.

7.4 PHASE THREE: INITIAL COMBINATION
August 1992 - Early 1994

7.4.1. Introduction

On the 6th August the board of directors in Forenede changed their official stance toward Gjensidige from fighting against the take-over to co-operation. In the notice of the meeting the chairman of the board wrote that in his view it was important to contribute to the establishment of a close and fruitful relationship with Gjensidige and to make the best of the new situation.

The first meeting between the top management groups in Gjensidige and Forenede took place on 11th August. At this meeting the organisations exchanged information about their respective corporations and started to discuss how to proceed in the integration process.

Once it be became clear that Gjensidige had succeeded in its attempt to take-over Forenede, the managers and employees in Forenede faced a completely new situation for which they were not prepared. Their reactions to this new reality differed according to their background in the company and their perception of their own roles in the forthcoming process.

This section is divided into three parts. First, I discuss the integration of tasks, i.e. the impact of regulatory authorities and realisation of gains. This is follwed by a discussion of influences on the unification of power. In particular this sub-section focuses on the organisation of the integration process and a new entity and the allocation of senior positions and functions. Third, I outline features that affect the integration of cultures and identities, i.e. reactions, positioning and downsizing, participation, and information and communication. Finally, the relationship between the phases and dimensions in organisational integration is discussed.

7.4.2. Tasks

Regulatory environment

As mentioned above Gjensidige had to apply to the Norwegian authorities to change the legal structure of the Forenede group. Gjensidige sent the application for approval of the new structure of the corporation to the Ministry of Finance on 5th March 1993. Eight months later, in November 1993, this structure was approved by Ministry of Finance. The approval meant that Gjensidige Liv owned Forenede Liv and that the employees in Forenede could be employed in Gjensidige.

The general impression of the authorities′ handling of the acquisition is that the relatively long time they took to approve the applications slowed down the integration of tasks. One key manager in Gjensidige says:

> Our greatest difficulty in the process has been the authorities and their slow processing. We have never had the feeling of being worked against, but in reality their tardiness has caused us problems that we otherwise would not have had. We cannot act until the formal decisions have been made, and in the meantime we just wait and do not know what to do.

Realisation of gains

In the declaration of intentions it was stated that Forenede Liv was to be preserved whereas Forenede′s non-life and local operations were to be integrated into Gjensidige′s. Furthermore, both head offices were to be maintained. The declaration of concessions also emphasised redeployment of tasks, though not through use of lay-offs.

Life assurance. In life assurance few gains were expected to be realised before the integration of systems could take place. Moreover, since both life assurance companies were to be preserved, the gains of integration were somewhat restricted. One key manager within this area describes the approach to realising gains:

> We have realised some gains, but there is still a lot to take out at least in my area... If we are to realise more, we must have to merge the two life assurance companies.

> Moreover, we must invest extensively in new technological platforms in a number of areas.

Life assurance was probably the area that faced the most difficult challenge in finding a reasonable distribution of tasks between Trondheim and Oslo. As such, the life assurance committee's report is very much concerned with the task of finding a reasonable division of labour between Oslo and Trondheim. In some instances this seems to have resulted in too complex and inefficient solutions. The division between Oslo and Trondheim was one area in which a more effective distribution of work was planned as time went by. One key manager in Gjensidige says:

> ...we still have knots to untangle. A business area might be managed from Trondheim with part of the business conducted in Oslo with related sub-functions. Maybe there is even a fourth linkage. This is something we intend to straighten out, but we must not let the baby out with the bathwater.

Non-life insurance and local entities. In non-life insurance, gains were expected to be realised when the conversion of Forenede's non-life portfolio was finished in the Summer 1994. These were first gains related to the reduction of relative personnel costs and lower computer costs. Compared to the life assurance area, the pace at which gains could be realised in the non-life operations seemed to be much higher. Moreover, the gains seemed to be more predictable and easier to realise.

Local entities. One of the most important gains in the local entities during this phase was related to moving all the employees in Forenede´s local operations into Gjensidige´s local entities.

Provided that there was overlap between the sales organisations, the managing directors of the local entities faced the challenge of fitting the number of employees to the volume of sales.

Head offices. In the declaration of intentions Gjensidige´s management wrote that "We wish the head office operations to be located in both Oslo and Trondheim". Maintaining both head offices implied that the benefits of integrating the two operations would only be partially realised. Although the management realised that the preservation of two head offices was not the most cost-effective solution, they nevertheless argued that this was a better way of securing long-term values in the corporation.

Redeployment of tasks. The purpose behind the redeployment of tasks was to reduce double functions and to re-allocate people into income-generating areas. However, a reduction in the work force over time was also part of the plan. In the first instance this was intended to be effected through reductions in overtime and temporary staff and restricting external recruiting.

According to one Gjensidige key manager there was no great need to reduce personnel at this stage. The reason was that the integration of tasks was so time-consuming and demanding of resources. As the portfolios were converted and the systems integrated, reductions in the number of permanent employees were planned.

Some local managers argue that this strong emphasis on job security had a restraining effect on the realisation of gains. These managers seemed to be less reluctant to use lay-offs if the increase in the work force would fail to produce the sufficient increase in income. However it is also important to take into consideration that for a company with Gjensidige's slack resources it would be difficult to argue for the need for reducing personnel through lay-offs. One manager in the Gjensidige corporation says:

> Gjensidige has the financial resources to realise gains over time. It would be difficult for Gjensidige to justify lay-offs having a profit of four billion NOK last year.

Integration of tasks

The path toward legal integration was a rather lengthy process. Because Gjensidige had to wait for the authorities' approval before starting the process of integrating personnel and functions, the pace of task integration was negatively affected.

The realisation of gains in the initial combination was influenced by a number of factors. First, it was dependent on whether the operations were to be integrated or preserved. Preserving operations implied restraining gains from integration.

Second, the life assurance area was a more complex area to integrate than non-life insurance due to factors such as relative size, technology and distribution of operations between Oslo and Trondheim. Third, the emphasis on reducing personnel implied that gains were planned to be realised over a long-term perspective. Gjensidige's strong financial position implied that the company could afford to take a long-term perspective on realising gains.

Degree of task integration. One and a half years after the authorities had given Gjensidige concession the corporation still had a long way to go in the integration of tasks. The process had probably come furthest within non-life insurance and least far within life assurance. The main gains that still were to be realised concerned operations in life assurance and solving the excess of employees.

Using the indicators from chapter three, the *procedural integration* that involved the legal and accounting integration had been implemented. As for *functional integration*, i.e. the integration of control systems and procedures, this had started but was not finished one and a half years after the concession was given to Gjensidige.

Physical integration which involved integration of product lines and production technologies was quite far advanced in the non-life insurance sector. In the life assurance sector however, the major integration of systems and portfolios was yet to come.

Integration of personnel. Forenede's employees had been integrated into Gjensidige's local entities. Moreover, employees had physically moved together in several departments in the central entities. However, the gains from this integration of personnel still had to be realised.

7.4.3 Power

Organisation of the integration process

The organisation of the integration process was very much in line with Gjensidige's decision-making processes; democratic, time-consuming, extensive and thorough. According to one Gjensidige manager this way of organising the process with a long-term perspective and extensive participation from the employees was possible because of Gjensidige's strong financial position.

First, Gjensidige invited Forenede's top management to a three day session whose aim was to draw up a strategic plan for the joint corporation towards year 2000. At this meeting it was decided that they would establish a central committee consisting of three members from each of the top managements and unions in Gjensidige and Forenede and a committee secretary from Gjensidige, 13 members all together. Furthermore, they decided to establish two sub-committees, one for the distribution and one for the financial companies. In line with Gjensidige's model for decision-making, new committees were formed when new issues needed to be resolved. Eight organisational committees and eight professional committees were established in the process in addition to the central and distribution committees. One employee from Gjensidige says that this way of organising the process was new to Forenede:

> I don't think they were used to work in committees. All changes in Gjensidige have happened through committees where we had the opportunity to contribute. The democratic way of working was new to Forenede.

Another characteristic feature of the integration process was the long-term perspective. One manager in Gjensidige explains why a long-term approach was taken:

> In the long run you cannot do this quickly... What you acquire is human knowledge and the trust of the organisation's employees and customers. If you lose that, you have in reality lost much of the value of the acquisition. Hence, one has to take the time necessary to create a sense of security for the employees with key competence.

Although deadlines were set, they were extended if more time was needed. Former Forenede top managers claim that not rushing the process smoothed the integration between the two corporations. "The one factor that perhaps has contributed most towards creating a smooth process is the use of time. Decisions have not been made in a rush, but things have been allowed to fall into it place over time."

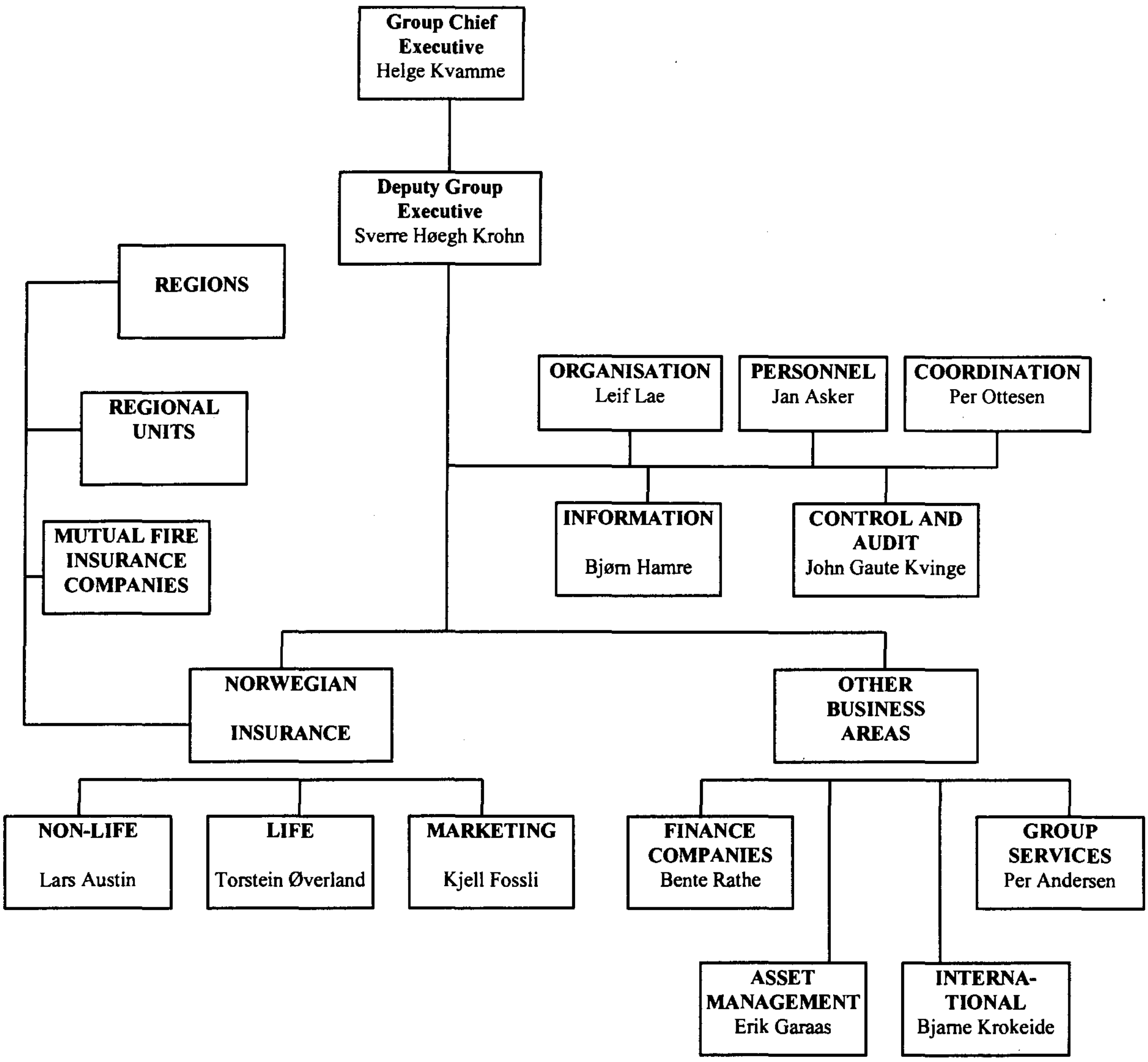
In line with the strategic planning process, Forenede's management was invited to participate in every group that was set up. Furthermore, employees from both Forenede and Gjensidige were invited to participate in the groups.

Organisation of a new entity

The central committee's most important tasks in the first phase were to suggest a new organisational structure and to decide where the various business areas should be located. The committee used the existing structure of Gjensidige as a starting point and supplemented and strengthened it with entities from the Forenede. The structure suggested for the new organisation is outlined in Figure 7.1.

The chosen organisational structure was different from former Gjensidige in a number of areas. Firstly, a product-oriented structure was chosen as opposed to the former market-oriented structure. Secondly, a Marketing Division was established to co-ordinate life and non-life insurance. This Marketing Division, which can be seen as a cross between Gjensidige and Forenede's marketing units, was one of the controversial issues debated by the committee. Indeed, the final decision to include a separate Marketing Division was taken outside the central committee.

Figure 7.1. Organisational Structure for the Joint Organisation



There were a number of reasons behind the establishment of a Marketing Division. The two primary tasks for this entity were to co-ordinate the life and non-life insurance operations and marketing in the local entities and to provide an interface between the central and local entities. In addition two of the new corporation's priority areas, agriculture and professional associations and trade organisations, which were a mixture of life and non-life insurance, were placed there. The market unit had also been the driving force in Forenede, and by placing it in such a central position, hoped to preserve the marketing culture of Forenede.

In the life assurance sector, Gjensidige's and Forenede's operations were about equal both in terms of employees and premiums. Life assurance was probably the most complex and time-consuming area to integrate. Interestingly, because of its complexity the integration process in this area was perceived as an evolving process. Torstein Øverland, head of the Life Assurance Division, gave his impression of this process in the life assurance committee:

> In my opinion it is not desirable to make the plans more detailed at this stage. The integration between Gjensidige Liv and Forenede Liv must be a process, where decisions at one level are made dependent on what has been learned at the preceding stage. The matter at this stage must be to give a direction and a likely outcome of the process.

In the non-life insurance area Gjensidige was substantially larger than Forenede. While Gjensidige had a market share of 18.4 per cent of the direct premium market, Forenede´s market share was 3.4 per cent (see Table A7.1). The declaration of intentions stated that this area should be integrated into Gjensidige's non-life operations. Hence, Forenede's portfolio was to be converted into Gjensidige. Compared to the processes in life assurance, the process in non-life insurance seemed to be much easier to plan both in terms of the choices to be made and setting deadlines for the different activities.

One of the major differences between this integration process and a number of previous mergers in the insurance industry was the decision to preserve one of the parties, i.e. Gjensidige´s, distribution network. This apparently eased the process, but implied that Forenede's employees were integrated into Gjensidige's local entities. Moreover, it meant that the managing directors in Gjensidige´s local units appointed by their board of directors would keep their positions. Interestingly, the managers and employees in Forenede seemed to perceive this as an externally given constraint, and apparently never disputed this decision.

Allocation of senior positions and functions

Senior positions. At the time the central committee put their report forward it was decided that Helge Kvamme would be the group chief executive for the joint corporation and that his deputy group chief executive would be Sverre Høegh Krohn, who had held this position in Gjensidige in the past.

In the declaration of intentions it was said that the person in charge of Forenede Liv would be a member of Gjensidige's top management team. Jan Willy Hopland would have been a natural candidate for this position or a position a director of the finance companies if he had not chosen to resign. In early October 1992, Jan Willy Hopland informed his board that he wished to resign with effect from 1st December. Hopland's resignation meant that the employees in Forenede lost an important anchor in the process. However, although some of the employees felt that he had let them down by leaving so early in the process, they also seemed to understand his wanting to leave.

The rest of the members of the top management team were appointed jointly by Helge Kvamme and Jan Willy Hopland. Three managers from Forenede were appointed as members of the new top management team. Appointing three members from the Forenede organisation was perceived to be an important signal to Forenede's employees. Beside signalling that Gjensidige followed up the stated intentions, these appointments showed that Forenede's management had qualifications on a level with the acquirer's management.

Life assurance was an area where the two parties were approximately equal in terms of size and number of employees. To manage this area a decision was made to recruit externally. All the other members of the top management team came from Gjensidige.

The new top management team was divided between Oslo and Trondheim. The three former members of Forenede's management were all situated in Trondheim. In addition the life assurance operations were located there.

The next step in the process was for the directors and group directors to appoint their management teams. This was done in collaboration with key people in Gjensidige's new management team. The following table illustrates the distribution of these appointments according to organisational affiliation and location.

Table 7.3 Distribution of Appointments

	Forenede	Gjensidige	External	Oslo	Trondheim
Marketing	5	1		3	3
Life assurance	2	2	1	2	3
Non-life-insurance	1	8		8	1

In the Life Assurance Division there was an equal distribution between former Forenede and Gjensidige managers. In an interview in the internal newsletter, Vekteren, no. 2, 1993, p. 2, Torstein Øverland, stated that he had tried to chose the most qualified employees which in most cases were the present occupants of the positions. Moreover, he said that his aim had been to achieve a balance between Gjensidige and Forenede and between Oslo and Trondheim.

In marketing and non-life insurance the domination of one organisation was striking. One reason for this dominance was of course the uneven distribution of size of these activities in the respective corporations. However, the sheer dominance of one organisation seemed to give a negative signal to the organisations. One local manager from Gjensidige claims that the biased distribution in the Marketing Division provoked strong reactions. "I knew a number of people in Gjensidige. They weren't even asked."

One manager who chose to recruit most of his employees from Forenede says:

> Many people warned me not to choose so many from Forenede. I saw the risk, but acted the way I did because I knew them, I could trust them and I knew their strengths and weaknesses.

Oslo and Trondheim. Another difficult area was the division between Oslo and Trondheim. The committee suggested that the management of non-life insurance, asset management, international and group services should be located in Oslo, whereas life, insurance and finance should be managed from Trondheim. As far as the Marketing Division was concerned, the committee disagreed. The fact that the unit's most important customers would be located in Oslo was an argument in favour of Oslo. On the other hand, the marketing competence in Forenede was situated in Trondheim.

As mentioned in part two above, there were differences in attitudes towards the acquisition between employees in Oslo and in Trondheim. Working for keeping and upgrading the operations in Trondheim was not in the interest of the employees in Oslo and the related regions who had recently experienced the removal of important functions to Trondheim. As such, alliances based on common interests were formed between employees and managers in Forenede Oslo and Gjensidige. One key employee in former Gjensidige says:

> When we were in the midst of the integration process there was Forenede and Gjensidige, Oslo and Forenede in Trondheim. Suddenly we and Forenede Trondheim became two different groups in relation to former Gjensidige and Forenede. Not formally, but one faced the same kinds of problems.

Unification of power

Although Gjensidige invited widespread participation among the managers and employees in Forenede, and called the combination a merger, there never seemed to be any doubt about who was the strong and dominating party in the combination.

Gjensidige´s dominance was particularly marked in the life assurance sector, in the choice of distribution system and in the allocation of key positions. However, three former Forenede managers were placed in the top management team, two of them in important line management positions. Furthermore, marketing was given a more central role than had been the case in former Gjensidige. Thirdly, the head office in Trondheim was preserved.

By appointing managers and adopting features from Forenede, Gjensidige acted in accordance with its decision not to act as an acquirer once it had gained control over Forenede. However, Gjensidige was still the dominant party.

Degree of unification of power. In chapter three I discussed four possible indicators of unification of power. These were control over power bases, prevailing style of leadership, presence of power struggles and congruence of communication.

Control over power bases and presence of power struggles. For the unification of power, Gjensidige´s decision to restrict its power had a somewhat negative effect. However, Forenede did not control a sufficient amount of resources to create an unstable political situation. Hence, for the managers in Forenede the challenge was to find a format that could work within the Gjensidige dominated organisation while at the same time trying to preserve Forenede´s characteristics. Indeed the managers in Forenede seemed to perceive their role as adapting to Gjensidige rather than fighting against it.

The Marketing Division seemed to struggle somewhat to find its form and place in the new corporation. The interface between the Marketing and the Non-life and Life Insurance Divisions did not seem to have found its final form. Similarly, the relation between the marketing units and the entities seemed to be somewhat diffuse.

Former employees from Forenede say that the distance to the marketing unit increased as a result of the combination process. Their perception was that the role of the marketing unit had changed considerably, and that it was no longer the driving force it had been in Forenede. However, it seems to have taken some time for the marketing unit to realise its new and less powerful role.

Prevailing style of leadership. The organisation of the integration process was very much in line with Gjensidige´s decision-making processes; democratic, time-consuming, extensive and thorough. Interestingly the new managers from Forenede were apparently attracted to Gjensidige's style of leadership. Indeed they argued that Gjensidige´s style of management was one of the reasons why the process had gone so smoothly.

Congruence of communication. Due to Gjensidige's dominance, the information between the two management groups seems to be fairly congruent. The only area where there might have been some ambiguity is the plans for future reductions in personnel.

7.4.4 Culture and Identities

Reactions and expectations

The starting point for the integration of cultures and identities was not the best. As mentioned above, the process that preceded the integration process was characterised by intensive fighting and contact between the two companies was kept to a minimum. There was a clear winner and a loser, and Gjensidige´s final action to get control through a private placement made this even more explicit.

In Assurandøren, no. 4, p. 21, 1992, the union representative for the insurance agents in Forenede stated:

> ...the start of the process was very unfortunate. The employees had the whole process stuck down their throats. This was particularly due to how the take-over happened.

The day Gjensidige was granted concession, the top management in Forenede agreed that they had come to a turning point. The next day Hopland had a meeting with representatives of the unions where he expressed that Gjensidige would in all probablilty succeed in taking over Forenede. He said that his position as CEO would most likely come to an end, and that the employees should prepare themselves for the new situation.

At the management level, people tackled this new situation very differently. Some managers perceived their role as forerunners and spoke enthusiastically about the new company that was going to be formed. In an interview in Forenede Aktuelt, no.9, p.3, 1992, Forenede´s head of marketing, Kjell Fossli, said:

> Never have two corporations merged on such a solid foundation... Structurally the two companies fit very well...I see no reason to doubt Gjensidige´s intentions to preserve a financial institution located in central Norway...

However, in turning so quickly, they also faced the consequences of losing trust and being perceived as "traitors". One manager who chose this strategy says:

> I turned so quickly that many people told me that I was trimming my sails to the wind. But it is so much easier to be on the stand than standing in the middle of all the turbulence.

For some managers securing their own position seemed to become more important taking care of their employees who needed them more than ever in this process. One employee from former Forenede says that his superior became inaccessible. In a meeting in the Autumn of 1992, someone noticed that he had a new watch with Gjensidige´s name on his wrist. This was clearly perceived as deceit, and he was asked when he had decided to change sides.

In line with the reactions in the pre-acquisition process, the staff in Trondheim seemed to have the hardest time adapting to the new situation. According to one former Forenede manager some employees in Trondheim still had problems facing the new reality a year after the concession was given. For the insurance agents in Oslo and other regions apart from Trondheim, the adjustment process seemed to be less painful. Although some of their superiors were seen to turn too fast, they nevertheless played an important role in turning the insurance agents in favour of Gjensidige.

The rather stressful situation and the insecurity the employees in Forenede experienced in this period seemed to have some impact on the sale of life assurance. For endowment insurance there was a negative budget variance of ten per cent, for pensions the variance was 50 per cent. In Forenede´s internal newsletter, no.11, p.2, 1992, Kjell Fossli pinpointed the dramatic reduction in sales, and instructed his insurance agents "not to fall asleep".

Positioning process and downsizing

In the declaration of intentions it was said that re-deployment of tasks would be emphasised, and that there was neither any intention nor any desire to reduce costs through lay-offs. To achieve these goals Gjensidige's management initiated a re-allocation process in which the employees in were encouraged to seek new opportunities in the joint corporation.

To work out the practicalities of this allocation process, a committee for personnel recruiting was set down. As a basis for the process a number of guidelines were established. These guidelines emphasised criteria such as openness and information, purpose and opportunities, and equality and security. A description of the different criteria is outlined in appendix 7.5.

The impression is that the high job security and avoidance of lay-offs were two of the most important contributions to the smooth integration of cultures and identities. Indeed, by promising all permanent employees jobs in the new organisation, positions never became a scarce resource as is often the case in horizontal mergers and acquisitions.

The way Gjensidige chose to organise the integration process by creating an internal job market has a number of advantages. Most significantly, it seems to have diminished the boundaries between departments and the two former organisations. One key employee says:

> The organisations have melted together very fast. Many people have started to work in new departments... It does not matter where you come from, everyone is new.

Secondly, because it was a voluntary process and no one was forced to move location, changing jobs was perceived as an opportunity. One employee from Gjensidige says:

> One of the good things I feel has come out of this process for the employees at lower levels in the organisation, is the opportunity to change jobs.

This way of organising is however very demanding of resourcesand probably restrained the realisation of efficiency gains in the short term. Firstly, the mobility created a substantial need for training. This came on the top of working on integrating tasks, learning one another's routines, systems and products and keeping up with the daily operations. Secondly, the process was somewhat costly as many employees were promoted rather than demoted.

Participation

In the notice of the strategy meeting 18th September Helge Kvamme enclosed a note on his ideas and thoughts for the new corporation and Gjensidige's strategic plan. The participants were asked to prepare themselves for a three day meeting and focus on their own areas in particular. At this point in time several members of Gjensidige's management had thoughts about future strategies and ambitions, but these thoughts had not been put together in a systematic manner. This lack of concrete planning seemed to come as a surprise to Forenede's management who had expected a much more pre-determined process.

Although Gjensidige as the acquirer was the dominating party in the process, Forenede's management seemed genuinely to feel that they influenced the process. One manager from former Forenede says:

> We were perhaps a little surprised at how many issues regarding the acquisition and organisation that had not been fully thought through. This was clearly an advantage for the process.

At the start of the process the managers in Forenede were convinced that much more was predetermined, and were somewhat frustrated by the unconventional bureaucracy and time-consuming decision-making processes. As time went by however, they seemed increasingly to approve of Gjensidige´s approach to the integration process. One former Forenede manager says:

> In hindsight I can better understand why they acted this way...I think we are beginning to see the results of this process which show that Gjensidige´s way of organising the integration process has proved to work well.

However, there were important areas in which Forenede´s management was not invited to participate. One such area was the choice of distribution system. However, this did not seem to have created any problem. Indeed, Forenede´s management seems to have felt that their expectations were more than fulfilled and some even expressed gratitude towards Gjensidige´s management. Here it is important to remember how Gjensidige had acted in the pre-acquisition process and the negative expectations surrounding the process. One representative from Forenede´s former management says:

> I felt the discussions were real... Sometimes we could catch a glimpse of the bear (Gjensidige) saying all right we have discussed so far, but this is where we are heading. But to a large extent I felt they were listening.

Employees from both Forenede and Gjensidige were invited to participate in the project groups set up for the integration process. In every group there was a balance between organisational affiliation and managers versus employees represented through their respective unions. The unions' representatives in the central committee had their own joint column in the joint internal newsletter "Samspill" (Interaction) where they informed the employees in the two organisations about the progress and the work in the central committee. Regarding their influence and participation in this work they said (Samspill, no. 2, 1992):

> Without saying anything about the content in the report that just has been sent from the central committee, we can confirm that there have been long and thorough discussions regarding the most difficult questions, and that our opinions have been taken into account in the report...Neither our arguments nor those of the employers' have been fully supported. However, through discussions we have found suggestions that we regard as acceptable to all parties.

Information and communication

Communication from the top management in Gjensidige was marked by the emphasis on job security and the recognition that informal and cultural integration was an important and lengthy process.

In an interview with Vekteren, Gjensidige´s internal newsletter, no. 6, p. 7, 1993, Helge Kvamme stated:

> We have completed a business transaction, but the cultures and feelings must also be melted... We must avoid ending up with a formal, "official" organisation, that does things right as long at the spot light is on, but turns back to the old habits when the light is switched off.

In an interview with "Din Forsikring", no. 6, p. 26, 1993, the chairman of the board in Gjensidige Skade stated that one of Gjensidige´s major challenges in the next two to three years was to integrate the corporate cultures in Forenede and Gjensidige:

> Even in successful mergers it takes a couple of years before the organisations are integrated. We will take the time we need for this work. Employees need to work in peace and have secure jobs if integration and earning are to go hand in hand.

Two other important messages were communicated from the management in Gjensidige towards the employees and lower management in Forenede with the apparent aim to smooth the integration of cultures. Firstly, the management in Gjensidige stressed that the resistance in the pre-acquisition phase had been positive in the sense that the employees had shown they were loyal to their management. Secondly, they constantly stressed that Gjensidige needed the skills and resources in Forenede, and that it was their aim to choose the best from both organisations. One representative from former Forenede says:

> The signals from Helge Kvamme and Sverre Høegh Krohn have been repeated on every possible occasion... Forenede had a lot Gjensidige did not have and vice versa.

Trying to convince the employees in Forenede that Gjensidige meant what was said in the declaration of intentions seemed to be one of the more challenging tasks the management in Gjensidige faced. Because the process in the pre-acquisition phase was marked by unfriendliness, the employees in Forenede were very sceptical towards anything stated by the management. In Vekteren, no. 9, p. 6, 1993, Sverre Høegh Krohn said that "in the beginning I felt that the most difficult task was to convince many of the employees in Forenede that we would honour our intentions".

However, by keeping their word and acting according to their stated intentions Gjensidige's management seems to have succeeded in building trust among the employees in the Forenede organisation and hence reducing the organisational boundaries. One key employee from former Forenede says:

> There was a lot of scepticism, and we did not believe the sweet talk...We have been positively surprised, and I take every opportunity to say that Gjensidige has acted in

an orderly manner and kept their word. I think this has had a positive effect on the integration process.

Integration of cultures and identities

The management in Forenede faced the challenge of balancing their role as leaders and caretakers for the employees in the organisation. The managers managing to balance these roles seem to have played a positive part in smoothing the integration of cultures and identities. However, there were managers that went too far in their roles as forerunners and some even seem to have been preoccupied with protecting their own interests. This made the employees loose trust and guidance in the process, and as such impeded the process of cultural integration.

The unfriendly acquisition process implied that the employees and management in Forenede met Gjensidige´s management with a great deal of scepticism and distrust. Gjensidige´s declarations about not intending to lay off people were for example not believed. Hence, the starting point for the integration of cultures and identities was not the best.

Several important facilitators for integration of cultures and identities are found in the positioning process. Firstly, securing jobs for all permanent employees and thereby carrying out no lay-offs or other forms of downsizing implied that one to a large extent avoided fronts fighting for scarce positions. Secondly, employees and managers seemed to perceive the procedures for and outcomes of the positioning as fair, and this helped in restoring the balance between the two organisations.

Secondly, by stimulating employees to re-allocate, employees from both organisations began in new jobs and a mixture of people from various departments and the two organisations was created. Hence, the boundaries between the two organisations were torn down. Because the major part of the re-allocation was based on free will, there were few dissatisfied losers in the process. Indeed, employees expressed excitement at being given the opportunity to apply for interesting new jobs.

Contrary to their expectations, the managers and employees in Forenede were invited to participate in the process on an equal level with their counterparts in Gjensidige. This helped restore the imbalanced power relationship that had existed between the parties in the pre-acquisition process, and as such positively affected the integration of cultures. Although some of the major issues such as choice of distribution system and allocation of key positions had been predetermined, this did not seem to have a moderating effect.

Another important contributor facilitating the integration of cultures and identities is related to how Gjensidige's management kept its word in accordance with the declaration of intentions. This made up for some of the negative impression the employees in Forenede had got of Gjensidige in the pre-acquisition process.

Degree of integration between cultures and identities. The impression from this first phase of post-combination is that the basis for cultural integration had been created. This is particularly interesting taking into account the negative image the managers and employees had got of Gjensidige in the pre-acquisition process. The impression is that Gjensidige's approach to implementing the process counter-acted the negative impression of Gjensidige and started to tear down the boundaries between the two organisations.

In chapter three I discussed three indicators of integration of cultures and identities. These were mentioning former organisations, keeping score of appointments and promotions and presenting consistent views of post-merger culture.

One of the key characteristics of the initial post-combination phase in mergers and acquisitions is the allocation and positioning process. This is a process where managers and employees to a large extent are focused on protecting the interests of their former organisations. Hence, *mentioning the former organisations and keeping track of appointments and promotions* is the essence of this process. However, because the procedures and outcomes in the allocation and positioning process to a large extent were perceived as fair, the basis for an integration between cultures and identities was created.

Regarding the *presentation of consistent views*, there were interesting indications of this in this early stage in the process. When employees from Forenede described the present organisation, their description was very much alike the description of Gjensidige in the first phase. One employee described his experiences in the new organisation:

> The new system is quite different from what we were used to in Forenede. Here it is much more long-winded, in many ways more bureaucratic and much more formal. But, one has entered a system and one has to adapt.
>
> It is another organisation. In reality there are 40 different companies or employers. It takes a long time for them to agree... and then they spend some time getting used to the idea before implementing the decisions.

The presentation of the new organisation as similar to former Gjensidige implies that the managers and employees in Forenede had started to adapt to the culture in Gjensidige. This brings me to a fourth possible way of assessing integration of cultures and identities.

This approach involves detecting when the members of the organisation no longer primarily identify with their old organisational affiliation. In this acquisition *change of primary identity* can be traced in two areas. The first concerns head office affiliation. The second concerns change of corporate identity from Forenede to Gjensidige.

Regarding the first aspect, employees in Forenede Oslo and Gjensidige Oslo had common interests in the distribution of resources. Furthermore, the people in Forenede Oslo had experienced a transfer of competence and resources to Trondheim, and a tension between the two cities had developed. By entering into an alliance with Gjensidige their interests could be taken care of. Hence, common interests acted as a promoter for cultural integration and resulted in a change of primary membership from Forenede to Oslo.

The second aspect concerns the change of primary identity from Forenede to Gjensidige. The impression from the data is that managers and employees in Forenede had already started to adapt to the new frames of Gjensidige. Indeed there were indications that this process was running very smoothly and employees and managers from both organisations expressed surprise at the lack of cultural clashes and conflicts. One quotation illustrative of this is the following statement from one of new key managers:

> Many have claimed that the culture in Forenede must collide with the culture in Gjensidige. This has not happened. Quite the contrary, this has proceeded very smoothly... It's really quite striking. The only explanation I can find is that the employees in Forenede have been relativly quick at adapting to the new organisation.

There are several explanations why Forenede willingly seems to have adapted to and started to identify with the culture in Gjensidige. First, because Forenede was attracted to the culture in Gjensidige the potential conflicts between the incompatible areas subsided. Second, Forenede was used to frequent changes as opposed to Gjensidige. Third, the balance of power was in Gjensidige´s favour.

7.4.5 Summary

Relationship between phases. Due to the conditioned concession, Gjensidige had to apply to the Norwegian authorities for approvals of structural changes. Because the authorities spent such a long time processing the applications, this delayed the integration of tasks.

The realisation of gains in the initial combination reflected the long-term perspective employed by the management in Gjensidige. This long-term perspective was possible because of Gjensidige's slack resources and ownership situation. Hence, a large proportion of gains was expected to be realised in the next phase of the combination.

The organisation of the integration process and a new entity and the allocation of senior positions and functions reflected the relative power balance between the parties. However, in accordance with Gjensidige's acquisition regime described in the first phase, important concessions were given to Forenede.

The reactions and expectations in Forenede were formed by the imbalanced power situation in the pre-acquisition phase. However, because Gjensidige acted in accordance with the acquisition regime in the approach to implementation, this negative image of Gjensidige was changed. Moreover, Gjensidige's approach contributed to tearing down the boundaries between the organisations.

When explaining why employees from Forenede at this stage presented a view of the new organisation similar to former Gjensidige one has to trace the historical backgrounds of the two parties. The impression is that the culture in Forenede made it easier for Forenede to adapt to Gjensidige than vice versa.

Relationship between task, power and culture. The authorities' long processing of Gjensidige's applications not only delayed the integration of tasks, but had a similar effect on the unification of power and integration of cultures and identities.

The impression is that Gjensidige's implementation approach required a substantial amount of resources in the initial combination process. This regards matters such as the extensive participation and the organisation of and high job security in the positioning process. These were all factors that seemed to contribute positively to the integration of cultures and identities. However, at the same time it negatively affected and even hindered the realisation of gains in the initial combination.

Although the organisation of the integration process and new entity and allocation of positions and functions to some extent reflected Gjensidige's superiority, Forenede was given important concessions too. These concessions wee not large enough to threaten the power balance, but nevertheless represented a weakening of Gjensidige's position. As such it negatively influenced the unification of power. However, because of these concessions, the process of integrating cultures and identities was smoothed.

7.5 PHASE FOUR:
7.5 THE PATH TOWARDS ORGANISATIONAL INTEGRATION
Early 1994 and onwards

7.5.1 Introduction
At the time when Gjensidige and Forenede had merged their operations the economic climate was favourable. After the crisis that hit the financial sector in 1991, the macro-economic climate turned in a positive direction, and this positive development accelerated in 1994.

Gjensidige aimed to realise gains through increasing income, and faced the challenge of gaining market share in a favourable, but more competitive and difficult regulatory environment. The stable political situation in the corporation was likely to continue in this favourable climate, although there were tensions in the Marketing Division and in the relationship between Oslo and Trondheim. In early 1994 there had been no downsizing of permanent employees, and almost a thousand employees had changed jobs in the positioning process. The question at this stage was whether the character of the re-allocation process ought to change and whether downsizing should be pursued.

Phase four of Gjensidige's acquisition of Forenede is organised into three major parts on tasks, power and culture. The sub-section on tasks consists of an examination of the regulatory environment and the realisation of gains. In the second part on power, attention is given to the re-allocation of senior positions and functions and the organisation of a new entity. The sub-section on culture outlines the implications for positioning and downsizing. Finally, I summarise the section's content.

7.5.2 Tasks
Regulatory environment
In the late 1980s the legislation regulating the Norwegian insurance industry and financial industry was fundamentally altered. Three new laws followed by a number of new regulations were passed. These new laws and regulations which affected the life assurance industry in particular, were to a large extent based on the regulations applicable to the banking industry. According to the Norwegian Insurance Federation (Norges Forsikringsforbund, 1992) these rules were in many cases not suitable to the sector, and adapting these rules and regulations was difficult and time-consuming.

The work to adapt to and follow up these rules and regulations meant that much of Gjensidige's resources in the Life Assurance Division were allocated to this area. As such the change in regulatory regime delayed the integration process. One central top manager claims:

> This prolongs the process in the sense that nearly all our capacity, in fact I would say all our capacity the last couple of years has been tied up in the implementation of rules and regulations imposed by the authorities.

In addition to prolonging the process, one key manager claims that the changes in the regulatory environment made selling life assurance more difficult. As such it made Gjensidige's goal to increase its premium volume more difficult to achieve.

Realisation of gains

The most important tasks that were integrated in the initial combination phase concerned the integration of Forenede's employees into Gjensidige's distribution network, the conversion of Forenede's non-life portfolio into Gjensidige's, writing off Forenede's private life assurance system and reducing the amount of overtime, temporary staff and consultants.

In the forthcoming phase the corporation faced the challenge of fitting the number of employees to the current level of activity, integrating the life assurance corporations and achieving a more efficient distribution between Trondheim and Oslo.

Number of employees. One of Gjensidige's most important aims in the merger was to realise gains through growth. In 1995 however, the perception among key respondents was that the level of employees was too high for the level of activity, and that the growth in premiums was far from sufficient to make up for the employees in excess. One key manager in the corporation says:

> The negative aspect as far as non-life insurance goes, concerns our failure to obtain the growth we aimed at... We claimed that it was very important to obtain growth to solve the problem of employees in excess.

Another key manager describes the situation in the life assurance operations:

> I hope some people will leave the life assurance operations... If not, we have to sell a lot more. Everybody providing a little input has to create more value. For the time being we are doing a lot of things we shouldn't be doing and we have to learn to work more efficiently. Moreover, we need the right people.There have to be some changes.

Whereas the banking industry had been through a period with pressure on cost reductions and rationalisation, the insurance industry had been relatively unaffected. This implies that there was probably a misfit between the level of activity and number of employees before the acquisition. However, this problem became more severe and prevalent as a result of the merger.

To achieve a better fit between its personnel resources and level of activity, Gjensidige had a choice between increasing its income substantially or starting downsize.

In June 1995, nearly three years after Gjensidige and Forenede had set the corporate strategy for the new corporation, the board revised the strategy somewhat. In particular it was decided to emphasise the aim to grow more strongly in 1995 and 1996. As such the corporation still aimed to realise synergies by increasing income. One had especially great expectations for growth in the corporation's new priority area, banking, which was expected to grow rapidly in the next couple of years.

The reason why Gjensidige could await a possible increase in income was because of its high degree of solvency and excellent performance in the early 1990s. As such the corporation was not under pressure to realise gains in the short term.

However, a number of respondents expressed concern regarding when the corporation was to start the downsizing. In their view Gjensidige was in danger of losing its competitiveness if the corporation's cost level was maintained.

Integration of the life assurance corporations. One of the most fundamental changes that was made after the initial combination process was the integration of the two life assurance companies, Forenede Liv and Gjensidige Liv. The rationale behind the preservation of two life assurance companies was the belief that Gjensidige and Forenede could be operated as two distinct types of companies servicing different customer segments.

However, as time went by, this differentiation proved difficult to sustain. Firstly, the customer base of the two companies was similar. Secondly, the two brand strategy seemed to confuse the customers and lead them into strange comparisons. Furthermore, it proved difficult to preserve Forenede's portfolio. One key manager from former Forenede says:

> The marketing effect of having two corporations diminished because of the cancellations in Forenede's portfolio. The Forenede name almost seemed to fade away. This was due to lack of following up and the stress on new sales. Secondly,

> we had been under siege for a long time and were involved in a lengthy integration process, and both these factors harmed the market focus.

Most importantly however, the preservation of two companies restrained the realisation of gains in this area. Interestingly, although the integration of the two corporations' life assurance operations represented a breach with the declaration of concessions, the decision did not seem to have been resisted by former managers and employees in Forenede. The reason for this lack of opposition was probably related to the soundness of integrating the two corporations as well as a gradual acceptance of a more efficient distribution of resources. One key manager from former Forenede says:

> Our judgement early in the process was that it would be wrong to preserve the life assurance corporation. Gradually, it becomes easier to put your own feelings aside. You are forced to be more rational in your own judgements.

Oslo and Trondheim. The distribution of positions and functions between Oslo and Trondheim was thoroughly discussed in the top management group early in 1995. The group decided to reduce the number of loops and to obtain a more efficient distribution between Oslo and Trondheim. This process of obtaining a more efficient distribution had started, but was not finished in late 1995. One key manager says:

> For the time being there are guts in Trondheim all over the place... In my opinion one has to cultivate more functions. Decide what to locate here and there.

The improvement project initiated by Gjensidige's top management started in the late 1995 aimed to improve the quality of the operations and make the corporation more business and market-oriented. One of the key challenges in this project was to look at the interfaces between Oslo and Trondheim and the marketing organisation's relationship to other entities. This latter issue will be discussed in the next section on power.

Task integration

The impression in the late 1995 was that the process of integrating tasks and realising gains from the merger between Gjensidige and Forenede was far from over. This was particularly due to the misfit between the number of employees and the level of activity, the ongoing process of integration in the life assurance operations and obtaining a more efficient distribution of resources between Oslo and Trondheim.

There seemed to be several reasons why the integration of tasks was not finished by late 1995. Firstly, the change in the regulatory environment delayed the integration of tasks and probably also made it more difficult to increase income in the life assurance market.

Secondly, the corporation seemed reluctant to downsize employees. Furthermore, the aim to preserve two head offices restrained the gains from the merger. Finally, the complexity of integrating the life assurance operations implied that it would take several years before the operations were fully integrated.

Degree of task integration. The impression in late 1995 was that there was a middle to high degree of task integration. The *procedural integration* including legal and accounting integration and functional integration was finished. Regarding *physical integration* which includes integration of product lines and production technologies, systems and portfolios still had to be harmonised in the life assurance sector. Moreover, both the non-life and life insurance sectors were in the process of developing new products replacing the old Gjensidige and Forenede products. Furthermore, they faced large investments in new technology. As for *the integration of personnel*, the adaptation of personnel resources to a normal level of activity was far from over.

7.5.3 Power

Re-allocation of senior positions and functions

There were two important areas in which changes had occured or were likely to occur after the initial combination process. The first concerned the change of director of the Life Assurance Division. The other area was related to the distribution of resources between Oslo and Trondheim.

Change of life assurance director. Torstein Øverland resigned as head of the Life Assurance Division on 13. August 1995 to assume a position as deputy director in Kreditkassen. He was replaced by Anders Lian from former Forenede situated in Trondheim. Anders Lian had been recruited as financial director in Forenede in 1991 just before Gjensidige started its acquisition of Forenede.

Interestingly, it seemed to be more important that the new director of life assurance was situated in Trondheim rather than Oslo, than being recruited from former Forenede. The reason for this was probably twofold. Firstly, Lian had only been in Forenede for a short while before the acquisition. Secondly, the boundaries between Oslo and Trondheim seemed to be more prevalent than the boundaries between former Forenede and Gjensidige. One key employee from former Gjensidige says:

> I think this (the decision to recruit Anders Lian) was positively received in Trondheim. I know because I asked... In Trondheim this was perceived as a confirmation that Gjensidige kept its promises.

This brings me to the next area which concerns the distribution of resources between Trondheim and Oslo.

Oslo and Trondheim. As mentioned above, the distribution of resources between Oslo and Trondheim was far from over after the initial combination phase, and a re-allocation was likely to take place. There were two important issues in this debate. The first concerned the aim to achieve a more efficient distribution of resources between Oslo and Trondheim. Secondly, the preservation of the two head offices was questioned.

The lack of an efficient distribution between Oslo and Trondheim seemed to create an unfavourable situation in Trondheim. One key manager in the organisation expressed his worries about making this a non-theme in the integration process:

> In the discussion Trondheim vs. Oslo one feels that the operations in Trondheim gradually become drained. This is neither desirable nor necessarily well thought out.

The second question regarded the preservation of the two head offices in the corporation. This latter issue did not seem to be on the agenda in late 1995, but was nevertheless questioned by key members in the organisation. Several respondents questioned the soundness of preserving two head offices and the cost of this distribution of resources.

One of the areas where the distribution between Trondheim and Oslo was felt to be problematic was in the non-life operations. One key manager expresses his opinion about this distribution:

> The negative effect of having staff functions in an area that is so strongly dominated by Oslo is indisputable... It is difficult to see the advantages.

Moreover, local managers seemed to perceive this duality as undesirable and costly. In particular they pinpointed the cost of extensive travelling between Oslo and Trondheim.

Furthermore, there were external forces that favoured Oslo as the head office. The change in the regulatory environment and the dependence on close relations with regulatory authorities such as the Banking, Insurance and Securities Commission, the Ministry of Finance, and other institutions, implied that the management of the life assurance operations was dependent on being present in Oslo. As such, it was likely that a larger part of the operations would be moved to the capital city. Moreover, the corporate customers were located there.

It is also evident that Oslo was perceived as the main head office in comparison to Trondheim. This view was expressed by one of the key managers from former Forenede: "The power relationship is that the head office with capital letters is here (in Oslo). Many central functions are located here and nearly all the central staff." Moreover, the corporation's CEO and his deputy were located in Oslo.

The impression in late 1995 regarding the distribution of resources between Oslo and Trondheim was that a future strengthening of the Oslo office seemed likely.

Organisation of a new entity
One of the most controversial and thoroughly discussed areas in the establishment of the primary structure was the Marketing Division. As mentioned above this division was a cross between Gjensidige's and Forenede's former marketing units and seemed to struggle to find its place in the initial combination process.

The impression in the late 1995 was that the Marketing Division was still struggling to find its format within the Gjensidige corporation, and that future changes resulting in a smaller entity were likely. One key manager describes the situation:

> They (the boundaries towards the Marketing Division) are still not settled. We have found a working relationship, but not the ideal solution in my opinion. I think this is one area which will be scrutinised in 1996.

Another key respondent claims that a common perception of the marketing entity was that it was a "cuckoo in a nest", and that the unit was over-dimensioned in relation to its tasks. Local managers seemed to perceive the Marketing Division as an unnecessary intermediary link between local and central entities. Moreover, several larger entities had built up their own marketing functions. They expressed frustration at being charged financially for a support function they claimed they did not need.

At the end of 1995, people seemed to have an unclear perception of which tasks the marketing organisation should carry out. This lack of clarity seems to have frustrated people within the marketing organisation. One key respondent from this organisation illustrates this frustration:

> I think most people would claim that the new market organisation has not been a great success. But then I ask: "What do you want? If you want the marketing organisation to be a success, then I can guarantee that you will see the results after a month. Oh yes, but do not adapt practises from Forenede. Then I say, why can't you

> tell me what you want, then I can makeget things going. ..." I claim they're shouting for something they do not want.

At the late 1995 even people in the Marketing Division seemed to have reached the conclusion that their unit might not survive in the future Gjensidige. One key respondent within the Marketing Division says: "It's possible that there so much commotion that when we have functioned for a while we will have to give up. I am open to such a solution." Hence, the impression at this point in time was that the role of the marketing organisation probably would diminish over time.

Unification of power

The impression of the political situation in the late 1995 was which the stability that had characterised the initial combination phase still prevailed. Indeed, the impression was that Gjensidige's position was strengthened for a number of reasons. These included pressures towards a more efficient distribution, external actors favouring the Oslo localisation and the diminishing role of the Marketing Division to provide a better fit to Gjensidige's structure. Regarding the importance of a new life assurance top manager it was difficult to predict whether this recruitment represented a temporary delay in a re-allocation towards Oslo, or a permanent strengthening of the Trondheim office.

Degree of unification of power. Four indicators of unification of power were discussed in the last section. These were control over power bases, prevailing style of management, presence of power struggles and congruence of communication.

Regarding the *control over power* bases the conclusion from the data is that Gjensidige strengthened its control in this period. The importance of Forenede's key power bases, the Trondheim office and the Marketing Division, were diminished in the fourth phase of the combination. Forenede's *style of management* was still prevalent in the marketing organisation, but this entity did not have a strong position in the corporation. Moreover, several Forenede managers who experienced problems in adapting to the Gjensidige culture had chosen or been asked to leave the organisation.

The lack of an ideal solution in the interface between the marketing, life and non-life and local entities did not seem to have caused any major communication or co-operation problems in the top management team. According to key managers however, the distribution of resources between these entities was somewhat problematic downward in the organisation and in the daily operations. As such there seemed to be some *power struggles* and lack of *congruence in communication* at lower levels in the organisation.

7.5.4 Culture and Identities

Positioning and downsizing

One of the most important events in the fourth phase of the combination regarding positioning and downsizing was the preparation of the change report. The task of the committee behind this report was to suggest actions that could control the need for change and to recommend concrete solutions.

The report provided a survey of personnel resources and compared this to the future need distributed between divisions. This survey revealed that few employees were in excess, but that an extensive re-allocation was necessary. In particular the report suggested a re-allocation from areas such as non-life insurance, corporate services and marketing to the financial intermediary operations.

The change report committee suggested that the re-allocation of employees should be implemented in three stages. The first phase concerned a process where employees and managers had a free choice. If this did not provide the desired effect, a more controlled re-allocation would be implemented. This was a phase which the corporation entered into late in 1995. Third, there was a phase in which the corporations management directed the employees to re-allocate.

According to the report it was undesirable to identify employees in excess by name due to the negative consequences for the employees. Instead the committee's recommendation was to identify functions and competence in excess.

To facilitate re-allocation from the insurance to the financial intermediary business, a school for banking and life assurance was established in early 1996 for 40 employees. Moreover, the corporation opened for study leave and for more extensive use of early retirement packages. Other forms of incentive packages were discussed, but were not considered as necessary at this point.

One key question in this re-allocation of employees was whether the competence needed in the new priority areas could be fulfilled by employees recruited internally, or had to be recruited externally. The impression from the respondents is that one planned to recruit internally as far as possible. However, external recruitment to fill specialist functions was also considered as necessary.

Another area that was included in the report concerned the usage of temporary employees, overtime and consultants. Although these costs had been reduced by approximately 30 per cent in the initial combination process, the extent of these services was still considered to be too large. One suggestion was to create an internal bureau that could cover the need for temporary employees and consultants. This had not been implemented by the end of 1995.

As mentioned above, there were apparently no plans to implement any form of downsizing at this stage. Rather, one wished to solve the problem of employees in excess through growth. One key employee says that one of the most important factors in the work to re-allocate employees has been the avoidance of lay-offs. "There is no fundamental anxiety as has been the case in the banks. We do not fear the next process."

Cultural integration

The impression in late 1995 was that a high degree of cultural integration had been achieved. The new management had implemented few changes after the initial combination phase and had chosen to stave off the need for downsizing for a few more years. Thus there was no disruption that could put the cultural integration process at stake.

Degree of cultural integration. In the last section four indicators of cultural integration were discussed. These included mentioning former organisations, keeping track of promotions and appointments, presenting consistent post-merger culture, and change of primary membership.

First, *mentioning former organisations* is difficult to trace in the data collection methods I have used. This would imply a more extensive need for observation. The only area in which one could trace that mentioning former organisations systematically diminishes is through the internal newsletter. However, it is important to emphasise that the internal newsletter is not necessarily representative for the whole organisation, but often reflects the official stance of the top management in the corporation.

The second indicator of cultural integration *was keeping track of appointments and promotions*. According to one key employee in Gjensidige one was no longer concerned about organisational affiliation at employee level. Regarding senior positions however, it was still perceived as having important signalling effects towards the employees.

One of the entities where keeping track on promotions and appointment was still important at the end of 1995, was the Marketing Division. This was an area in which the distribution of positions had been biased towards Forenede in the beginning. At the end of 1995, this entity was about to lose three former Gjensidige managers. Interestingly, several people advised Kjell Fossli, head of the Marketing Division, to recruit from former Gjensidige.

Regarding the presentation of *consistent views of post merger culture*, most respondents seemed to hold the view that Forenede had been absorbed into Gjensidige's corporate culture.

Indeed the impression is that through this process one had lost more of the culture in Forenede than was formerly stated as desirable. These consistent views are illustrated in the quotations below:

Top manager from former Gjensidige:
Today I feel that we have swallowed Forenede's non-life operations. We are left with Gjensidige's non-life operations with little influence from Forenede.... We gained some market share and have a little extra problem that concerns the physical localisation.

Former top manager in Forenede:
I think we have become a part of the culture in Gjensidige. Hopefully Forenede has contributed something, and strengthened Gjensidige in areas in which Gjensidige was weak. But it is clear that we operate within the frames of Gjensidige. To draw any other conclusion would be wrong.

Regarding *change of primary identification* I mentioned in the previous section that employees from Forenede seemed to have changed their primary membership from Forenede to Gjensidige and from former Forenede to an Oslo identity. The Gjensidige identity was further strengthened when it was decided to integrate Gjensidige Liv and Forenede Liv. One employee from Forenede in Spring 1994 states:

> Forenede disappeared with Forenede Liv. I am employed in Gjensidige. If you had asked me the same question some time ago my answer would have been different.

The adaptation to a Gjensidige corporate culture can be traced looking at the description of the former cultures in the first phase. First, although both Trondheim and Oslo were head offices, Gjensidige's head office in Oslo had a much stronger position than the Trondheim office. Secondly, Gjensidige's co-operative structure and distribution network were chosen. The impression is also that Gjensidige's decision-making process, characterised as participative and time-consuming, was prevalent. The same pattern applies to personnel policy.

Moreover, Gjensidige did not seem to succeed in transferring marketing competence from Forenede. The most important reasons why this aim was not fulfilled seem to be that the management style, structure and incentives that preserved and strengthened the marketing culture in Forenede were discontinued. Moreover, managers and employees below the top management level seem to have a more negative perception of the marketing culture compared to Gjensidige-s CEO and his deputy. This view is illustrated in the following quotation:

> The reality was that Forenede's apparently fantastic selling culture was exaggerated. However, if one analyses the realities, this was nothing but a bluff... When we peeled away the outer layer there was nothing different from Gjensidige. Moreover, some things were not even allowed in Gjensidige.

Thus the overall impression is that Forenede had been absorbed into Gjensidige of its own free will.

7.5.5 Summary

Relationship between phases. The aim to realise gains through increasing income was maintained in the fourth phase of the combination. Moreover, the changes in the regulatory regime delayed the integration of tasks in the life assurance sector. Thus, as in the third phase, Gjensidige still had some way to proceed before the integration of tasks and realisation of gains were over.

The stable political situation in the initial combination phase continued to prevail in the fourth phase and the former Gjensidige organisation was even strenghtened. In particular the roles of the head office in Trondheim and the marketing organisation seem to have been diminished.

The cultural integration process continued to proceed smoothly during the fourth phase of the combination. Only minor changes were introduced and the re-allocation process was still based on free will, although it was expected to become somewhat more controlled in the near future. No downsizing of permanent employees was implemented that could make the old boundaries reappear.

Relationships between task, power and culture. One of the tensions that still had to be resolved at the end of 1995, was the distribution of resources between Oslo and Trondheim. This distribution affected the realisation of gains and the balance of power between the merging parties.

The reluctance to downsize seemed to have hindered the realisation of gains at least in the short term. However, the avoidance of downsizing also facilitated the cultural integration process.

7.6 SUMMARY AND CONCLUSIONS

The purpose of this chapter has been to:

- explore the factors and features and identify potential new ones

- examine how the factors and features influence the integration of tasks, unification of power and integration of cultures and identities

- explore the degrees of organisational integration over time and suggest indicators for assessing the three dimensions

- investigate how the integration of task, unification of power and integration of cultures and identities inter-relate.

Identification and examination of factors and features and influences on task power and culture. The factors and features examined in this chapter were:

Integration of tasks	Unification of power	Integration of cultures and identities
Potential gains	Balance of power pre-combination	Historical backgrounds
Discretionary slack	Balance of power in the pre-merger negotiations	Merger regime
Regulatory authorities	Organisation of integration process	Friendliness
Realisation of gains	Organisation of new entity	Reactions and expectations
	Allocation and re-allocation of senior positions and functions	Positioning and downsizing
		Participation
		Information and communication

The themes discussed in this chapter draw upon the framework suggested in chapter four with some minor adjustments (see introduction to this chapter). There are several advantages of organising the themes into task, power and culture. Firstly, this structure is closely linked to the character of the outcome variable which focuses on the integration of tasks, unification of power and integration of cultures and identities. Secondly, the structure eases the comparison and analysis of the cases in chapters nine and ten and make the case chapter more analytical. Finally, the organisation of themes into tasks, power and culture makes the tension and interrelationships that exist between these aspects more explicit.

Beside distinguishing between the factors that influenced the three dimensions of organisational integration, I placed them into four distinctive phases. The purpose of this structure was to trace the evolving process of organisational integration in the cases.

Indicators for assessing degrees of organisational integration. The indicators suggested in the literature were tested out and extensions proposed. These extensions was related to cultural integration and concerned change of primary membership. Some of the indicators of cultural integration made little sense in the initial combination process. Moreover, the indicator of mentioning former organisations would probably have had to be obtained by other means such as observation and analysing minutes from meetings. In Figure 7.2 I have outlined the indicators of organisational integration which were discussed in this chapter.

Figure 7.2. Organisational integration

Integration of tasks
- Procedural integration
- Physical integration
- Integration of personnel

Unification of power
- Control over power bases
- Prevailing style of leadership
- Precense of power struggles
- Congruence in communication

Integration of cultures and identities
- Keeping score of appointments and promotions
- Presenting consistent views of post-merger culture
- Change of primary identity

Inter-linkages between the dimensions. When assessing the inter-linkages between tasks, power and culture interesting patterns emerged suggesting that some features had a positive influence on some dimensions and a negative one on others. In particular the case suggests interesting inter-linkages concerning the realisation of gains and allocation of senior positions and functions. These patterns will be further explored in chapter 10.

The findings and patterns arising from this case and the DnB case (chapter eight) will be compared and analysed in chapters nine and ten.

Chapter 8: The Merger between Bergen Bank and DnC

8.1 INTRODUCTION

This chapter is structured in the same way as chapter seven, with emphasis on the process of organisational integration. As mentioned in the previous chapter the process dimension reflects the four phases in the merger process, (1) historical background and strategic objective, (2) pre-combination, (3) initial combination and (4) path towards organisational integration. The second dimension includes the three dimensions in the organisational integration variable, (a) integration of tasks, (b) unification of power and (c) integration of cultures and identities.

Regarding the themes there are some minor differences between the two cases. This concerns the integration of cultures in the second phase and the unification of power and cultural integration in the fourth phase. The structure of the chapter is outlined in Table 8.1. below.

Table 8.1 Structure of Chapter 8

Phases / Org. Integration	**PHASE 1** ***Historical background and Strategic objective***	**PHASE 2** ***Pre-combination***	**PHASE 3** ***Initial combination***	**PHASE 4** ***The Path towards Organisational Integration***
TASK	Potential gains Discretionary slack	Regulatory authorities	Regulatory authorities Realisation of gains	Realisation of gains
POWER	Balance of power pre-combination	Balance of power	Organisation of integration process Organisation of new entity Allocation of senior positions and functions	Change of CEO Strategic changes Organisational changes Allocation Organisation of process
CULTURE	Historical backgrounds Merger or acquisition regime	Reactions and secrecy	Reactions and expectations Positioning and downsizing Participation Information and communication	Reactions Positioning and downsizing Participation Effect of structural changes

I have included a review of the chronologies of the second, third and fourth phases in appendix 8.1.

PHASE ONE:
HISTORICAL BACKGROUND AND STRATEGIC OBJECTIVE
Before Summer 1989

8.2.1 Introduction

Bergen Bank's strategy in the late 1980s was to (1) strengthen its position in Norway, (2) contribute to further development and integration of Scandinavian Banking Partners, and (3) exploit the potential for international banking business (Extracts from McKinsey document prepared for strategy discussions 1st of June 1989).

Four alternatives to achieve these aims were discussed including (1) a merger with Kreditkassen or DnC, (2) a merger with its Swedish partner in the SBP alliance, SE-Banken, (3) a merger with an insurance company and (4) maintain status quo.

In a meeting in May 1989 the board of directors in Bergen Bank concluded that a merger with Kreditkassen or DnC would be preferable. Kreditkassen was perceived to be the most desirable alternative, but this was not supported by the Norwegian authorities. DnC on the other hand had been through a substantial restructuring process, but was still losing money. DnC was in a position where its survival was seriously threatened and a merger with Bergen Bank represented a solution to its problems.

The background of DnC's financial problems was the deregulation of the financial markets in 1984-85. This deregulation was followed by a boom in the Norwegian economy overheated by the large supply of credit. The banks had a substantial growth in the loans and asset capital in the banking industry. From a level of just above fifty billion NOK in 1980 the total loans increased to about 300 billion NOK in 1990.

As a consequence of the rather swift deregulation of the market, the large increase in loans and the bank's changed strategic and competitive behaviour, the bank's losses on loans and warranties increased substantially through the late 1980s. From a level of 0.52 per cent in 1986, the losses in percentage of asset capital increased to 1.56 per cent in 1989 (See Table A8.2).

The large losses resulted in negative results for the commercial banking industry as a whole in 1987 and 1988. However, there were large individual differences between the banks. Indeed DnC was among the hardest hit corporations.

Before 1987 the cultures in Bergen Bank and DnC were quite similar. During the restructuring process in DnC in the late 1980s DnC went through a substantial change and this had important implications for the integration process. The main differences between the organisations are outlined in Table 8.2 below.

Table 8.2 Features of Bergen Bank and DnC

	Bergen Bank	**DnC**
Dominant activity	Retail banking	Corporate banking
Head office	Bergen and Oslo	Oslo
International orientation	Alliance	Wholly owned network
Organisational changes	Minor restructuring	Turnaround operation Cultural revolution
Decision-making process	Consensus-oriented Decentralised	Line management
Management style	Task-oriented Stability-oriented Long-term focus	Process-oriented "Crisis-oriented" Short-term focus Confrontational

This section is divided into three main parts that discuss the implications for the integration of tasks, unification of power and integration of cultures and identities. In the first sub-section I discuss potential gains in the combination and discretionary slack. Then I describe the balance of power between the parties before Bergen Bank and DnC entered into merger negotiations. Finally, I review the historical backgrounds and discuss the acquisition regime chosen.

8.2.2 Tasks

Potential gains

By combining their operations Bergen Bank and DnC could (1) achieve a better balance in the SBP-alliance, (2) become the dominant corporate investment bank in Norway, and (3) become more cost-effective, in retail banking in particular.

The first gain was related to the size of the new bank, and was as such a one-off event related to the transaction in itself. The second aim was related to achieving sufficient activity within key competence areas, and would require an integration of key operations.

To become more cost-effective, economies of scale and scope would have to be realised, in particular in the bank's retail operations which constituted about 65 per cent of the total costs. These gains concerned manning reductions in the corporate centre, consolidation of branches in Norway and abroad, and integration of computer systems.

Potential cost reductions were estimated at a total of 655-915 million NOK, which constituted 17-23 per cent of the total costs. These cost reductions implied a reduction in manning of 1000-1500 employees. Cost savings in the corporate banking units were estimated at 175-195 million NOK. In the retail operations potential savings amounted to 400-640 million NOK, whereby 150-200 were related to integration of computer systems and 190-300 in closing branches. In the corporate centre cost savings were estimated tat 80-100 million NOK.

Discretionary slack

The period of large losses on loans and guarantees in the late 1980s drained the financial resources in the Norwegian banking industry. As mentioned in the introduction, there were large individual differences between the banks. Some banks lost most or all of their equity capital whereas other banks were relatively unaffected.

DnC was among the hardest hit banks, and would probably not have survived through 1989. From 1986 to 1988 its equity capital decreased by more than 25 per cent, whereas Bergen Bank´s equity capital increased by more than 43 per cent.

However, the level of equity capital was not very high in either of the banks. Both banks would have to upgrade their capital base to meet the new capital requirements issued from the Bank of International Settlements (BIS).

As the results for the commercial and savings banks had turned from negative to positive, people started to believe that the banking crisis was over. The outlook for the sector as such was positive. In Bergens Tidende in the middle of October 1989 the chairman of the Norwegian Bankers' Association, Trond Reinertsen, stated: "I am a moderate optimist. What someone called a crisis is definitely over."

When the two banks decided to merge, this was the scenario they acted upon. Hence, they had no pressure from the environment to realise gains in the short term. Quite to the contrary, their actions showed that they planned to realise gains over a long term.

Implications for integration of tasks

The plans for realising gains had important implications for the integration of tasks. To realise gains the two banks′ operations had to be fully integrated, and costs had to be cut. A substantial part of these gains was related to downsizing, and one would expect this to cause negative reactions among the employees.

The banking crisis in the late 1980s and the new capital requirements implied that the merged bank would have to upgrade its capital base in the near future. Based upon a positive outlook for the future one did not expect this to be a problem, and the gains from the merger could be realised on a long-term basis.

8.2.3 Power

Balance of power pre-merger

The three dominating actors in the banking industry in 1989 were DnC, Bergen Bank and Kreditkassen. DnC had been the leading and most international bank in Norway until 1987, but had to downscale its activities as a result of large losses on loans and shares and share related-instruments (see discussion below). Hence, at the time of the merger Bergen Bank had more than caught up with DnC in terms of market shares. See Table A8.1 in appendix 8.2.

The same development was reflected in the number of employees. Whereas the number of employees in DnC in 1986 exceeded the number of employees in Bergen Bank, the opposite was true in 1989.

The trigger of the turnaround operation in DnC in 1988 was the extraordinary losses in particular on shares and share-related instruments that appeared after the collapse in the share market in Autumn 1987. As a consequence of these losses DnC′s CEO since 1980, Terje Løddesøl, resigned from his position 20th January 1988.

The extraordinary losses also resulted in the Banking, Insurance and Securities Commission initiating an inquiry into the bank. This inquiry revealed substantial weaknesses in the bank's controlling systems as well as considerable losses in its domestic operations. With Harald Ankværn, deputy managing director since 1981, as new CEO, the bank's strategy was changed to try to turn the negative trend. However, the losses on loans and guaranties continued to accelerate from a level of 768 million NOK in 1987 to 1055 million NOK in 1988.

The negative development in the DnC in 1987 and early 1988 triggered the resignation of the board of directors and a new board was constituted in February 1988. The new board appointed Kristian Rambjør as new CEO with effect from 1st June 1988. With Rambjør as CEO, the bank's domestic operations were consolidated and downsized.

As the restructuring of DnC's domestic network was coming to an end in the Spring 1989, it became clear that the difficulties were not isolated to the domestic operations. Though problems in DnC's international operations had been apparent for some time, the management chose to focus its attention on the domestic operations first. However, as time passed, the situation in the bank's international operations worsened so much that it seriously threatened the survival of the bank.

In line with DnC, Bergen Bank suffered substantial losses on its portfolio. In contrast to DnC however, Bergen Bank's survival was never threatened in these years and its profits remained positive. The development in the loss situation in Bergen Bank, DnC and the commercial banks is shown in Table A8.2 in the appendix 8.2 below.

Implications for unification of power

When Bergen Bank and DnC entered negotiations to merge, neither bank was clearly dominant in terms of size or number of employees. This implied that the integration process between the two banks was likely to be complex and rather lengthy.

However, Bergen Bank was clearly superior to DnC in terms of its operating profit after losses. Indeed, DnC's financial situation was so dive that its survival was seriously threatened and Bergen Bank appeared like a knight in shining armour saving DnC from bankruptcy. This power differential was likely to have important implications for the distribution of power and for the employees' reactions to the merger.

8.2.4 Cultures and Identities

This section compares the historical backgrounds of the two merging parties. A more thorough description of the two banks is included in appendix 8.3 below. It is important to emphasise that the description of the corporations focuses on the differences rather than similarities. The reason for this somewhat biased focus is to detect the areas in which problems of integration were likely to occur.

Dominant activity and head office. Bergen Bank's operations in 1989 were structured into two main business areas, retail and corporate banking. Retail banking had a very strong standing in Bergen Bank, and three of the banks six divisions were dedicated to this business area. The retail operations were managed from Bergen, whereas the management of corporate activities took place in Oslo. This division was probably the reason why Bergen Bank had no official head office. However, it seems to have resulted in the development of two distinct sub-cultures.

In contrast to Bergen Bank, DnC was much more oriented towards international and corporate customers. Retail customer, in particular consumers, seemed to have had a relatively low standing. DnC's head office was located in Oslo where its core operations took place.

International orientation. The main difference in the two banks' international orientations was that DnC had a wholly owned international network whereas Bergen Bank was part of a Nordic alliance. Through this alliance Bergen Bank was represented in more than 1100 branches in the Nordic countries. DnC´s international network in contrast, consisted of six wholly owned subsidiaries, four branches and eight representative offices.

Organisational changes. In the period before the merger the activity in Bergen Bank was marked by continuity, stability and strong expansion. All managing directors but one had been with the bank for a long time. Moreover, they all had considerable experience from the banking industry.

In the Summer of 1988, Bergen Bank initiated an efficiency program to restructure and re-allocate tasks between the parent bank and the subsidiaries. The result of this program was a staff reduction of more than 340 man-labour years (7,4 per cent) from 1988 to 1989, of which 152 man-labour years were reduced in the parent bank.

The negative development in DnC in 1987 resulted in a fundamental restructuring process triggered by the change of board of directors and CEO. The new CEO, Kristian Rambjør, was recruited from Aker, a manufacturing industrial company, where he had been deputy chief executive. With Rambjør as CEO, the bank's operations were consolidated and downsized. Three key deputy managing directors were laid off to rebuild trust in the top management, and approximately 50 per cent of the middle managers was replaced. As new deputy directors, Rambjør chose to recruit managers with background from the manufacturing industry.

In the time that followed, the new top management team chose to focus their attention on restructuring the domestic operations. 820 employees were laid off and costs were eventually cut by 28 per cent. The number of employees was reduced from 4538 in 1987 to 3320 in 1989 (see Table A8.4).Through this restructuring process the union representatives in DnC gained valuable experience that made them better prepared for the forthcoming merger process.

Cultural revolution. The new management recruited by Kristian Rambjør in 1988 brought a new culture and style of management to the bank. The new culture implied changes in the decision-making structure to control through the line management rather than the corporate staff. Furthermore, the new management style was more confrontational and marked by short-term focus, management by crisis and process orientation.

In the short intermediate period before the merger with Bergen Bank became a reality, the new management tried to change the bank's culture which they perceived as an inadequate survivor from the times of regulation, by using strong means and symbols. These changes were strongly opposed by the employees in Oslo where the bank's core business had taken place for decades and who lost considerable power through the restructuring process. Local managers on the other hand seem to have welcomed the changes, and thus had started to adopt the new management style and culture at the time of the merger announcement.

Decision-making process. The decision-making process in Bergen Bank before the merger was marked by consensus orientation and extensive decentralisation. Decisions were made in collective groups and no one in particular was made responsible for the outcomes. Moreover, both divisional and branch managers were treated as managing directors of their own entities.

Before the change process in 1988, DnC was very much centrally governed, and the corporate staff had a strong position internally. When Rambjør and his new top management team entered the bank, this controlling and decision-making structure was changed. A much stronger line managment with clear distribution of responsibilities was introduced and the corporate staff lost considerable power. The new top management group did not see themselves as a decision-making body, but made individual managers responsible for making the decisions.

Style of management. The management styles in the two banks after Rambjør had taken over as CEO of DnC, were fundamentally different. Bergen Bank's management style was marked by a hands-on orientation with great attention to operations and details. Beside this task orientation the style was marked by an emphasis on stability, continuity and long-term thinking. It was a style that reflected the environment of the banking industry in the past decades.

The new managers of DnC felt change, not stability to be the name of the game, and had a much more confrontational style in dealing with conflicts. Compared to former managers in the banking industry, they seemed to prefer to execute rapid and substantial changes rather than the more long-term step by-step-approach. Furthermore, they had a more crisis-oriented approach.

As opposed to the management in Bergen Bank, these new managers were much less operative or task-oriented. They seemed to view general management competence as more important than long experience from the banking industry, devoting their attention to strategic and more macro-oriented issues.

Merger regime

At first Bergen Bank perceived itself as the acquiring bank, merging DnC´s operations into its existing structure and activities. As a result Bergen Bank would become the largest commercial bank, the merger would strenthen its customer- and supplier-relations as well as providing it with a better balance in the SBP-alliance. One key manager in Bergen Bank before the merger says:

> From a cynical point of view we perceived a merger with DnC as a way to get rid a competitor and at the same time gain access to the good qualitites in DnC... Our aim was to pursue a merger on Bergen Bank´s terms. As such we saw this more as an opportunity to take-over DnC than as a merger between equal parties.

However, the bank also foresaw a potential problem in attracting equity capital. If the combined bank was not able to increase its profitability fairly rapidly, attracting capital could prove difficult. At the same time it was clear that Bergen Bank´s financial ability to take-over a weaker bank would be seriously questioned if Bergen Bank chose to acquire DnC. One the other hand, if this was promoted as a merger, these kinds of questions could be avoided.

Moreover, there was some doubt as to whether Bergen Bank was superior enough to acquire DnC. Although Bergen Bank at this point in time was perceived to be financially stronger than DnC, DnC had been the leading bank in Norway for decades. Bergen Bank was dependent on the competence in the bank to make the combination work. Hence, Bergen Bank decided to enter negotiations with DnC on the understanding that this was to be a merger between equal parties. This equality was reflected in the announcement of the merger in October 1989 (see phase three below).

Implications for integration of cultures and identities

As discussed above, the historical features of Bergen Bank and DnC were different in many respects. However, this did not necessarily imply that the two organisations were incompatible.

DnC's dominant activity was corporate banking which was located in Oslo. In contrast, Bergen Bank had a strong emphasis on retail banking which was managed from Bergen. In DnC Bergen was regarded as a local branch in line with other branches. Hence, the emphasis on centralisation versus decentralisation was an issue which had to be resolved.

The two banks' international orientations were fundamentally different and presented a potential conflict. However, because the losses in DnC international branches were so substantial, it would probably be easier for Bergen Bank to argue for a downscaling of the international activities and a change of philosophy.

The decision-making processes and the management styles were clearly incompatible. This meant that one would have to choose between them in the further process. The choice of these features would probably reflect the dominant coalition in the top management team.

The different managerial backgrounds in the top management teams implied that the managers from DnC were probably more skilled in political processes than their counterparts in DnC. This would have important implications for the distribution of power in the post-combination process.

One effect of the restructuring process was that the middle managers and employees in DnC had become more adaptable to change than those in Bergen Bank. Hence, one would expect less resistance during the process from DnC. Another important issue was that the employees in DnC had gained experience in the turnaround operation and as such were better prepared for the forthcoming merger process than their counterparts in Bergen Bank.

The restructuring process had also resulted in a number of lay-offs. Thus, one would expect that the forthcoming process would affect the employees in Bergen Bank more than DnC employees.

Although Bergen Bank at first perceived itself as the acquiring bank, it was decided that entering the negotiations as equal parties was a better strategy to pursue. This had important implications for shaping the expectations in the allocation process.

7.2.5 Summary

Implications for the following phases. The discretionary slack in Bergen Bank was not at a very high level. With a positive outlook for the future however, the management would have sufficient resources to act on a long-term basis if desired. Hence, the realisation of gains in terms of cutting costs could be pursued both in the initial phase of the post-combination process and in the longer term.

The balance of power in terms of profitability was likely to affect the parties′ negotiation positions in the pre-merger negotiations. Moreover, both profitability and the relative size of the parties would be expected to have some influence on the organisation of the integration process and a new entity and the allocation of positions and functions.

How the incompatibilities would affect the cultural integration in the third and fourth phase, would be dependent on whether the new management allowed ambiguity to exist or whether they made a choice between the features.

Furthermore, it was likely that the different experiences from change processes would form the reactions to the merger in the third phase.

Relationships between task, power and culture. One of the main motives behind the merger was to cut costs as a result of integration. This would have a positive effect on the integration of tasks. However, cutting costs would probably negatively effect the cultural integration process because it could polarise the groups competing for scarce positions. This effect could be somewhat moderated if the new management chose to cut costs on a long-term basis.

Regarding the balance of power, the two indicators, profitability and size, drew in opposite directions. Because the parties were approximately equal in terms of size one would expect a fairly even distribution of power. This would have a negative impact on the unification of power because it could imply an unstable political situation, but a positive effect on cultural integration due to its fair treatment of both parties. As for profitability the predictions would be the opposite. A biased distribution of power would probably facilitate the unification of power but have a negative effect on cultural integration.

The effect of the reorganisation process in DnC was that the managers and employees had become more experienced in dealing with political processes. Moreover, the top management recruited to DnC in 1988 seemed to be more politically skilled than their counterparts in Bergen Bank. This feature could imply that the imbalance in favour of Bergen Bank might be adjusted to a certain degree. Hence, the unification of power would be negatively affected.

Another feature that altered the unequal power balance was the merger regime. Because DnC entered the negotiations on the basis that this was a merger between two equal parties, Bergen Bank was not in a position to impose its preferences unitarily on DnC. This would probably have a positive effect on the cultural integration due to its consideration of both parties' interests, but a negative effect on the unification of power, introducing an unstable political situation.

8.2 PHASE TWO:
PRE-COMBINATION
Summer and Autumn 1989

8.3.1 Introduction

The first meeting between Kristian Rambjør and Egil Gade Greve took place at Grand Hotel in Spring 1989. Although Bergen Bank's preferred alternative was Kreditkassen, they were also prepared to discuss a possible merger with DnC. After Bergen Bank's preference for Kreditkassen had been turned down by the authorities the DnC-alternative was analysed in more detail.

In the next meeting between the CEOs which took place in June, a possible merger between the two banks was on the agenda. For fear of leakage these meetings and the forthcoming negotiations leading to an intentional agreement were kept secret.

This section will be divided into three parts. First, I examine the role of the regulatory authorities and their implication for the integration of tasks. This will be followed by a discussion of combination climate and balance of power and their influence on unification of power. Third, I explore how the reactions affected the integration of identities and cultures.

8.3.2 Tasks

Regulatory authorities

The consequences of a possible merger between two of the three largest actors in the banking market had been thoroughly analysed in a public report on competition in the financial market (NOU, 1986). The conclusion in the report and in the following discussion in the Financial Parliamentary Committee was that they would not allow two of the three largest banks to merge. The reason was that this merger would lead to an undesirable increased concentration in the financial markets. In May 1989 Gunnar Berge, the Minister of Finance, stated that a merger between the largest banks was out of the question. Just before this statement the Minister of Finance had turned down an application for a merger between two large insurance companies in Norway.

Gade Greve´s preference was to try to merge with Kreditkassen which at that time was the largest bank in Norway. To test whether a merger between Bergen Bank and Kreditkassen was a realistic alternative, he got in touch with the Norwegian authorities. The answer from the Ministry of Finance was that this merger would not get the ministry's support, but that a merger between Bergen Bank and DnC could be possible. After the discussions with the authorities Bergen Bank started to deliberate a possible merger with DnC.

The Norwegian authorities´ perception of the situation at this time was that Bergen Bank and Kreditkassen both were in financially sound positions, whereas DnC presented a potential problem. Interestingly, the authorities´ perception of the situation in DnC seemed to be much more pessimistic than Bergen Bank´s. Indeed the Banking, Insurance and Securities Commission had in the past held a close surveillance and an inquiry into the bank. One informant closely related to the authorities in this period says: "I know that the Ministry of Finance's assessment was that DnC was close to bankruptcy."

During the first week in August Gade Greve contacted the authorities and informed them about the merger negotiations. This was in line with Gade Greve and Ole Lund´s preference to move cautiously in the process. In contrast, Kristian Rambjør wanted the two banks to finish their negotiations first, and then inform the authorities.

The authorities' feedback to Gade Greve´s request was positive. The authorities expressed a positive attitude towards creating a strong national entity that would be competitive in the international markets. Moreover, the district profile of the bank suited the authorities' desire to spread the commercial banks' activities away from the Oslo region.

The authorities' main reason for supporting a merger between two of the three largest Norwegian banks seemed however to be the problematic situation that had arisen in DnC. The authorities' assessment of DnC's condition was that it was much worse than most people were aware of, and this assessment seems to have persuaded even the most resistant politicians in favour of a merger. Encouraging a merger between a healthy bank and a financially strained one was also in line with earlier practice.

Implications for integration of tasks

The authorities' structural policy at the time of the pre-merger negotiations represented a possible obstacle to DnC and Bergen Bank's plans to merge. However, because the authorities perceived DnC's financial position to be problematic, these policy considerations were set aside. Although the authorities could not approve the merger at this stage, their positive attitude made the outcome of the concession application more predictable.

8.3.3 Power

Balance of power

When Gade Greve got in touch with Kristian Rambjør early in the Summer of 1989, the basis for the discussion was that this was to be a merger between two equal parties. However, due to a number of circumstances, DnC was in a much weaker negotiating position in these pre-merger negotiations.

With DnC's difficult financial situation and threatened survival in mind, Rambjør started to try to find solutions to the bank's problems that would hinder the bank being put under administration or going bankrupt. At this stage Rambjør saw two possible alternative strategies. The first was to merge with another major Norwegian bank. Bergen Bank was considered the most desirable alternative due its complementary domestic network and partnership in the SBP-alliance.

If a merger with a Norwegian bank proved difficult to accomplish, the second alternative was to contact foreign banks. Thus, Rambjør got in touch with a number of foreign banks including the Swedish Handelsbanken, PK-Banken and Deutsche Bank looking for a possible supply of capital. Getting a foreign bank to acquire DnC was thought to be unrealistic. However, the talks with these banks never reached the stage where they represented a real alternative to the forthcoming negotiations with Bergen Bank.

Until 1987, the strategy and development in DnC, Bergen Bank and Kreditkassen were very similar. All three banks expanded dramatically through the 1980s, and their compositions of portfolios were very much the same. When the second phase of the banking crisis began to emerge in Autumn of 1991, it became apparent that the crisis was not isolated to individual banks. The losses in Bergen Bank and Kreditkassen were just as severe as they had been in DnC some years before.

When Bergen Bank and DnC entered negotiations to merge however, DnC´s problems were much more apparent than those in Bergen Bank and DnC. One key person from DnC involved in the negotiations says:

> DnC´s financial situation made us feel somewhat weak in the negotiations. Not because we believed that it was considerably worse than in the other banks, but because it was so much focused on. It was the only bank which at that stage had lost large sums of money. I have always wondered how other banks with approximately the same number of employees, qualifications and competence could perform so much better.

As the negotiations proceeded, the losses in DnC´s international network became ever more apparent, and at the end the bank had no alternative but to merge with Bergen Bank. Bergen Bank on the other hand had the opportunity to walk away from the negotiations. One key person from Bergen Bank says:

> I will definitely claim that we held the winning cards and were the stronger party... DnC was the party that needed this merger... In hindsight we also had a feeling that DnC could not survive as an independent corporation throughout the year, and I think that this was a correct observation.

Bergen Bank also seemed to be much better prepared than DnC, that had been "forced" into the negotiations to secure their own survival. This was reflected in the discussions in the board of directors and the top management that were much more thorough, extensive and time-consuming than in DnC. Moreover, a thorough analysis of DnC and the consequences of a possible merger was conducted.

In DnC the discussion of possible alternatives seemed to be restricted to a very small group of people with Kristian Rambjør at the centre. Moreover, the board of directors, apart from the chairman, were not informed about the move. Although it was clear from the discussions in the board that some drastic action had to be taken, the fact that the negotiations concerning a possible merger with DnC seems to have come as a surprise to several members of the board.

Implication for unification of power

Although the banks entered the negotiations on the basis of a merger between two equal parties, Bergen Bank was in a much stronger negotiating position. This was mainly due to DnC's weak performance which continued to deteriorate through the negotiations. In addition Bergen Bank was much better prepared for the negotiations. This imbalance implied that Bergen Bank had the potential to gain favourably in the distribution of power, and as such stabilise the political situation.

8.3.4 Culture and Identities

Combination climate and secrecy

In the merger between Bergen Bank and DnC both parties were involved all the way through the pre-merger process. The discussions started between the two CEOs and were extended to include the chairmen of the boards and members of the top management teams.

The question of a possible merger was first raised at a meeting between the two CEOs that took place at Egil Gade Greve´s place in the country in the middle of July. At this point the chairmen in the two companies were informed about the contact made between the banks. In early August the two CEOs and chairmen of the boards met together with a representative from McKinsey. After a thorough discussion of the analysis of the merger, both chairmen gave their support to continuing negotiations. A project group was appointed consisting of the two CEOs and two managing directors from each bank.

After the meeting in early August more and more people became involved in the process. The top management group in Bergen Bank was informed about the plans to merge, and this became a part of the regular meetings. In DnC a smaller number of people were informed about the process.

However, although both parties to the merger were involved at top management level, the employees were not informed or invited to participate. For fear of leakage of the merger it was decided not to inform the board of directors in either of the banks. This also implied that the employees' representatives sitting on the board were not informed about the merger plans. One key manager in the process claims that the secrecy that surrounded the pre-combination process restricted the analysis of and input to issues such as organisation of the new bank.

Implications for integration of cultures and identities

The secrecy in the pre-merger process meant that the middle management and employees in both banks were not involved. This secrecy would probably cause some negative reactions and as such slow down the cultural integration process. On the other hand, the involvement of both parties at board and management level would probably have a positive effect on cultural integration.

8.2.5 Summary

Implications for the following phases. By informing the regulatory authorities about their plans to merge and testing their attitude, the outcome of the concession application became more predictable. Hence, the risk involved in starting to prepare for the integration of tasks was significantly reduced.

During the pre-merger phase the power differential between Bergen Bank and DnC became increasingly more apparent. Although it was said to be a merger between two equal parties, Bergen Bank had was in a much stronger negotiating position. One would expect this imbalance to be reflected in the distribution of power in the third phase.

The secrecy in the pre-merger negotiations implied that the middle management and the employees were neither informed nor involved in the pre-merger process. This would probably influence their reactions to the forthcoming process negatively and as such slow down the cultural integration process. However, the fact that both parties had been involved and could protect their party's interests, was expected to have a positive effect on the integration of cultures.

Relationship between task, power and culture. Bergen Bank's strong negotiating position in the pre-merger negotiations was expected to result in a biased distribution of power in the third phase. As such it would positively influence the unification of power. On the other hand, the imbalance would probably not facilitate cultural integration.

Had both parties been involved in the negotiations, this would probably have facilitated cultural integration. On the other hand, equal participation would also have created expectations of a more balanced distribution of power and had the potential to create a more unstable political situation.

8.4 PHASE THREE: INITIAL COMBINATION
Autumn 1989 - Summer 1990

8.4.1 Introduction

Early in the morning of Thursday 5th October 1989 the board of directors in Bergen Bank and DnC were summoned to give their approval to the plans to merge. At 11 o'clock, a statement was issued to the Oslo Stock Exchange, the press and the employees in the two banks. The news of a merger between Bergen Bank and DnC came as a total surprise to the banks' employees, their customers and the press.

In the public announcement of the plans to merge the two banks put forward the strategic objective and potential cost reductions emphasising that this was a merger between equal parties.

Reactions from the press and people representing key public institutions summed up in the press the day after were strikingly positive to the merger, especially taking into account the outcome of the discussion of a possible merger between two of the three largest banks shortly before.

However, nobody believed the claim that it was a merger between two equal parties. The general view in the press seemed to be that Bergen Bank was the strong party which had saved DnC. This is illustrated by headlines in the press the day after the public announcement:

> BB the strong party (Bergens Tidende)
> Integration saving DnC (Hamar Dagblad)
> DnC's losses forced a bank-giant to be formed (VG)
> Bergen gets everything (Dagens Næringsliv)
> DnC the weak party (Dagens Næringsliv)
> Merger a crisis solution (Aftenposten)
> DnC eaten up by Bergen Bank (Sarpsborg Arbeiderblad)

The third phase of the merger between Bergen Bank and DnC is divided into three parts. The first part on tasks examines the regulatory authorities and the realisation of gains. Then I address the balance of power in terms of the organisation of the integration process and a new entity and allocation of senior positions and functions. Third, attention is given to reactions and expectations, positioning and downsizing, participation, and information and communication.

8.4.2 Tasks

Regulatory authorities

Two hours after Bergen Bank and DnC publicly announced that they intended to merge, the Ministry of Finance sent out a press release stating their support for the merger:

> The Department of Finance is familiar with the agreement between Bergen Bank and DnC to enter an intentional agreement to fully integrate the two bank groups.
>
> The Department views the integration positively. This despite the breach with existing structural policy. The development in the banking market in the latter years which has been marked by large losses in particular, has changed the basis for this policy.

This press release illustrated the close contact between the bank and the regulatory authorities in the pre-merger process. Moreover, it made the outcome of the concession application more predictable.

Two important issues were raised in the submission to the application for concession. The first issue concerned the effect on competition. Both the Norwegian Central Bank and the Banking, Insurance and Securities Commission supported the application. The Norwegian Savings Bank's Association claimed on the other hand that the need for large entities in the future financial markets was questionable, and that there was no sustainable proof for the existence of economies of scale and scope in banking.

The second and related issue concerned the lack of thorough discussion in the Norwegian parliament regarding the change of structural policy. The Norwegian Union of Bank Employees questioned the pre-determination of the outcome of the concession process. The union stated:

> The alliances between the employer, shareholders and financial authorities which in advance have cleared the support for concession and the terms for this support, make us question whether the right to work in our democratic society is still as important as the right to dividend.

The application for concession was sent to the Ministry of Finance 23rd. October which was the same day the board of directors voted in favour of the merger. Three months later, 16th February 1990, the two banks were given concession to merge. On the 17th April 1990, Bergen Bank and DnC became one legal entity named DnB.

Realisation of gains

As opposed to the reorganisation process in DnB in 1988, the approach to realising gains was less drastic, more bottom-up and long term. In the announcement of plans to merge the new management indicated an expected cost reduction in the region of 500 to 750 million NOK. These cost reductions would affect areas where the two banks had overlapping functions. According to Fellesavisen, the joint internal newsletter, No. 1, 6th October, p.3, possible actions were:

- Integration of branches in Norway and abroad
- Better utilisation of assets, including real estate
- Centralisation and automation of internal branch operations
- Co-ordination of support units
- Integration of computer systems-departments
- Reduction of administrative and personnel costs

In the article in the newsletter it was stated that these were mere suggestions (p.3): "We emphasise that none of the above-mentioned actions have been decided. The list is first and foremost an illustration of areas in which gains can be realised."

Nevertheless, the list illustrated the aim to integrate all overlapping functions and realise cost reductions. The only area where there was an aim to preserve functions was the two headquarters. In the year that followed there was sustained focus on integrating branches, systems, personnel, procedures and so forth.

The realisation of synergies in the parent bank was to emerge as a result of the individual departments' estimates of resource demand and cost reductions. The various units were asked to specify cost reductions on personnel, rent and other operating costs. Regarding rents, all the properties were transferred to the real estate department. To give the entities an incentive to get rid of the facilities they did not need, the bank only charged them for their actual use. Unfortunately for the bank, there was a recession in the real estate market, and hence it was difficult to sell the properties at a reasonable price. Nevertheless, the integration of outlets resulted in a reduction of approximately 25 per cent from 267 in 1989 to 201 in 1991.

Reductions in other operating costs were to a large extent related to rationalising the computer operations. Particular attention was given to the integration the two banks computer-systems. Unlike many other combinations in the financial industry, the integration of computer-systems did not take several years, but was in place approximately one year after the announcement of the merger.

A substantial part of the realisation of gains was related to reductions in manning. To specify the reductions in the personnel costs, the various entities were requested to draw up future manning budgets which specified the number of employees in excess distributed between various job categories.

In the period from 1987 to 1991 the man-labour years in the parent bank (which excludes the subsidiaries and the foreign branches), were reduced by 2151 from 7863 to 5712. More than half of these reductions had been conducted in DnC during the reorganisation process before the merger. In 1990 and 1991 the number of man-labour years was reduced by 8 and 4.5 per cent respectively. The reduction in man-labour years is shown in Table 8.3.

Table 8.3 Development in Man-labour Years in the Period from the End of 1987 to 1991 (reduction in per cent in parenthesis)

	1987	1988	1989	1990	1991
DnC	4538	4006 (11.7)	3320 (17.1)		
Bergen Bank	3325	3287 (1.1)	3183 (3.2)		
DnB (Sum)	7863	7293 (7.3)	6503 (10.8)	5980 (8.0)	5712 (4.5)

With the reservation that a merger process is a more complex process than the reorganisation process in DnC in 1988, it seems relatively easier to realise synergies in a top-down than in a bottom-up process. Several managers, in particular from DnC, claimed that the synergy potential in the merger was not realised and that a step by step process, realising synergies over a long period, was to "amputate the arm in slices". Other managers however, claim that these would have been short-term gains and that one would lose out in the long run because of de-motivated employees. One top manager from former Bergen Bank says:

> Maybe a little bit more could have been realised theoretically speaking, but what about the motivation of those people who work in the market, produce results, serve the customers and handle all the daily problems. Of course they are more motivated and have better chances of performing well when they have made their own plans.

Interestingly, the perceptions of realisation of gains in the merger process were to a large extent formed by the history of reorganisation in the respective organisations. Hence, managers from Bergen Bank argued that synergies to a large extent were realised in the first phase of the merger process. In contrast, managers from DnC who quite recently had experienced a more than 25 per cent cut in costs expressed a different view. One regional manager from former DnC says:

> We were used to receiving quite dramatic orders to cut large percentages...Now it was a matter of looking in some corners and drawers to see if there were any spare parts to get rid of. It was not a fundamental far-reaching reorganisation process...Instead of realising gains one seemed to increase the costs and use the money on expensive advertising campaigns and various gimmicks we felt were a waste of money in the local units... People expect things to happen in a merger, and the main motive must be to become more competitive, i.e. save costs and serve more customers per employee. When little or nothing happened, what was the point ?

There were however large differences between the various entities. In the parent bank the reductions were largest in the corporate business divisions, in particular in the Investment Banking Division. In the Banking Division which employed more than 65 per cent of the bank's staff, costs were reduced by 6.5 per cent the first year and 4.8 per cent the second year after the merger. This division and the Internal Operations Division were to be subjected to further cost reductions in the next two years. The reductions in man-labour years in various units are shown in Table A8.4 in appendix 8.2.

One reason for the differences in the relative cost reductions between the entities in the parent bank, was probably the degree of complexity in the integration of tasks. The process of integrating tasks in a high complexity area such as the Banking Division, was much more time-consuming than in a low complexity area such as the Corporate Banking Division.

Integration of tasks

The path towards legal integration proceeded as planned in the pre-merger processes. The authorities processed the application of the concession in a relatively short period of time, three months, and represented as such no hinderance to the integration of tasks.

The sustained attention during this initial phase to the combination of branches, systems, personnel and so forth facilitated the integration of tasks in the initial combination. However, the synergy potential was not fully realised at this stage. There were several reasons for this. First, the bottom-up management approach chosen probably resulted in somewhat lower gains than could have been achieved in a more top-down process, at least in the short run. Furthermore, the preservation of the two headquarters in Bergen and Oslo probably restrained the realisation of synergies. Third, the integration process was more complex in some areas than in others, and as such needed more time to realise gains. Hence, one would expect gains to be realised in the next phase.

Degree of task integration. The impression one year after the two banks had announced their plans to merge, was that a high degree of task integration had been achieved. By the end of 1990 the two banks were *legally and functionally* integrated and they reported as one accounting unit. The *products lines and production systems* had been integrated, the latter integration happening was quite exceptionally fast for the industry.

The *integration of personnel* involved transfer of command, positioning the employees into the new organisational structure and physical re-allocation. However, the gains from this integration had not been fully realised.

8.4.3 Power

Organisation of the integration process

The planning of the combination process was marked by Bergen Bank's management style and approach to organising change processes. As mentioned above, the merger process was more bottom-up, task-oriented and lengthy and less drastic in terms of cutting costs compared to the reorganisation process that took place in DnC in 1988. Moreover, it was implemented in line with Bergen Bank's governance structure.

The *bottom-up process* implied that the employees were given the opportunity for extensive participation. Secondly, it required that the top management team involved themselves in the operative decisions. This was a style that fitted the managers in Bergen Bank who all had long banking experience, but was less suitable for the DnC managers whose experience in the banking industry was rather limited.

The management in Bergen Bank was very *task-oriented*, and its dominance in the first phase of the merger reflected the substantive attention given to the integration of tasks. In contrast, DnC's management was very *process-oriented.* Rambjør strongly desired to use process consultants in the integration process, and had partly committed the bank to this. Gade Greve however strongly opposed using process consultants in the initial integration, and thus process consultants were not hired for support in the overall process.

The approach in DnC in 1988 had been to make drastic cuts and implement the process very rapidly. Gade Greve on his side wanted to take the necessary time to build consensus and trust in the organisation. The basis for Gade Greve's preference was the preceding process in DnC. His view was that the employees in DnC were marked by this process, and that there was unrest and anxiety in the organisation. He feared that too drastic cuts could put the whole integration process at stake. Gade Greve's ambition was to try to avoid the use of lay-offs in the process, and indeed he signalled this early in the Autumn 1989. One key manager in Bergen Bank says:

> It is possible that the lower level of the organisation could have coped with another harsh process. But I seriously doubt it... I think it would have been much more difficult to implement the process as successfully if one had chosen the other, more harsh approach.

Interestingly, the managers in DnC perceived the situation differently. Their judgement was that the process DnC had been through in 1988 had made the employees more receptive to change. One top manager from former DnC says that" The people in Bergen Bank had not been through the same treatment as the people in DnC... Thus, many became very resistant towards any kind of change."

The implementation process in the various entities followed a structure where the division or corporate staff managers acted as managing directors for their own entities. This was in line with Bergen Bank's governance structure where the divisional managers acted as managing directors for their own entities.

As for the objections towards this governance structure in Bergen Bank, some managers in the top management team felt that this way of organising impaired lateral co-operation and communication. Moreover, it seems to have resulted in fundamentally different processes in various entities , in particular in the Banking and Internal Operations Divisions.

Organisation of a new entity

As mentioned in chapter 4, the merger between Bergen Bank and DnC was a highly complex operation affecting more than 7.000 employees scattered all over Norway. The new management feared that introducing too much change could put the whole merger at stake, and thus it was decided only to implement minor changes. However, the new management also signalled that the chosen organisational structure was probably not going to last for long. Egil Gade Greve's prediction was that it would be revised two or three years after the physical integration had taken place.

Some key managers have raised the question of whether the new organisational structure was established too quickly, taking into consideration that participation in the pre-merger process was highly restricted and the time to discuss various solutions limited. However, primary consideration was given to getting the new bank operative as fast as possible.

Because of this priority, there was no fundamental strategic analysis process. This process was postponed until after the merger had been implemented. The plan was to restructure the bank in the Autumn 1992/Spring 1993. Some managers from DnC did however question the lack of a corporate strategy for the new bank. In their opinion a strategic analysis should have been initiated before merging the two banks' operations. Other managers claim that it would have been too complex to merge the two corporations and implement fundamental changes simultaneously. One manager from former Bergen Bank says:

> At that time I felt that this was the right approach. Put together what we had, a quick fix, change the things we obviously had to and get started. I think I would have chosen to implement the process in two stages even today. The uncertainty is so extreme when you enter such as process and it is important to settle some preliminary matters to start with... Say that this is what we agree on at this stage, then be open for a new assessment after a while.

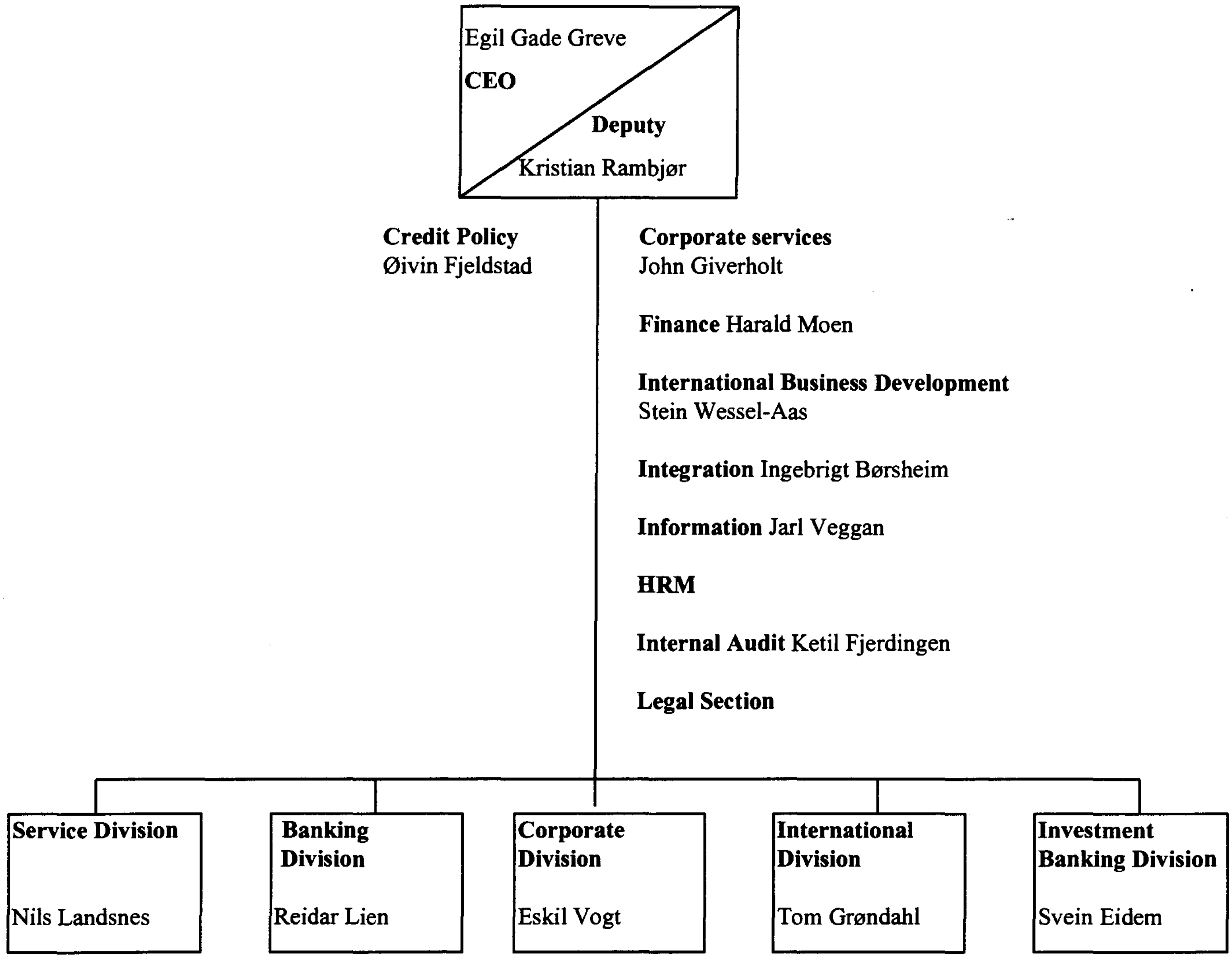
The chosen organisational structure differed from the two former organisations in one respect, and that was the creation of an Internal Operations Division. There were several reasons for this.

First, more than 80 per cent of the two banks' employees were located in the two banks′ retail operations. By separating the internal operations from the retail business area, one aimed to smooth the integration process. Second, by creating an Internal Operations Division one highlighted important areas such as the integration of the payment transmission services and the computer systems. Third, there was the question of retaining key people in the two banks′ top management teams.

The structure of the joint corporation is outlined in Figure 8.1 below.

Based upon the fact that more than 65 per cent of the employees in the parent bank were employed in the Banking Division, and its offices were scattered all around Norway, the integration process is described as most complex in this division. The integration process in the Internal Operations Division was complex in the sense that this was a new division which neither bank had encountered before. Hence, the Internal Operations Division recruited people from various departments in the two banks. In a sense this was a merger between entities within and across the two banks.

Figure 8.1 Structure of the New Organisation



In the Corporate Customers Division and International Division in Norway the two banks were virtually merged the day after the announcement. One key manager described the process: "They brought all the account executives together, looked at the lists of corporate customers from the two banks and distributed the customers between them."

In the Internal Division's foreign branches the integration process was more harsh. The major reason for this was the large and accelerating losses in DnC's international network. Hence, the process in the International Division was marked by the struggle to detect and bring under control the accelerating losses and to change to a less ambitious international strategy.

The process in the Investment Banking Division seemed to be somewhat less smooth due to differences in policies between the two banks and uneven distribution of positions. This will be discussed in the section on allocation of senior positions and functions.

Allocation of senior positions and functions

Top and middle management. The choice of Egil Gade Greve as the new bank's CEO was decided as early as August 1989. The appointment of Gade Greve did not seem to come as a surprise to the employees in Bergen Bank and DnC. Gade Greve had a strong standing in the banking industry and had been chairman of the Norwegian Commercial Banking Association. Moreover, he had been Bergen Bank's CEO since 1982 and was one of the initiators of the SBP-alliance. Kristian Rambjør on the other hand, had all his experience except for the previous year, from the manufacturing industry. Hence, he was appointed deputy chief executive.

The selection of the chairman of the board was a bit more tricky. After a meeting between the two chairmen, it was clear that Jon Gundersen from DnC would propose Ole Lund as the new chairman. John Gundersen, former chairman in DnC, became the new vice chairman.

The top management team consisted of five members from Bergen Bank and six from DnC including the director of information. This distribution reflected the aim to achieve equality. Indeed, the two CEOs seemed to be more concerned about getting their key managers on the team than finding a mix of managers that would work well together.

One example of this was the people appointed to manage the Retail and Internal Operations Divisions. Nils Landsnes had been in charge of the Banking Division in DnC, and Rambjør required that he should have a central position in the new management team. Likewise, Reidar Lien had been one of Gade Greve key managers, being in charge of the retail operations in Bergen Bank.

Some people did however express concern at the appointment of two so different managers in charge of the Banking and Internal Operations Divisions. Like Gade Greve and Kristian Rambjør these two managers represented two cultures and management styles, and the fear was that these appointments could split entities that naturally belonged together. Choosing to place the Banking Division in Bergen and the Internal Operations Division in Oslo, did not make close co-operation between the two any easier. According to one local manager the two divisional managers went in different directions, and had too little co-operation between them. Another key respondent says that" To set up these two divisions with these two managers was a mistake. They should have made one division and put one of them clearly in seniority over the other. Or they should have appointed different managers."

Equal distribution of positions also seemed to be the case in the majority of the divisions and corporate staff groups. The major exception to this rule was the Investment Banking Division where four out of five area managers were from Bergen Bank.

Considering the power differential between the parties in the pre-merger process, the equality in distribution was somewhat surprising. One reason why DnC benefited in the distribution process may have been the merger regime. Moreover, it is important to take into consideration the background of the DnC managers that entered DnC in 1988 and the restructuring process in DnC shortly before the merger. People from DnC were perceived as being more politically skilled than their counterparts from DnC. A key manager from Bergen Bank describes the process:

> Many of us discovered quickly that the parties in this merging process had different presumptions. DnC's representatives were better co-ordinated in all the working groups than people from Bergen Bank. The representatives from Bergen Bank entered as idealists and individuals, whereas the people from DnC entered as group with a clear aim to preserve as much as possible from their old culture.

One key manager in former DnC says:

> They were more involved in the process, but we were better prepared. They predicted a continuation based upon status quo, whereas we were much more prepared for change.

Oslo and Bergen. A key difference between Bergen Bank and DnC was that Bergen Bank had no official head office, whereas DnC had its head office in Oslo. The question was whether the new bank was going to have an official head office, and if so, where it should be located. The result of the pre-merger negotiations was that Bergen Bank's line was continued, and the word head office was not mentioned in the new Articles of Association.

However, a real discussion of the distribution of functions between Bergen and Oslo seemed to be undesirable. Though a document was prepared to establish criteria for the distribution of functions between Bergen and Oslo, it did not seem to elucidate the future role of the Bergen unit. One key representative in the bank says that "the problem of Bergen and Oslo was there all along, but one decided that it did not exist per definition".

This lack of clarification apparently resulted in a number of double functions between Bergen and Oslo. One manager from DnC top management claims for example that the relationships to Bergen restricted the realisation of gains implying that financial considerations were not always given primary consideration.

Another interesting feature regarding the distribution of positions and functions between Oslo and Bergen concerns the formation of alliances between managers and union representatives. Beside being based on common interests, the alliances seem to have been stimulated by closeness in culture. Indeed, managers and employees in Bergen Bank Oslo say they felt culturally closer to DnC than to their colleagues in Bergen by whom they had previously been dominated. One key employee from Bergen Bank states:

> We were a little brother in Oslo and found a strong alliance we were attracted to. We succeeded in finding a common ground and immediately started to get our act together... We had a fight, and of course the parties in Oslo stuck together. The name of the game is to obtain strong alliances. If you succeed in doing that, you win.

Unification of power

The impression of the distribution of power at this stage is that Bergen Bank was dominant, but not sufficient so to create a stable political situation. Because the merger process was implemented in two steps however, this unstable power situation was likely to change. The unstable political situation was characterised by dual control over power bases, power struggles, lack of congruence in communication and different styles of leadership.

Degree of unification of power. At this point Bergen Bank controlled important *power bases* such as the chairman of the board, the CEO, the manager of retail banking and the head office in Bergen. Moreover, Bergen Bank dominated the Investment Banking Division. However, some of these important power bases were likely to change. First, Gade Greve was getting close to retirement and a new CEO was unlikely to be recruited from Bergen Bank. Secondly, the head office in Bergen was expected to play a minor role in the future.

Apart from these areas, the allocation process in the first phase of the post-merger process was marked by symmetry between Bergen Bank and DnC. Indeed, the examples discussed above show how organisational affiliation was used as the main criterion for selection regardless of achieving an efficient distribution. According to one top manager these compromise solutions created disharmony and were often bound to be changed in the long term. One regional manager says:

> To get the merger physically implemented over a reasonable period of time, it might be necessary to give fairness preference over efficiency. It is easier to get concensus this way and to speed up the implementation... For that reason, a new process will often be necessary after the merger.

Because Rambjør and Gade represented such different *styles of management* and had such different views of how to implement change processes, it seemed to be problematic to find a working relationship that utilised the strengths of both managers. The management style in the first phase of the post-combination process reflected the style in former Bergen Bank, a style that Kristian Rambjør and his managers had difficulties adapting to.

At the divisional level however, Bergen Bank's governance structure opened for various management styles. According to one key manager one should have chosen between these management styles because they were so fundamentally different. Indeed, the various styles seemed to frustrate the employees that experienced change of management.

Regarding *power struggles and lack of congruence in communication* Rambjør and Gade Greve chose to divide the supervision of the divisions between the two of them. This division of labour seems to have resulted in a two headed management giving different signals to the organisation. Moreover, it seemed to stimulate the preservation of former lines of command.

As the merging process proceeded, it became continuously difficult for the two managers to work together. Rambjør had difficulty fitting into his new role, and decided to leave the bank early in 1990. In the first week of May Rambjør informed the management of his resignation, and left the bank in the Summer to begin his new job as a director general of the Norwegian State Railways.

The signals the top management gave downwards in the organisation seem to have reflected that there were some problems of co-operation between the various team members. One regional manager says:

> It did not take a long before the unrest and lack of domestic peace internally in the top management team shone through. Both because they represented different personalities and because they had different opinions on how to organise the bank.

All these factors put together suggested that the bank had an unstable political situation, and that the process of unifying power would continue into the next phase.

8.4.4 Culture and Identities

Reactions and expectations

Three issues seem to have triggered strong reactions among the middle management and employees. These were potential cost reductions, the losses in DnC and biased allocation, and lack of participation in the pre-merger process. The latter issue will be examined in the section on participation below.

In an article in Aftenposten the day after the announcement, Fritz P. Johansen, head of the Norwegian Union for Bank Employees, stated that a <u>cost reduction</u> of 750 million NOK a year implied that about a thousand employees were in excess. In particular, he felt sorry for the employees from DnC: "In the beginning of November last year DnC was sliced to the bone, now they have started to gnaw it". Reactions from the employees in the two banks reflected shock and uncertainty:

VG 6th October 1989:

<u>The employees in shock</u>
The employees are uncertain and insecure. Our knowledge of how many and who must leave is limited, Jorunn Berland from Bergen Bank says. In DnC the reaction is shock and disbelief.

Klassekampen 7th October 1989:

The union representatives in DnC who have just been through a process of lay-offs are shocked.that the Department of Finance can approve such a merger - right against the existing policy - without considering the consequences for the 7000 employees in the two banks.

When comparing the reactions between the two employee groups, the employees in DnC seemed to be far more sceptical than their counterparts in Bergen Bank. The main reason for this seems to be the preceding process in DnC where more than 1200 employees had left the bank and 820 people were laid off. They had experienced a reorganisation process under the management of Kristian Rambjør and Nils Landsnes, the latter who had been in charge of the Banking Division. They had no knowledge of Egil Gade Greve whose management style and approach to change was fundamentally different.

Hence, they did not believe the management's statements of real influence. They were certain that the management had the answer to how many man-labour years they were going to cut. One key employee from DnC says:

> The effect of the Kristian Rambjør period and the resultant downsizing was that we as union representatives became more critical. We did not fear a fight with the bank's management as the union representatives in Bergen Bank did... When the merger was announced we were certain there would be lay-offs... Hence, our strategy was probably much more aggressive than what the union representatives in Bergen Bank would have desired.

The uneven distribution of senior positions and the loss situation in DnC did also provoke reactions among the employees in DnC, and quite a few say they felt taken over by Bergen Bank. One local manager from DnC says: "The whole bank, in particular DnC, felt that this was a take-over from Bergen Bank."

These reactions were also reflected in an article in the internal newsletter 30th October 1989 where questions of the uneven distribution and consequences of DnC's weak financial situation were raised. Some of the questions that were raised are stated below. The article is included in appendix 8.4.

- Both the chairman of the board and the CEO are recruited from Bergen Bank. This shows that DnC is the losing party.
- In the board's resolutions it is stated that Bergen Bank is the acquiring bank. Thus, it 's evident who is the winner.
- The accelerating losses forced DnC to merge.

Positioning and downsizing

The selection process for the other employees in the bank started in February/March 1990. To stimulate people to voluntary departure incentive packages were made available. In the beginning of December the criteria for selection were settled. The management in the bank had decided to use seniority and suitability as the main criteria. In the guidelines for selection p. 3, it was stated:

> For management positions, key positions, positions that require special competence or skills and positions where workmanship is of major importance, the criteria for selection are to be based on qualifications, i.e. selecting the employee that is most suitable for the position.
>
> For other positions, seniority is the primary criteria.
>
> In addition to - and as a correction to - the above mentioned criteria, the following conditions should be taken into account:
> - more than 10 years of employment
> - employees who are more than 50 years of age
> - social conditions

Regarding the last paragraph, there was a discussion as to whether knowledge of the portfolio in Bergen Bank was to be a separate suitability criteria. Because DnC had already been through a downsizing process, many young people had left the bank. One feared that a downsizing process using seniority as the main criteria would in particular effect young employees in Bergen Bank. This was also an argument for stimulating voluntary departure.

To ensure an objective and equal assessment of the candidates, the following requirements were set up (extracted from the guidelines for selection p.4 and 5).

- Completed job description for the individual positions

- Employee forms to be completed by the individual employee. The employees must be given reasonable time to complete these forms, a minimum of two days.

List of personnel data is to be completed by the personnel consultant.

- If the new manager does not know the employee, he/she must conduct an interview with the employee's former superior.

- The decision maker states in a separate report the considerations that have been taken into account in the appraisal.

During the beginning of 1990 the majority of the banks' employees were appointed to positions, and about 290 employees were in excess. To reduce the extent of lay-offs it was decided to postpone the use of possible lay-offs until 30th June and to extend the incentive package for the employees in excess. By the end of June the number of employees in excess had been reduced to approximately 100. These employees were allocated in the department for employees without permanent positions. However, they were still employed by the bank.

One key employee says that because it was signalled relatively early, i.e. in the Autumn 1989, that no lay-offs would be conducted, the uncertainty was more related to what kind of job one was going to get:

> I think this facilitated the functioning of the organisation. Even if you were not selected for a particular job, you had a letter stating that you were employed in DnB.

Participation

One problem in the merger was the lack of involvement of employees or employee representatives in the pre-merger phase. Employees in both banks expressed their disappointment at not being informed about the merger at an earlier stage. One key employee says:

> We were summoned to a meeting on a Monday night and told that we were going to merge with Bergen Bank the following day. First, the news came as a shock. Secondly, if one is serious about co-operation, then the union representatives should have been involved at a much earlier stage.

Although the settlement was an intentional, not a final agreement, the union representatives felt that a merger would be inevitable. Hence, their ability to influence the merger decision was substantially weakened.

In the transitional period after the merger was announced and before the legal combination, the employees became highly involved through their union representatives. Union representatives from both sides became members of all the project groups established in the process. The idea was to give the people who would be affected by the decisions a say in the process.

As time passed the union representatives seemed to have acknowledged that they had some real influence in the process. Although the pace in the process was quite high, they apparently had the time they needed. One key employee says: "I have no objections to the time pressure in the merger. I think pace is important not to lose too much. I felt we had the time we needed."

The project organisation that was set up in the post-combination process had an equal number of representatives from each bank in every group. This project organisation consisted of a provisional board that replaced the two former boards, three corporate bodies, divisional boards, project groups and task forces. The employees were represented with two union members in each of these groups apart from the corporate management group. However, this group had only a minor role in the integration process.

Information and communication

To establish a common platform for information, the two internal newsletters in Bergen Bank and DnC were merged into one and named "Fellesavisen" (The Joint Paper). This newsletter was distributed to all employees in the bank and was a weekly publication during the merger process. In addition messages were sent out on the banks′ electronic mail systems. Employees that wished to keep up to date with the ongoing process could seek information here.

Beside the written information, a number of information meetings were held. The first plenary session took place in Oslo on 7th October, in Oslo. At this meeting the hundreds of managers invited were reminded of their particular responsibility to inform and care for their employees. According to key employees in the organisation however, this was an area where many managers failed. One key employee says the managers were more concerned about positioning themselves than taking care of the employees.

The content of information communicated from the corporate management was distinctively marked by an emphasis on good news. The rest of this section will focus on the reasons for and consequences of this approach.

The intention of giving such a biased picture was apparently to create enthusiasm for the merger. This emphasis was reflected in a large number of articles in the internal newsletter, in a video of the two former CEOs ending "this will be fun" and in advertising campaigns.

One key employee commenting on the video of Gade Greve and Rambjør claims that the management misjudged their audience completely: "What the organisation feared was lay-offs and changes. That was not mentioned at all. I think they had a lack of understanding of how the organisation reacted."

However, it is also important to have in mind that at the time of the merger, the management predicted a far more positive future than what actually happened. One key person in the bank says:

> I do largely agree that there was little congruence between what was said and what was done in many relations... It has been a terrible strain for the organisation to face negative figures over and over again, negative coverage in the media, negative customers. ..The expectations one tried to create to motivate the organisation have not been fulfilled.

In fact, the biased information seems to have resulted in a lack of confidence in the messages communicated from the corporate organisation. Indeed, the internal newsletter was nicknamed "Pravda".

Because the information coming from the central administration seemed to be neither of good quality nor informative, information had to be sought from various sources. One such source of information was the press. One regional manager says that one heard news, in particular the negative news, through the press rather than the internal channels. The lack of good quality information seemed create a situation of Chinese whispers.

Integration of cultures and identities

The reactions to the merger announcement were marked by the fear of lay-offs and Bergen Bank dominance. The reactions to the lay-offs were strongest among the employees from DnC who shortly before had experienced that a large number of employees had been laid off. The outcome of the positioning process was however that no employees were laid off. This avoidance of lay-offs seemed to be one of the most important contributors to tearing down the boundaries between the two organisations. Moreover, the positioning process was thorough and based on fair criteria. Although this may have delayed the process of appointing key employees, it seems to have served the integration process positively.

Nevertheless, there was still a scarcity of positions and resultant polarisation of the two employee groups. This represented a negative influence on the cultural integration process.

Because the employees did not participate in the pre-merger process, they were totally unprepared for the forthcoming process. Moreover, because many of the important issues had been resolved in the pre-merger process, their influence was restricted. At the time of the merger announcement these factors seem to have had a negative influence on the integration of cultures and identities. However, the extensive participation and influence in the initial combination probably counterbalanced this negative effect.

The involvement of both parties in the project groups was in line with the merger regime and as such represented a positive effect on the integration of cultures and identities.

The quality of information in the process seems to have resulted in eroded trust in the new bank's management and as such represented a negative influence on the cultural integration. Although the information was based on facts, it was too biased towards the positive events. Moreover, it focused on strategic and overriding issues rather than concrete issues that concerned the employees.

Degree of cultural integration. The impression from the initial combination is that some of the basis for cultural integration had been created, but that there was still along way to go.

The indicators of cultural integration process discussed in chapter three and the previous case chapters were; mentioning former organisations, keeping score of appointments and promotions and presenting consistent views of post-merger culture.

As discussed in chapter seven one of the key characteristics of the initial post-combination phase in mergers and acquisitions, is the allocation and positioning process. This is a process in which managers and employees are to a large extent concerned with protecting the interests of their former organisations. Hence, *mentioning the former organisations* and *keeping track of appointments and promotions* is the essence of this process.

Regarding the presentation of *consistent views of post-merger culture*, the impression is that this was too early to assess at this stage. Although Bergen Bank was dominant at this stage, there was a strong counterculture in DnC.

Thus after the initial combination the new bank seemed to resemble the former Bergen Bank most, based on the description of the banks given in the first phase. The areas where the cultures were incompatible had been resolved by one bank dominating the other. Firstly, retail banking had just as an important role in the new bank as it had had in Bergen Bank before the merger. Secondly, the bank had preserved the head office in Bergen and planned to continue Bergen Bank's international strategy. Finally, Bergen Bank's management style and decision-making processes were dominating.

A better indicator of integration of cultures and identities that emerges from the case data is *change of primary membership*. This implies detecting when the members of the organisation no longer primarily identify with their old organisational affiliation, and was also discussed in the previous case.

DnC was on the edge of a major cultural change when the merger with Bergen Bank happened. As mentioned in the description of historical backgrounds, this cultural change was strongly resisted by DnC's central administration and offices in Oslo. In contrast, quite a few local branch managers had started to adapt the new management style and culture and thus had changed their primary membership from the old to the newly emerging DnC culture. Hence, at the time of the merger two distinctive cultures were apparent in the DnC-organisation.

The local managers in DnC felt that the situation in the domestic network had changed positively, and seemed keen to continue the work that been initiated in DnC. When Reidar Lien became the new manager for the Banking Division they felt that they were set back in time. One manager says:

> Our experience was that the management style we gradually had adopted and approved of was discontinued. The regional management meetings changed character, and became more militant, detailed-oriented and less strategic and forceful... Bergen Bank started a year later than we did, and this marked the organisation. They were less adaptive to change and not open to confrontations. We felt as though we had more experience, and that the forthcoming process was almost a standstill.for us...

Hence, the impression is that former DnC middle managers in the Banking Division felt somewhat alienated and that they did not feel attracted to a culture they had left behind. Hence at this stage they still identified with the new culture in DnC.

In contrast, the employees and managers in Oslo seemed to have welcomed the merger with Bergen Bank. Bergen Bank represented in many ways the old banking culture the new management in DnC had tried to change. They felt comfortable with Gade Greve who in many senses reminded them of their former CEO, Leif Terje Løddesøl.

However, the managers and employees representing the old banking culture had divergent interests in the allocation process. As in other horizontal mergers, cutting costs was one of the main objectives in this merger. This cost reduction resulted in a scarcity of positions, and rather than forming alliances, the representatives from the two organisations competed for positions in the new organisation. Hence, as long as the managers and employees had divergent interests in the allocation process, their interests were best served by keeping their primary membership in DnC.

Like DnC, Bergen Bank had two distinctive cultures in the organisation, one that reflected the retail operations managed from Bergen and another that reflected the corporate business area located in Oslo. As mentioned in phase one, the cultural differences between Bergen Bank Bergen and Bergen Bank Oslo seemed to be greater than the differences between Bergen Bank Oslo and DnC. In addition to feeling culturally close, common interests existed among the managers and employees in Oslo in the allocation process between Oslo and Bergen. Hence, the common interests acted as a promoter for cultural integration and resulted in a change of primary membership for Bergen Bank representatives from Bergen Bank to Oslo.

8.4.5 Summary

Implications for the following phases. The slack resources in Bergen Bank implied that one had the opportunity to realise gains on a long-term basis. The conclusion after the initial post-merger phase was that one had started to realise these gains, but that more was expected to be realised in the next phase.

The impression is that Bergen Bank had a more dominant position in the pre-merger phase than in the initial combination. The unstable political situation created in this phase was however likely to change in the next phase. First, one would expect pressure towards a more effective distribution of positions and functions. Furthermore, important power bases were likely to change hands. Third, the strategic process had been postponed.

The reactions to the merger can be traced back to the historical backgrounds of the parties. Hence, the employees from DnC reacted more strongly and negatively than the employees in Bergen Bank. At this stage the cultural integration had not come very far, and it was therefore important to track it through the next phase.

Relationship between task, power and culture. The implication of the bottom-up process chosen in the initial combination phase seemed to be that a lower level of gains was realised at least in the short run. This approach facilitated the integration of cultures but restricted the realisation of gains.

At the same time however, there was extensive attention to the integration of tasks. This gave a good basis for realising gains. The effect on the integration of cultures and identities seem to be twofold. First, because this substantive attention brought employees from the two organisations together physically and through project meetings it had a positive influence on the cultural integration process. On the other hand, this task orientation seems to have been at the expense of a more process-oriented approach and as such might have delayed the cultural integration process.

The task integration benefited from the reduction in personnel costs. The reason for this was that there was a better fit between the number of employees and the bank's normal level of activity. On the other side, the downsizing of employees polarised the two employee groups and as such negatively influenced the cultural integration. However, the effect on the cultural integration process would probably have been more negative if the downsizing had been conducted through the use of lay-offs.

The unstable political situation in the initial phase of the merger was to a large extent a result of the use of equality as the primary distribution criterion in the allocation of positions and functions. As such equality as the primary distribution criterion represented a negative influence on the unification of power, but at the same time it facilitated the cultural integration process in protecting both parties′ interests in an objective and fair manner.

8.5 PHASE FOUR:
THE PATH TOWARD ORGANISATIONAL INTEGRATION
Late 1990 and onwards

8.5.1 Introduction

The merger between Bergen Bank and DnC started off quite well. The first part of the merger seems to have run surprisingly smoothly, and in the Summer of 1990 there was an enthusiasm and motivation among the employees that looked promising for the future.

During the Autumn of 1990 it became clear that the banking crisis was far from over, and that the bank's estimates for losses were 600 million NOK below the budget. This negative development continued to accelerate in 1991 and 1992.

Whereas the banking crisis in this first phase in the late 1980s was marked by crisis in individual banks, the crisis in the second phase in the early 1990s was a crisis that hit the whole banking industry. In contrast to the first phase which was characterised by internal problems of management and control, the crisis in the early 1990s was to a large extent related to the macro-economic trends, large structural problems in individual sectors, high real interest rates and decreasing prices in the real estate market.

In the Summer of 1991 the major problems in the Norwegian banking industry started to crystallise. In the middle of June 1991 four commercial banks received preference capital from the Commercial Bank Guarantee Fund of 5.8 billion NOK. One of these four banks was DnB that received 939 million NOK.

In October 1991 the Commercial Banks Guarantee Fund supplied DnB with 1.25 billion NOK in preference capital. After the bank notified that it would give up its plans for a private share issue, the Government Bank Insurance Fund put 3.25 billion in core capital into the bank in early December. In addition the Government Investment Fund acted as an underwriter for 1.675 billion NOK. By these actions the Norwegian Government became a majority owner in DnB.

This section is divided into three major parts. The first part on tasks focuses on the realisation of gains of task integration. Then in the second part the change of CEO, strategic and organisational changes, allocation and organisational of process in relation to unification of power is discussed. Third, the effect of reactions, positioning and downsizing, participation and structural changes on cultural integration is examined.

8.5.2 Tasks

Realisation of gains

There were three important features that put pressure on realising gains in the second combination phase. These were the crisis in the financial industry, change of ownership and change of organisational structure.

As mentioned in the first section, the belief in 1989 was that the banking crisis was over. Indeed, when Bergen Bank and DnC announced their plans to merge in October 1989, their outlook for the future was far more positive than what turned out to be the case.

This optimism was reflected in the management approach to realising gains. They acted upon a future scenario where there were sufficient resources and time to realise synergies over a long period. One of the bank's key managers from former Bergen Bank says:

> Our interpretation against our's better judgement..., was that we had time to implement a gradual adaptation to the new situation in the market and to get rid of the superfluous "fat" that appeared as a result of the merger.

When the bank's management realised that the banking crisis was far from over in late 1990, action had to be taken to limit the accelerating losses and make the bank more cost-efficient. The bank's discretionary resources diminished rapidly as the profits became increasingly negative and the bank equity capital was drained, see Table A8.3 in appendix 8.2.

The first problem was to regain control over the accelerating losses that affected the medium sized businesses in particular. This implied that extra resources had to be dedicated to this purpose. To become more cost-efficient, gains from the integration of tasks had to be realised.

Interestingly, people argue that the total amount of gains realised in the initial combination and in the years that followed probably would have been the same with or without a crisis. In the first phase however, one did not realise these synergies. One manager states:

> I think the downsizing we have been through was necessary. If one had realised more in the first phase, one might have got away with less in the second phase. However, I doubt that the total amount would have been less.

The second factor that put pressure on gains was the <u>change of ownership</u>. The government's support in the form of capital was <u>made contingent on reduction of costs</u>. In the agreement entered into the 2nd December 1991 between DnB and Government Bank Insurance Fund (GBIF) it was stated:

> The bank's board of directors shall set up and approve implementation of a plan for the bank's operations until 31st December 1993. This plan is to be submitted to GBIF by 1st February 1992. GBIF has the opportunity to demand changes in accordance with the terms and conditions of the preference capital deposit. The group's operating profit after losses but before extraordinary items, must at least balance in 1992. DnB has to reduce the current extraordinary costs by at least 10 per cent (nominal) from 1991 to 1992.

The interesting question is whether this put extra pressure on the bank to realise gains or whether these were cost reductions that would have been implemented anyway. The impression is the government's requirement to cut costs did not exceed the bank's own estimates. One manager from the bank's top management states that "I think one would have implemented the same cost reductions independently of the amount specified in the agreement".

Nevertheless, the requirement from the government seems to have been useful to communicate the need to cut costs towards the employees in the organisation. As such it provided legitimacy for the management's actions. This will be further explored below.

The third factor that put pressure on realising gains was the restructuring of the bank into strategic business units. These content of these changes will be further examined below.

In the forthcoming process the division of labour between Bergen and Oslo became more cost-efficient, the number of outlets was reduced and several employees left the organisation. Total operating expenses were reduced by 17,5 per cent from 5772 million NOK. at the end of 1991 to 4763 at the end of 1992, see Table A8.3 in appendix 8.2.

The reduction in manning from 1991 to 1993 was 720 man-labour years or 12.6 per cent from 5712 in 1991 to 4992 man-labour years in 1993. Most of this reduction was carried out in the new Retail Division in 1992 when the number of man-labour years was reduced by 576. The number of outlets was reduced by nearly 20 per cent from 201 in 1991 to 162 in 1993.

Implication for integration of tasks

The pressure from the crisis, change of ownership and restructuring of the bank speeded up the process of realising gains. Firstly, pressure was put on the realisation of gains in the former Banking Division in particular. This was the part of the bank where functions and positions to a large extent had been integrated, but where the gains had not been fully realised in the previous period.

Secondly, the distribution of functions between Bergen and Oslo was made more efficient as Bergen lost its position as a corporate headquarter, and the powerful top managers defending Bergen's position left the bank.

The impression in the Spring 1994 was that the integration of tasks related to the merger between Bergen Bank had nearly come close to an end.

8.5.3 Power

Change of CEO

At the meeting in August 1989 between the two CEOs and chairmen of the boards, Egil Gade Greve signalled that he was considering making use of his pension agreement to retire at the age of 62, i.e. in 1992. The management in the bank knew of this agreement, though it was not until the Summer 1990 that Gade Greve made his final decision to retire.

As the combination process proceeded it became apparent that the bank faced considerable problems in getting the accelerating losses on loans and guarantees under control. Before Gade Greve retired, he expressed that his task had been to implement the merger process and that it was up to his successor to initiate the changes necessary to bring the bank out of the crisis.

The search for a new CEO started in the Summer 1990. The bank hoped to find a candidate who could start in the late Summer of 1991. Finn Hvistendahl from Norsk Hydro was identified as a possible candidate in the Autumn 1990, and took up a position as Gade Greve's deputy as early as February 1991. In August 1991 he became the new bank's CEO.

The announcement of Finn Hvistendahl as the new CEO of DnB was received positively by the employees of the bank and the press. In Dagens Næringsliv 30th November 1990 it was said that the new CEO had a good reputation in the industrial society. During his time at Hydro he had been in charge of several turnaround operations. With Hvistendahl s the new bank's CEO, a period of fundamental changes in the bank's strategy and organisation followed.

Strategic changes

The process of identifying the bank's strategic business units began in April 1991 after Finn Hvistendahl had been appointed deputy managing director. In contrast to the initial combination process, this process started by identifying the strategic business units before deciding the primary structure. Nine strategic business units were identified as a result of the process. In the Summer 1991, project groups were appointed for each strategic business unit to elaborate the strategies further.

In a meeting in early October 1991 where more than a hundred managers were present, Finn Hvistendahl summed up the conclusions of the strategic project. For the consumers and the small businesses the main problem was too high costs in relation to the income that was generated. Important tasks in this area were to reduce costs, standardise products, centralise operations and focus on sale.

For the medium-sized businesses the problem was not costs, but substantial losses. Thus the competence, credit rating and following up had to be improved. By centralising the operations in fewer locations the bank planned to build up this competence.

Other business areas were all profitable. Here the challenge was to adapt to the accelerating changes in the international financial market. No fundamental structural changes were planned in these areas.

Change in organisational structure

In the process of identifying the strategic business units it became clear that the primary structure had to change to fit the new strategy. In a letter to the divisions and staff units in early September 1991, Finn Hvistendahl wrote that the strategic analysis had identified the need for structural changes and that these changes would imply fundamental restructuring of how the different market segments were served.

The most fundamental change in the primary structure communicated at the October meeting was the creation of two new divisions to serve the consumer and small and medium-sized businesses segments. These two new divisions; the Retail Banking Division and the Commercial Banking Division, replaced the Banking Division and major parts of the Internal Operations Division.

The Retail Banking Division included the consumer mass market, private banking and the small businesses. At the end of 1991 the Retail Division had 201 outlets organised into nine regions. The structure implied a simplification of the old Banking Division that had been structured into regions, district and local banks.

The Commercial Banking Division was organised into nine regions and a centralised special unit handling non-performing and doubtful loans. The Retail Banking Division was responsible for the domestic network of outlets and served both the Retail and the Commercial Banking Divisions' customers.

In both divisions there was a development towards centralisation. In the Retail Banking Division the aim was to centralise credit and back-office functions and make the entities into sales outlets. In the Commercial Banking Division the operations were placed in nine regions. Representatives from the two divisions describe these changes:

From the Retail Banking Division
We were situated in 160 outlets towards the mass market with the responsibility for accounts, financial affairs, operations and so on. This has now been centralised either to one location or nine... We had credit officers situated in 160 locations, now they are placed in nine. We have turned around the organisation. The outlets are directed towards the market, they have no other function

From the Commercial Division
From being regional managers with quite extensive authority, managing a bank which was looked upon as an institution in the local community... they became operational executive officers with minor administrative responsibilities. To explain that it is business consultant you've always wanted to be, you have always complained about your administrative responsibilities.... It's a radical change.

At the end of November 1992 it was announced that the International Division and the Corporate Division were to merge 1st January 1992. The new division was to be named the International Division. This division included the corporate customers segment, shipping and international financial institutions.

It seems somewhat unclear whether the merger between these two divisions was a result of the strategic analysis or not. One key manager says that the announcement of the change came as a surprise, especially taking into consideration the signals of new fundamental change in this part of the bank. Other key managers however, claim that this change reflected the decision to concentrate on Norwegian and Norwegian-related businesses.

Allocation of key positions and functions

Top and middle management. The changes in the primary organisational structure implied that positions and functions had to be re-allocated. In this re-allocation, two former Bergen Bank directors left the top management team whereas former DnC managers gained more powerful positions.

Since the merger in 1989 six key managers from Bergen Bank had left the top management team. In contrast only two managers from DnC had left the top management team. Two new managers from Bergen Bank had been recruited to positions in the top management team. Hence, at the beginning of 1992 there were five directors from former DnC, including the information director, two directors from former Bergen Bank, and one neutral who was Finn Hvistendahl.

Comparing this top management team to the team in DnB appointed in 1989, there was a dominance of managers with a manufacturing industry background. These included most of the former DnC managers as well as Finn Hvistendahl and Olav Fjell from former Bergen Bank.

However, the restructuring did not just affect the top management team, but also employees at lower levels in the organisation, particularly those in the Retail and Commercial Banking divisions.

For the middle managers this implied a new period of uncertainty and fighting for management positions. As opposed to the merger process when there was an equal distribution of middle management positions, the distribution of positions in this process was more biased. In the Retail Division seven out of nine regional managers were recruited from DnC. One key manager says:

> The people from DnC felt inferior in the merger process. When one realised that Bergen Bank had just as many losses as DnC, the managers from DnC reappeared. It might be an overreaction. The mangers from DnC have had the opportunity to choose their former colleagues from DnC to a greater extent than is desirable. Today there are several areas that are strongly dominated by employees from former DnC.

One key manager in charge of selecting managers in the process describes how he chose his subordinates: "The first thing to do was to choose managers we believed in... I consciously chose people I believed in independently (of organisational affiliation)." Another manager from former DnC says that" It was an advantage to have belonged to DnC when X was appointed and became...manager."

In the Commercial Division the distribution was four managers from each of the former banks and one who had been employed in both banks before the merger. One reason for this unbiased distribution may have been that the new managing director had previously been employed in the corporate banking sector.

Oslo and Bergen. As the merger process proceeded it became clear that the Oslo office was the real head office. One of the bank's key managers says:

> One always has a feeling of where the bank in reality is managed from. Even if Gade Greve spent two to three days in Oslo, one could only look at his desks in Bergen and in Oslo and compare them. The same is true for Finn Hvistendahl who spends one day in Bergen. You could see that this was a charade.

The reorganisation further strengthened this trend. Firstly, pressure to realise gains implied that Bergen and Oslo could no longer co-exist as the bank's two head offices. One manager from the bank's top management team says:

> The profitability criterion totally dominated in the reorganisation. This implied that all double functions between Bergen and Oslo had to be removed. Sentimentality is no reason to preserve functions that should be closed down.

Secondly, the re-allocation of positions strengthened the Oslo office. Both Gade Greve and Reidar Lien (former manager of the Banking Division) who had left the organisation in this period, had been strong defenders of the preservation of Bergen as a strong corporate centre. The new managers were in contrast seated in Oslo, and re-allocated corporate staff functions to Oslo. Thirdly, the crisis made it necessary to stay in touch with the new owners and regulatory authorities who were all situated in Oslo.

Organisation of the process

When comparing the merger process in 1989-90 and the reorganisation, the latter process seems to be more top-down, process and short-term-oriented. This was a style that fitted the managers from former DnC and reflected the re-allocation of positions. One local manager from former DnC says that he recognised the style in this process from the reorganisation process in DnC.

First, the process was more *top-down* than the merger process. One local managers who compares the process to the merger says that there was a tighter control of the process right through the details. Another local manager describes the process this way: "... The last restructuring process was in a sense less compromise-oriented. The concepts were much clearer. In the merger process we started more or less from scratch."

Secondly, the process was more *process-oriented*, in particular in the Retail Banking Division. This included team building, employee surveys, management and employee seminars, training in management and marketing skills and so on.

The reorganisation process was also marked by its *short-term, crisis management orientation.* Changes were implemented rapidly and the first couple of months were marked by chaos. One manager describes the process in the Retail Banking Division:

> On 23rd March 1992, there were a thousand individuals that changed their jobs all over the country. Tens of thousands of filing cabinets were removed to one place. This happened during a weekend. On Monday there was chaos all over the place. The communications did not work, people did not know where to find information. This chaos went on for a month or so... The point was to create a revolution and risk one's neck or nothing. There was no return. If you proceeded gradually, you could have turned in the midst of the process. But them there would not have been any change. Now people just had to adapt.

One key manager from Bergen Bank says that because the bank was in a crisis, there was a need to apply a different management approach in this process compared to the merger process. In particular there was a need for managers who had experience from implementing radical changes and cutting costs, as well as working in close relation to key actors in the environment. Few managers from Bergen Bank had obtained these skills from working in a regulated industry. DnC managers in contrast had gained this critical competence by working in the manufacturing industry where the environment traditionally had been more volatile.

Unification of power

There were several factors that positively influenced the unification of power in this period. These included the change of CEO, re-allocation of management positions and functions and crisis. These factors changed the unstable power situation in the merged bank and as such facilitated the unification of power.

Degree of unification of power. This change in the political situation was reflected in the control over power bases, prevailing style of management, presence of power struggles and congruence of communication.

One of Bergen Bank's most important *power bases* had been the CEO. Hence, the change to a non-Bergen Bank successor represented a loss of power for Bergen Bank. Although Finn Hvistendahl was an external successor, he had the same occupational background as the majority of the top managers from DnC.

Since the announcement of the plans to merge, six managers from Bergen Bank including the CEO had left the top management team compared to two in DnC. The two Bergen Bank managers who were represented on the top management team after the restructuring process were both recruited after the announcement of the merger. Hence, the balance had changed in favour of DnC and the manufacturing industry coalition. The change of balance towards DnC was also apparent in the allocation of middle management positions, in particular in the new Retail Banking Division. Moreover, there was a shift towards Oslo as Bergen lost its position as headquarter.

One interesting question is why the distribution of positions and functions changed during this period. In contrast to the merger process equality was no longer the prevalent allocation criterion. As such one opened for a more efficient distribution of resources and for the more politically skilled managers to gain power. One key representative from former Bergen Bank says:

> Many people from Bergen Bank have left. On the top there are mostly people from DnC and Oslo... I think that maybe DnC's management was more tough.

Finally, the crisis in the environment further strengthened the managers from DnC's power. The reason for this was that their competence in cutting cost and interacting with key actors in the environment became crucial for the organisation.

The *management approach* applied in the restructuring process reflected the change of balance in the top management team. Thus, whereas the merger process was marked by the Bergen Bank management style, this process was marked by the DnC management style. This implied a more top-down, process and crisis short-term-oriented approach.

First, the process was more <u>top-down</u> than the merger process. One local manager who compares the process to the merger says that there was a tighter control of the process right through to the details. Another local manager describes the process this way:".. The last restructuring process was in a sense less compromise-oriented. The concepts were much clearer. In the merger process we started more or less from scratch."

Secondly, the process was more <u>process-oriented</u>, in particular in the Retail Banking Division. This included team building, employee surveys, management and employee seminars, training in management and marketing skills and so on. The reorganisation process was also marked by its <u>short-term, crisis management orientation</u>. Changes were implemented rapidly and the first couple of months were marked by chaos.

One key manager from former Bergen Bank says that because the bank was in a crisis, there was a need to apply a different management approach in this process than in the merger process. In particular there was a need for management that had experience from implementing radical changes and cutting costs as well as working in relation to actors in the environment. Few managers from Bergen Bank had obtained these skills working as they did in a regulated industry. In contrast, the executives from former DnC had gained this critical competence by working in the manufacturing industry where the environment traditionally had been more volatile.

The impression in the Spring of 1994 was that there were still *power struggles and lack of congruence in communication*, but that these were along other lines. Hence, instead of power struggles between Bergen Bank and DnC, these seemed to be more apparent between the different divisions. The main reason for this pattern was probably the separation of the bank into strategic business units, which for a period led to a polarisation of the top management team. One key manager in the top management team says:

> It was obvious that we did not work as a team or a group. We did not co-operate well, and there were other problems in the organisation. It was very simple. As long as we could not send out the same signals, then everybody could see that we did not function well... I presume that each one of us had a theory as to why it did not work, but there was little disagreement that it did not work.

The overall impression is that the balance of power changed quite dramatically through this last period and led to a stabilisation of the political situation in the new bank.

8.5.4 Culture and Identities

Reactions

This section will reflect on the employee reactions to the banking crisis, cost cutting and change of organisational structure.

Banking crisis. Respondents seem to disagree whether the financial crisis had an integrative or disintegrative effect on the integration of cultures and identities. Respondents who claim that the crisis promoted integration, claim that it took people's attention away from the cultural clashes between Bergen Bank and DnC. This view is illustrated in the following statement:

> The crisis has directly affected the bank's existence. Thus, it is no longer important whether you were formerly employed in one bank or the other...

One the other hand, the crisis also focused people's attention on which bank was responsible for the losses. People from DnC in particular seem to have felt a need to restore the impression of DnC as the weak party at the time of the merger. This is illustrated in the following statements:

<u>From a local manager in former Bergen Bank</u>:
The merger was presented as a necessity for DnC. This was difficult for the people in DnC to handle. When the losses appeared (after the merger), there was little doubt that Bergen Bank accounted for the major part. The people from DnC had a desperate need to tell people that this was a phase lead.

<u>From a local manager in former DnC</u>:
Internal documents detecting where the losses originated from were made. Not because there was a request for them, but to show that Bergen Bank was no better than DnC or DnC no better than Bergen Bank... One can say that this should not be focused on. But I know it was focused on. There was almost a malicious pleasure when we found something....

The crisis also seems to have made people in the bank more individualistic, and self-centred. One of the bank's key employees says:

> The crisis has done something with our self-esteem. It has made us better at sticking to our position... and not sharing with others. We notice this when we consider mobility, the ability to position oneself and envy.... As such it (the crisis) has cultivated an individualism rather then a collectivism.

Cost cutting. As a result of the crisis the bank's performance rapidly deteriorated and something had to be done to gain profitability. There were two solutions to this problem. One was to cut operating costs to restore the bank's long-term profitability, the other was to try to limit the losses that threatened the bank's survival in the short run.

Many employees perceived the accelerating losses to be the bank's major problem and had difficulties in understanding how yet another round of cutting costs could solve this. One of the bank´s key employees states:

> If we think back to DnC, then DnB has reduced the manning by several thousand employees. We have had a reduction in costs to be proud of, and we have an income before losses that is reasonable good. So what is the problem ? It is the huge losses, and we cannot deal with these by cutting personnel. I think it's wrong to have this threat of lay-offs hanging round in the corridors any longer. It creates so much insecurity, we become introverted and aggressive and forget the customers.

At the same time, it seemed to be easier to get people to accept for need for change and cost cutting because of the banking crisis. One key manager from the top management says:

> It was a question of survival and there was a willingness to change that you never would find in a normal situation. You must remember that in a few years we downsized 40 per cent. This it difficult to do in a normal situation when there is no crisis.

Moreover, the top management's plans to cut costs were legitimised by the pressure from the new owners. One key employee gives a view of the employees' perception of the situation:

> The Insurance Fund was the external enemy that we felt we could fight against. Hermansen (the head of the Government Bank Insurance Fund) was the big bad wolf. I think that the management consciously used this against us. "This is nothing to argue about, these are directions from the Insurance Fund".

Change in organisational structure. The division between retail and commercial banking met considerable resistance from the middle management and the employees. There were several reasons for this.

Firstly, a number of people seem to have disagreed with the top management that this was the right strategic direction. DnB was the only Norwegian bank following this strategy and as such it was perceived as a risky strategy. Moreover, the time given to the middle managers and employees to adjust to the new strategy and their opportunity to influence it was limited. Hence, at the time of the reorganisation there was a lack of acceptance in the organisation for the new strategic direction.

Secondly, the division between retail and commercial segments and the resultant centralisation implied a loss of power for many local managers. A member of the top management team and a local manager describe the situation:

Top manager:	Local manager:
You got constellations between the local employees and the local business community. They had a common interest in this and sent us letters. Although the letters were sent from the local business communities, many were inspired by good informants.	First, this was new. Secondly, it had a strong impact on individuals. There was a need for other types of managers with other qualifications than what had previously been nourished... Many executives for whom no position was created..., left. It was too much for them... Too remote from their perception of the world, also in relation to what the competitors did....

For the employees this restructuring meant another period of downsizing, insecurity and unrest. At the same time it is important to take into account that the employees, in DnC in particular, had been through several years of constant and radical change. The impression in early 1992 was that they were worn out and tired of changing. This is illustrated in a report from one of the local branches in the internal newsletter 10th February 1992:

> We need some peace and quiet to do a decent job for our customers... People seem worn out. We cannot take any more. Our attention is too much focused on internal matters rather than towards the customers. This cannot go on. We have experienced constant change since 1987. Let´s have some peace now...

Positioning and downsizing

This section will examine the criteria used, the reasons for and consequences of using lay-offs and how the groups were unevenly affected.

Criteria. In the beginning of January 1992 the regional managers for the Retail and Commercial Banking Divisions were appointed. It was decided to use suitability as the primary criteria for selection. This in contrast to the former process when suitability and seniority were placed on equal footing.

Although suitability was the leading criterion it was rather problematic to use because of its subjectivity and difficulties involved in retrieving sustained records of employee performance in particular at lower levels in the organisation. Thus, seniority became the main positioning criterion. Unfortunately, this criterion affected the two employee groups unequally.

The reason was the lay off process in DnC in 1988 where a number of the employees with low seniority had been forced to leave the organisation. Thus, when lay-offs were conducted it was mostly former Bergen Bank employees that had to leave. According to one key employee in the organisation this made the "old" cultural clashes reappear.

Reasons for and consequences of lay-offs. In contrast to the merger process the signal in this process was that lay-offs would be implemented if necessary. In the internal newsletter 22nd January 1992 the CEO stated that because of the bank´s need to restructure and cut costs, lay-offs were possible after the positioning process in March/April.

After the positioning process, 600 employees were in excess. The same day as employees received notices of positioning 2. March 1992, Hvistendahl stated in the internal newsletter that it would be difficult to avoid lay-offs. The result was redundancy notices to 340 people.

One interesting question that was raised was why the management chose to conduct lay-offs, in particular taking into account the negative effects of such actions on cultural integration. Respondents' views seem to differ on this matter. The official and most obvious reason for conducting lay-offs was to cut costs over a short period. This view was expressed at all levels in the organisation. Moreover, it was important for the management to show that they responded to their new owners and requirements from external actors. A member of the top management team says:

> I think it would be wrong not to conduct lay-offs in our financial situation. I do not think we could have reduced our expenses without it. Moreover, I think it would have been difficult for the outside world to accept if we had not.

Another more subtle reason for conducting lay-offs was to create radical change during a limited time period. A representative from the top management team explains:

> The reason one conducted lay-offs... was to have a means of re-allocating people. The banking industry is so formalised, and nearly every single appointment has to proceed through an appointment committee. This does not work if you want 3-500 people to

> re-allocate during a weekend. Then you have to conduct lay-offs. People are made redundant and then offered another job.

The consequences of conducting lay-offs were a stronger polarisation of the top management and employees as well as dysfunctional employee reactions. A representative from the bank's top management says:

> The best approach is to downsize or realise gains without lay-offs. If the unions are guarantied no lay-offs, they will work with you, be flexible and receptive to change. But, if you say that lay-offs might be possible... or are necessary, the unions will turn against you. You become two parties at once. This is a more difficult situation to deal with.

Participation

Many people describe the strategic process as a closed process in contrast to the merger process that was much more open. The work done in the project groups did not seem to be communicated to the organisation, and few people apparently knew what was going on. One local manager says:

> The groups that worked within the strategic business units were rather closed. The number of participants was limited in each group and the organisation had little knowledge of what was going on in the groups.

Because many middle managers were not involved in the process, and the process was implemented at such a high pace, they did not get time to get used to the new strategy. This made it difficult to communicate the new strategic direction to their employees. Two local managers from former Bergen Bank and DnC respectively, say:

> One did not have time to develop ones own opinions before the decision was made and the process was running. You are either in or you are out. Then you have to go out and fight for a strategy in the organisation before you have had the time to deal with your own process. Maybe it is a problem when it happens so fast... This created frustrations for many of us.

> We were to form a message we partly believed in ourselves, and communicate this with passion to an extremely sceptical and partly ignorant audience.

Employees have expressed that they had little influence on the process. In their opinion they were invited to participate only to fulfil the management's legal obligations towards the employees. One of the key employees in the bank states:

> To a large extent I have felt that the decisions have been made in advance, and that it has been a form of false democracy. I think that is unfortunate. If you want to implement decisions you are dependent on their being rooted in the organisation. ...We have been given a voice, but we have had little influence... The people in the local entities claim that the consultants have decided this in advance and that is a waste of time and effort to participate.

This lack of participation and influence at middle management and employee levels seemed to take attention away from the merger process. As such it became more important to fight the strategy imposed by the top management than pursuing the potential conflicts between Bergen Bank and DnC. Because of the lack of real influence however, it did not contribute to tearing down the boundaries between the two organisations.

Effect of organisational change

People describe the process of dividing the Banking Division into two parts as a de-merger as opposed to the merger between Bergen Bank and DnC. What is important in this sense is that the de-merger was conducted across, not along, the old cultural boundaries. As such the managers' and employees' attention were focused on building up a new identity and distinguishing themselves from the group they previously had belonged to.

The Retail Banking Division seemed to be the division where the need to build up a new identity was strongest. These business areas had been largely neglected through the last couple of years as the banking crisis had hit the medium-sized businesses segment. Moreover, working towards these customer segments had had low status compared to working with medium sized and large corporations. These latter areas had also more promising career opportunities and the employees were usually better educated. One key manager describes the challenges faced in this division:

> In the Retail Banking Division there were several problems in the forthcoming process. The most important problem was an image problem. Internally we had a bad image because of low competence. Indeed, people had a negative self-image. They perceived themselves almost as the low status workers in the bank.

Thus, there was a need for initiating processes that could build up the identity of the division. In contrast to the other divisions, the manager in the Retail Banking chose to spend considerable amounts on various interventions. These included measures such as team development, management training, seminars, employee surveys, sales training courses for managers and employees and ISO-certification.

This emphasis on building a new identity and the operation of dividing the Banking Division into two parts seemed to result in the creation of new sub-cultures in the bank. A representative from the bank's top management says that "When there is an objective to build a strong culture in one entity, then that is not something that has an integrative effect on the rest of the organisation."

The operation of dividing the Banking Division seems to have shifted the attention from merger to divisional issues. Local managers say that the discussions of boundaries between the two divisions took a lot of their attention: "The division became more important. We fought as divisions rather than DnC and Bergen Bank." "We got new alliances and enemies... We had to stick together and ensure that they didn't get all the customers."

Cultural integration

The impression in the Spring 1994 was that the process of integrating cultures and identities had come a long way. However, this was not so much due to deliberate actions to integrate the cultures and identities, as to events that overturned the bank after the initial combination period.

The process of cultural integration seems to have been influenced by the banking crisis, the downsizing, change in organisational structure and organisation of the process.

The banking crisis seems to have both positively and negatively influenced the cultural integration process. Positively in the form of a common enemy both parties had to relate to, and negatively because the crisis focused attention on which party that was to be blamed for the losses. The need for DnC people to restore the unbalanced power in the initial phase of the merger seems to have strengthened this negative effect.

Another negative effect of the banking crisis was the pressure on downsizing. This implied that the boundaries between Bergen Bank and DnC that had started to dissolve, were once again strengthened. Because the management's approach in this process was to use lay-offs the competition among the employees was even more intensified.

The restructuring process seems to have had both negative and positive effects on the cultural integration process. First, it seems to have disrupted the process of integrating cultures and identities. One key employee says:

> I think the organisation had started to function, but then a new restructuring process started. Now everything is uncertain again and nobody knows where they belong. I am not sure who is in command today, at least not at the lower levels in the

> organisation... No one relates to the old organisation because they know something new is going to happen.

On the other hand, the division between the Retail and Commercial Banking Division seems to have created new sub-cultures and as such united former Bergen Bank and DnC colleagues. Moreover, because the division was so controversial and was implemented in such a top-down, non-participative manner, with little time for the middle management and employees to adapt, it took the attention away from the cultural integration process between Bergen Bank and DnC, at least in the short run.

Degree of cultural integration. The overall impression of the cultural integration process is that the boundaries between DnC and Bergen Bank to a large extent disappeared, but that they were replaced by new sub-cultures.

In the last section I assessed the degree of cultural integration using four indicators; mentioning former organisations, keeping score of appointments and promotions, presenting consistent views of post-merger culture and change of primary membership.

The first indicator that is *mentioning former organisations,* is somewhat problematic because the study's primary data consists of interviews and not observations. In the interviews I explicitly ask the respondents to reflect on the two former organisations, and as such they do not represent a good way of assessing this indicator.

However, mention of Bergen Bank and DnC in the internal newsletter strongly subsided after the initial phase of the merger. In the last couple of years the two former organisations were rarely mentioned. Instead the newsletters were dominated by articles on the banking crisis and restructuring process. Because the internal newsletter is an official medium for the top management however, one should be careful about drawing conclusions.

Regarding *keeping score of appointments and promotions*, organisational affiliation clearly lost its importance as a positioning criterion in the restructuring process. Respondents report that it has become increasingly difficult to remember people's affiliation. One local manager expressed that: "The traces have started to obliterate. I constantly have to ask myself where the various people originally come from. We haven't been concerned about putting this together 50/50. We check afterwards whether there are representatives from both banks, one is sufficient."

Nevertheless, there seems to be some variance according to level in organisation and the subsequent distribution process. Reports from the interviews indicate that employees at lower levels in the organisation still keep track on organisational affiliation. One key manager says that "If you visit a branch or a small office, people are much more concerned about organisational affiliation." Secondly, the subsequent distribution process seems to matter. When the subsequent distribution process was biased as opposed to unbiased, people seemed to be more concerned about organisational affiliation. In the Investment Banking Division for example, where the first distribution was biased towards Bergen Bank, the focus on organisational affiliation in the downsizing process was distinctive. One key manager from the division says:

> In the internal operations in the Foreign Exchange Section in Oslo where there has been considerable downsizing, the focus on the green (DnC) or the blue (Bergen Bank) has been considerable. Who has lost their jobs. Themes from the merger still prevail.

This last issue suggests that it is not just a question of keeping track of promotions and appointments, but also on the people leaving the organisation. Moreover, re-allocation of functions should be included. In the Spring 1994 the division between Bergen and Oslo was still touchy. One member of the top management illustrates this sensitivity and says: "If you move it from Oslo to Bergen it does not matter... The minute you move a function from Bergen, then the Oslo-Bergen problems re-appear."

The third indicator of organisational integration is *presenting consistent views of post-merger culture*. Although the questions in the interviews had not been sufficiently developed to fully include this, there are some indications that both merger parties in terms of the top and local managers perceived the post-merger culture as something new that neither organisation had before. This seems to be primarily due to the crisis, change of strategic direction and reorganisation of the bank.

Local former DnC manager	Top former BB manager
Although the Strategic Business Units process came fast and unexpected for some, I think that it tore down the boundaries. It's something new and shared neither of us had before.	We were fortunate to have a storm that tore down both houses. Thus, we had the opportunity to build a new house. But it was hard as long as we did not have a roof over out heads.

When comparing the features of the two banks in 1989 and the merged bank in 1994, the impression is that the new bank was a mixture of new and DnC features. The decision-making process and the management style seemed to resemble DnC's top management team in 1988-89. Moreover, Oslo became the new bank's headoffice. However, the organisational changes that also affected the international network, implied that DnB had new features that neither of the two had had before.

The fourth indicator of cultural integration was *change of primary membership*. The impression is that this was one of the primary factors that promoted cultural integration between the merging parties. By dividing the organisation into two parts, the divisional boundaries became more important than membership in Bergen Bank or DnC. The members from Bergen Bank and DnC became united in their battle against the other division representing the "enemy" in capturing customers, positions and locations.

8.4.5 Summary

Relationships between phases. In contrast to the merger process, the restructuring process was characterised by a pressure on realisation of gains. This implied that the gains that had not been taken out in the initial phase were to a large extent realised in this phase.

The unstable political situation in the initial combination phase changed to become more stable. This implied a shift in dominance from Bergen Bank managers with long banking experience to managers mainly from DnC with manufacturing industrial backgrounds. This shift was amplified by the pressure from the environment.

The cultural integration process was overturned and disrupted by the change of CEO and banking crisis. However, in the restructuring process that followed, new sub-cultures replacing the former Bergen Bank DnC constellations emerged.

Relationships between task, power and culture. The banking crisis seems to have affected all three dimensions in organisational integration. Firstly, the crisis facilitated integration of tasks by putting pressure on realisation of gains and leading to a more effective distribution of functions. Secondly, the crisis changed the critical competencies and as such promoted unification of power. Finally, the crisis had both positive and negative effects on the cultural integration process. The crisis had a positive effect in uniting the two former banks in a common struggle to survive. The negative effects were related to downsizing and the development of individualism rather than collectivism. Moreover, the focus on losses seems to have had a negative effect.

The change of CEO and the subsequent radical structural changes had a positive influence on the unification of power. Moreover, it had a positive influence on the integration of cultures and identities because it created new sub-cultures, but a negative influence in disrupting the cultural integration process.

Regarding the management approach used in the restructuring process it seems to have facilitated the realisation of gains in the short run by conducting lay-offs, but at the same time negatively affected the cultural integration by intensifying the competition for scarce positions. Moreover, the manner in which the process was implemented seems to have demotivated the employees and may as such have had a negative effect on the bank's profitability.

8.6 SUMMARY AND CONCLUSIONS

The purpose of this chapter has been to:

- Explore the factors and features and identify potential new ones

- Examine how the factors and features influence integration of tasks, unification of power and integration of cultures and identities

- Explore the degrees of organisational integration over time and suggest indicators for assessing the three dimensions

- Investigate how the integration of tasks, unification of power and integration of cultures and identities inter-relate.

Identification and examination of factors and features and influences on task power and culture. The factors and features examined in this chapter were:

Integration of tasks	**Unification of power**	**Integration of cultures and identities**
Potential gains	Balance of power pre-combination	Historical backgrounds
Discretionary slack	Balance of power in the pre-merger negotiations	Merger regime
Regulatory authorities	Organisation of integration process	Friendliness
Realisation of gains	Organisation of new entity	Reactions and expectations
	Allocation of senior positions and functions	Positioning and downsizing
	Change of CEO	Participation
	Strategic change	Information and communication
	Change in organisational structure	Effect of organisational change

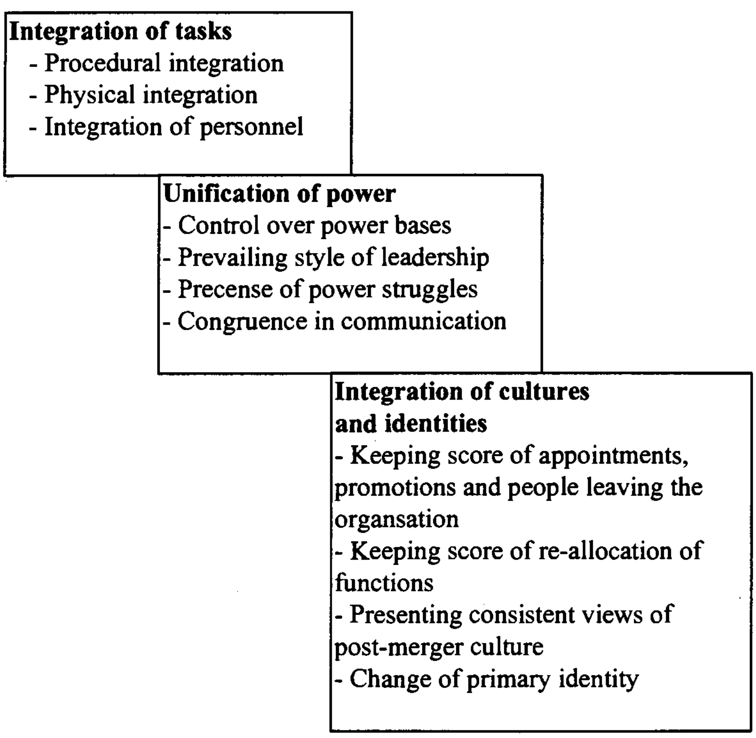
As mentioned in chapter seven the themes discussed in this chapter draw upon the framework suggested in chapter four with some minor adjustments. The new features and factors that were not discussed in the review chapter were change of CEO, strategic change, change in organisational structure and effect of organisational change. These were all features that were discussed in the fourth phase of the merger process.

The advantages of organising the themes into task, power and culture is that this structure represents a close linkage to the outcome variable, the comparison and analysis in chapters nine and ten are facilitated, it becomes more analytical, and it makes the interrelationships that exist between the task, power and cultural features explicit.

Beside distinguishing between the factors that influenced the three dimensions of organisational integration, I placed them into four distinctive phases. The purpose of this structure was to highlight the evolving integration process in the cases.

Indicators for assessing degrees of organisational integration. The indicators suggested in the literature were tested out and extensions proposed. These extensions were related to cultural integration and included keeping track of people leaving the organisation, re-allocation of functions and change of primary membership. Some of the indicators of cultural integration made little sense in the initial combination process. Moreover, other data collection methods should be used to include these dimensions. In Figure 8.2 I have outlined the most important indicators for organisational integration discussed in this chapter.

Figure 8.2. Organisational integration



Inter-linkages between the dimensions. When assessing the inter-linkages between tasks, power and culture interesting patterns emerged suggesting that some features had positive influence on some dimensions and negative on others. This regarded features such as realisation of gains, allocation of senior positions and functions and environmental impact. These patterns will be further explored in chapter 10.

The findings and patterns arising from this case and the Gjensidige case will be compared and analysed in chapters nine and ten. Chapter nine will contain a comparison between the two cases and highlight the key differences. A central aspect in this chapter is to explore why these differences exist.

In chapter ten the two case chapters are analysed in the light of the theoretical perspectives discussed in chapters two and five. The purpose of this chapter is to identify interesting patterns that represent potential empirical generalisations, develop models for task, power and culture, and suggest propositions for future research.

Chapter 9:
Comparison of Gjensidige and DnB

The purpose of this chapter is to compare and contrast the findings in DnB and Gjensidige. The main emphasis will be on the differences between the integration processes rather than the similarities. In particular I intend to identify the key differences, examine why the combinations differ, and outline possible implications for these differences. Furthermore, I will indicate the key theoretical perspectives that can shed light on these differences. A more thorough discussion of the findings in the light of these theoretical perspectives is contained in chapter ten.

Because the two post-combination processes in DnB were so different, it is important to differentiate between the third and fourth phase. The overall impression is that there are more similarities between the combinations in the third phase than there would seem to be in the fourth phase.

The chapter starts off by examining the economic climate at the time of the combinations. Then individual themes concerning tasks, power and cultures and identities are discussed. The first section on tasks includes a discussion of discretionary slack, realisation of gains, regulatory authorities and integration of tasks. The second main part examines aspects of power in the combinations; i.e. relative power pre-combination, organisation of process and new entity, allocation and unification of power. Finally, the cultural features are explored including friendliness, positioning, downsizing, participation, communication and information and integration of cultures and identities.

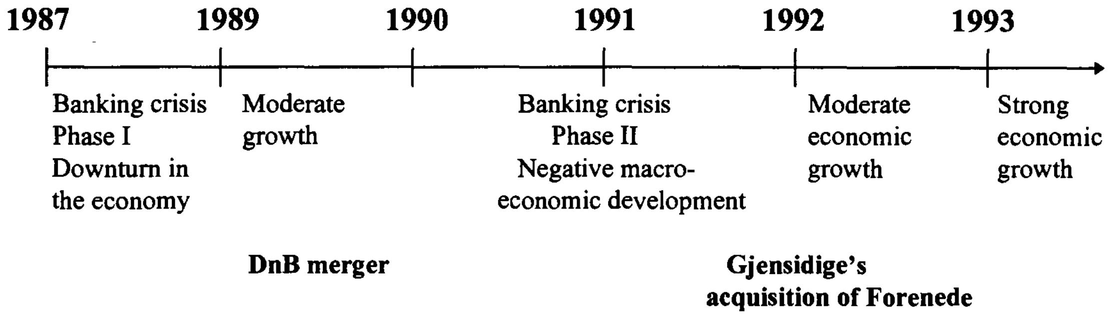
9.1 ECONOMIC CLIMATE

One of the most important differences between the combinations concerned how the economic climate affected the integration processes. There were two major reasons for this difference. Firstly, the combinations occurred at different points in time. Secondly, the banking sector was more affected by the negative economic conditions than the insurance sector.

The economic conditions in the period from 1987 to 1993 and the time of the two banking crises are outlined in Figure 9.1 below. Furthermore I have included the time at which the two combinations occurred.

After a period of strong economic growth in the mid-1980s, there was a recession in the economy in the period from 1987/88 to 1989. This latter period represented the first phase of the Norwegian banking crisis which hit individual banks including DnC.

Figure 9.1 Economic Conditions in the Period from 1987 to 1993



At the time Bergen Bank and DnC announced their plans to merge in 1989, this negative macro economic development seemed to subside, and the commercial banks' total results turned from negative to positive. However, the trade conditions in the early 1990s turned out to be less favourable than expected from the optimistic macro economic prognoses. Contrary to the expected growth there was a zero private consumption growth and a slight reduction in gross domestic product for mainland Norway in 1991. Moreover, the gross fixed capital formation was reduced by 5.8 per cent from the preceding year, see Table A9.1 in the appendix below.

This negative macro-economic development was followed by large structural problems in individual industries, high real interest rate and reduction in real estate prices (Johnsen et al., 1992). The number of bankruptcies which had decreased in 1990, continued to increase and reached its peak of 5749 proceedings in 1992.

In 1992/93 the macro-economic development turned and the number of bankruptcies declined. This was the time when Gjensidige and Forenede merged their operations. This positive macro-economic development was strengthened in the preceding year when the economic growth in Norway accelerated.

Beside occurring at different points in time, the banking industry was more severely hit by the negative economic climate than the insurance industry. The commercial banking industry which had negative operating profit from 1990 through 1992, was highly exposed in the commercial sector. The insurance corporations had in contrast most of their portfolio in the low risk consumer segment. Because the majority of losses occurred in the commercial sector (see Johnsen et al., 1992 and the increase in bankruptcies in Table A9.1) the banking sector experienced a severe crisis whereas the insurance industry was relatively unaffected.

The timing of combinations and the effect of the economic climate had important implications for the integration processes in DnB and Gjensidige. First, the downturn in the economy in the late 1980s implied that both Bergen Bank and DnC, the latter organisation in particular, had weakened solvency capital and thus a lower level of discretionary slack compared to Gjensidige. The second phase of the banking crisis acted as a trigger for change as predicted by the strategic and organisational change literature. In line with the merger and acquisition literature it negatively affected the level of discretionary slack through deteriorating performance, and hence put pressure on realising gains. Furthermore, it changed the distribution of power as suggested by the literature on power and politics on power dynamics. Finally, it disrupted the cultural integration process. To explain the latter effect the literature on social identity theory concerning promoters of identification is particularly important. All these effects on tasks, power and culture will be further explored in chapter ten.

9.2. TASKS

This section is organised into four parts. First, the focus is on the level of discretionary slack in the two combinations. Then, the approach to realing gains and the role of the regulatory authorities is addressed. Finally, I discuss the integration of tasks. The main differences between the combinations, the reasons for these differences and implications are illustrated in the Table 9.1 below.

Table 9.1 Differences in, Reasons for and Implications of Task Dimensions

Tasks	Differences		Reasons	Implications
	Gjensidige	DnB		
Discretionary slack - 3rd phase - 4th phase	 High slack High slack	 Medium slack Low slack	Economic situation at the outset Different economic climates	Pressure on gains Cultural integration
Approach to gains realisation - 3rd phase - 4th phase	 Income generation Income generation	 Cutting costs Cutting costs	Management approach Economic climate	Pace of task integration Level of gains realisation
Regulatory authorities	6 months to approve Conditioned approval	3 months to approve Unconditioned approval	Time to process application Conditioned or unconditioned approval Changing regulations	Pace of task integration
Integration of tasks - 3rd phase - 4th phase	 Middle degree High degree	 High degree High degree	Discretionary slack Approach to gains realisation Regulatory authorities	

9.2.1 Discretionary Slack

The level of discretionary slack was different both between the two combinations and between the post-integration phases in DnB. The reason why the slack was different at the outset of the combinations was primarily due to the parties' financial situations. As mentioned above Bergen Bank and DnC had been through the first phase of the banking crisis in which DnC had been substantially affected when the banks announced their plans to merge. Though Bergen Bank had survived this period without negative profits, its financial resources had shrunk substantially, and its capital base was rather weak. Gjensidige in contrast was among the most profitable corporations in the insurance industry, and had a high solvency margin, in particular in the non-life insurance sector. Moreover, it was a was a mutual company. This form of ownership gave the corporation the ability to act and plan in a long-term perspective.

The most important reason for the diminishing slack in the fourth phase of the DnB merger was the banking crisis and its negative effect on the bank's performance. Due to this banking crisis the corporation had negative profits from 1990 to 1992. Indeed, the Norwegian government had to rescue the bank from bankruptcy.

The high level of discretionary slack in Gjensidige all through the integration process provided the organisation with resources to realise gains on a long-term basis and to initiate actions that could smooth the cultural integration process. This also implied that there was little pressure on Gjensidige to integrate tasks and realise gains. In contrast the low level of slack in DnB, in particular in the fourth phase of the combination, put pressure on task integration and realisation of gains, but left the bank with financial resources to facilitate the cultural integration process. These effects can be partially explained by literature within the merger and acquisition field exploring discretionary slack.

9.2.2 Approach to Gains Realisation

The two combinations were similar in terms of the type of gains pursued. Both DnB and Gjensidige put their major emphasis on realising gains through sharing resources (Haspeslaph and Jeminson, 1994) as would be expected in horizontal combinations. Their approach to gains realisation was however quite different. In particular there was a distinct difference between Gjensidige's long-term, income generating approach as opposed to DnB's short-term, cost cutting approach in the fourth phase of the merger. In the third phase, the plan was to realise gains through cutting costs on a long-term basis in DnB.

However, the management in DnB was also restricted by the negative economic climate and deteriorating performance in the fourth phase of the merger. The situation in the fourth phase of the merger was marked by the bank's weak performance and its struggle to survive in difficult environmental conditions. These factors put pressure on realising more gains and over a more short-term perspective. Gjensidige's approach in contrast was possible because of the positive economic conditions and the corporation's strong financial situation.

The implication of these different approaches and different economic climates was that DnB had a higher degree of task integration and realisation of gains than Gjensidige. This pattern can be traced in the reductions of manning and operating costs. Gjensidige had zero growth in its manning, but reduced its operating costs through reductions in overtime, temporary staff and use of consultants. The corporation's aim was to reduce its relative costs through growth, an aim that was still prevalent at the end of 1995. From 1992 to 1994 the corporation's operating costs in percentage of premiums written were reduced from 29.0 to 28.6 in non-life insurance and from 25.4 to 16.9 in life assurance. DnB in contrast reduced the number of man-labour years by 23 per cent and its operating costs in percentage of asset capital from 3.0 in 1989 to 2.6 in 1993.

The different approaches also had important implications for the cultural integration processes. In particular Gjensidige's approach facilitated the cultural integration process whereas DnC negatively affected cultural integration. This negative effect was particularly prevalent in the fourth phase of the DnB merger. These effects will be further explored in the section on positioning and downsizing.

9.2.3 Regulatory Authorities

Regulatory environment is one of the key triggers of change identified in the strategic change literature. The impression of the regulatory authorities is that they delayed the integration process in Gjensidige whereas they had no effect on the integration process in DnB. There were three reasons for this difference between the combinations. Firstly, and most importantly, the authorities took twice as long to process Gjensidige's application as DnB's. Secondly, Gjensidige's approval was subject tocertain conditions whereas DnB's approval was unconditional. Finally, Gjensidige experienced a change in the regulatory regime in the life assurance sector.

The long delay approving Gjensidige's application seemed to be related to three factors. First, there were two applicants who wanted to acquire Forenede. Moreover, a confusion of ownership rights delayed the process. Third, there was the question of whether one should protect Forenede from being acquired by a foreign company.

Although an approval of a merger between DnC and Bergen Bank represented a breach with existing policy, primary consideration was given to DnC's difficult financial situation. The impression is that there was much closer and more informal contact between the parties in the DnB merger and the regulatory authorities than in the case of Gjensidige. For DnB, this made the outcome of the concession application more predictable.

The conditional approval of Gjensidige's acquisition of Forenede meant that Gjensidige had to apply for the regulatory authorities' approval of changes in the legal structure. This represented a further delay in the integration of tasks.

The third reason why the combinations differed concerned the changing regulatory regime in the life assurance sector. These changing requirements implied that Gjensidige had to use nearly all its capacity to upgrade its systems and products, and thus had little time to work on integrating the two organisations.

9.2.4 Integration of Tasks

The overall impression is that the process towards integrating tasks was conducted at a higher pace in DnB than in Gjensidige. Hence, at the end of the initial combination phase, DnB had achieved a high degree of integration whereas Gjensidige had achieved a partial degree of integration. Moreover, the process of realising gains seemed to be further advanced in DnB. There are a number of reasons for this difference.

Firstly, Gjensidige chose a more time-consuming approach to integrating its operations. This was particularly related to the creation of an internal job market in the combination. Furthermore, the schedule for integrating tasks seemed to be less tight and easier to deviate from. Finally, it seems to take longer to realise gains through increasing income than through cutting costs.

Secondly, the authorities' conditional approval and lengthy processing of Gjensidige's concession application delayed the legal integration. Furthermore, the change in the regulatory regime delayed the process of integration in products and systems. It would also seem that the task of integrating the production systems in Gjensidige was more complex than in DnB.

Finally, the diminishing slack in the fourth phase of the DnB-merger put substantial pressure in the integration of tasks and realisation of gains.

9.3 POWER

This section is organised into five parts. First, the focus is on the relative power relationships between the merging parties before the post-combination. Then, the organisation of the process and new entity and allocation of senior positions and functions are addressed. Finally, I examine the unification of power in the two combinations. The main differences between the combinations, as well as the reasons for these differences and their implications are illustrated in Table 9.2 below.

Table 9.2 Differences in, Reasons for and Implications of Power Dimensions

Power	Differences		Reasons	Implications
	Gjensidige	Forenede		
Relative power pre-combination	Acquisition Unequal size Some profit differential	Merger Equal size Large profit differential	Merger or acquisition Size of merger parties Profit differential	Organisation of process and new entity and allocation
Organisation of process - 3rd phase - 4th phase	Bottom-up, long term	Bottom-up, long-term Top-down, short-term	Power balance in management team	Realisation of gains Cultural integration process
Organisation of new entity - 3rd phase - 4th phase	Deterministic	Adaptive and ambiguous	Timing of strategic process Balance of power	Unification of power
Allocation process - 3rd phase - 4th phase	Emphasis on power	Emphasis on equality	Power balance Time	Task integration Unification of power Cultural integration
Unification of power - 3rd phase - 4th phase	Stable political situation Stable political situation	Unstable political situation Stable political situation	Organisation of a new entity Allocation process Change of CEO	

9.3.1 Relative Power Pre-Combination

The power differential between the merging parties in the pre-combination was considerably larger in Gjensidige's acquisition of Forenede than in the merger between Bergen Bank and DnC. The major reason for this difference was that the former was an acquisition where Gjensidige made an offer directly to the shareholders, whereas DnC was a merger where the two CEOs signed an intentional agreement.

Gjensidige's acquisition of Forenede against Forenede's will was possible because of three factors. Firstly, Forenede's unstable ownership situation implied that the shares could come into play if the dissatisfied minority shareholders were offered an opportunity to sell. Secondly, although there were two applicants, only Gjensidige was given concession to acquire Forenede. Finally, Forenede ran into liquidity problems and thus lost its ability to resist the take-over.

At first Bergen Bank perceived itself as the acquiring bank. However, because Bergen Bank was not sufficiently superior and had limited equity capital the bank chose to enter merger negotiations with DnC.

Another important factor explaining the power differential was the relative size of the parties. Whereas Bergen Bank and DnC were approximately the same size in asset capital and number of employees, Gjensidige was about twice as large as Forenede in terms of premium volume and number of employees. Both type of combination (merger or acquisition) and size of merger parties are thoroughly discussed in the merger and acquisition literature on relative power.

Because DnB was a merger between two equally sized parties however, it is necessary to focus on other aspects to explain the power differential between two parties. The most important factors in this respect seem to be the profitability and the alternatives to agreement in the negotiations. The first feature is briefly mentioned in the merger and acquisition literature on relative power. Regarding the second aspect, alternatives to agreement, one has to turn to other literatures such as the power and politics literature concerning sources of power.

At the time when Bergen Bank and DnC entered negotiations to merge, DnC was in a strained financial situation. Although the bank's new management to a large extent had succeeded in gaining control over the losses in the domestic portfolio, there were large losses in the international branches that threatened the bank's survival. As the merger negotiations proceeded, DnC's problems became increasingly apparent. This gave Bergen Bank, which at the time appeared to be profitable, the upper hand in the negotiations.

The second factor regarded the alternatives to negotiation. Although the CEO in DnC had been in touch with a number of foreign banks before entering the merger negotiations with Bergen Bank, these talks had never reached the stage where they represented an alternative to merge with Bergen Bank. Since DnC could not survive as an independent corporation, it had no alternative but to merge with Bergen Bank. Bergen Bank in contrast had the opportunity to withdraw from the negotiations.

In Gjensidige's acquisition of Forenede there were some differences in profitability, but this differential did not seem to have any major implications for the relative power relationship that already was imbalanced.

The power differential in the two combinations had important implications for the organisation of the integration process, the new entity and allocation of senior positions and functions. In particular Gjensidige was in a position where it could choose whether to involve Forenede or not whereas Bergen Bank and DnC had to co-operate. This is in line with the merger and acquisition literature on relative power that suggest that there are clear winners and losers in acquisitions whereas in mergers the parties are likely to be more evenly matched in terms of size, and thus neither party has authority over the other.

9.3.2 Organisation of Integration Process

The impression is that the integration processes in the third combination phase in Gjensidige and DnB were fairly similar. In particular the management styles of Bergen Bank and former Gjensidige reflecting the dominant party at that time, had a number of similarities. Both emphasised middle management and employee involvement and influence and conducted a bottom-up process. Moreover, as discussed above, both had a long-term perspective on realising gains from the combination.

The differences between the approaches seemed to be that Gjensidige's management went somewhat further in inviting the employees to participate and that they operated with a more long term perspective. Moreover, Gjensidige's management was more process-oriented and sensitive to the cultural integrating process.

The main difference between the approaches seems to be between DnB and Gjensidige in the third phase and DnB in the fourth phase. The reason for this difference was a change of dominating party in the fourth phase. From being dominated by Bergen Bank in the first post-combination phase, the balance of power changed in favour of DnC's former management. This management had a very different style from Bergen Bank and Gjensidige. The change of power balance can be further explored with the help of power and politics literature on dynamics of power.

As opposed to the bottom-up approach in the third phase the reorganisation in DnB was a top-down process implemented at a high pace. The employees were invited to participate to a certain degree, but felt that they had little influence. Moreover, the bank was in the midst of a crisis and the bank had neither the resources nor the time to implement this restructuring over a long time period. The different time perspectives can be further explored applying the two schools of timing change discussed in the merger and acquisition literature. Moreover, the literature on organisational responses to change gives interesting insights into the differences in crisis orientation.

The different approaches in the third and fourth phases of the two combinations had important implications for the realisation of gains and the cultural integration process. The conclusion reached in the cases is that DnB's approach in the fourth phase facilitated the integration of tasks and gains realisation but disrupted the cultural integration process. In contrast Gjensidige and DnB's approach in the third phase had the opposite effect.

9.3.3 Organisation of a New Entity

The main difference regarding the organisation of new entity in Gjensidige and DnB was that Gjensidige's acquisition of Forenede was quite deterministic whereas the process of establishing a new entity in DnB was more adaptive and ambiguous. The reason for this difference seems to be two-fold. Firstly, DnB's management chose to implement the process in two stages, postponing the strategic process. In Gjensidige the acquisition was implemented in one stage. Secondly, the power balance between the parties seemed to make the process in DnB more ambiguous and uncertain.

In Gjensidige's acquisition of Forenede, Forenede's management was invited to draw up the strategy for the corporation towards year 2000. Considering this strategy and the concessions given in the declaration of intentions, a primary organisational structure was chosen. This organisational structure implied some minor changes for the Gjensidige corporation and some rather radical changes for Forenede, in particular in the distribution of insurance.

In DnB one chose to postpone the strategic process at the corporate level until after the two corporations' operations had been integrated. The management in DnB feared that too much change could put the whole process at stake, and thus decided only to implement minor changes in the primary organisational structure. When Finn Hvistendahl, DnB's new CEO, entered the organisation, initiatives were taken to set a new strategic direction for the new bank. This new strategic direction implied radical changes for both parties in the merger. To explain and understand the character of these change processes, the literature on strategic and organisational change is particularly relevant.

These different change processes had important implications for the unification of power in the two combinations. In particular the two-step process and balanced power relationship in DnB implied a more unstable political situation than the one-step process and imbalanced power relationship in Gjensidige.

9.3.4 Allocation Process

The allocation of senior positions and functions in the two combinations seemed to be based on three kinds of criterion; equality, power and competence/suitability/efficiency. All these criteria were present in the two combinations, but their relative importance differed both between the combinations and within the DnB case. There seemed to be two primary reasons for these differences. First, the use of allocation criteria seemed to vary according to the relative power relationship between the parties. Secondly the use of criteria changed over time.

In the third merger process in DnB equality seemed to be the primary criterion reflecting the equal balance between the combination parties. This marked the distribution of top and middle management positions as well as the distribution of functions between Oslo and Bergen. When there were conflicts between equality and competence/suitability/efficiency, the equality criterion seems to have been given primary consideration.

In Gjensidige's acquisition of Forenede, Gjensidige's dominant position in the pre-acquisition phase reflected the distribution of senior positions and functions. This dominance was apparent in the top management team, choice of distribution system and allocation of local area managers.

The extensive use of equality as the primary criterion in the distribution of senior positions and functions in DnB, seemed to create an inefficient and unstable allocation. This made changes in the distribution of power more likely. This in contrast to Gjensidige where former Gjensidige's dominance seemed to create a more stable and efficient allocation.

In the fourth combination process when the bank was under substantial pressures from the external environment and experienced a change of CEO, equality lost its importance as an allocation criterion, and was replaced by power and efficiency. Hence, equality lost its importance over time. An illustration of the use of power is that some managers from former DnC apparently used their new more powerful positions to select managers they knew from before the merger. As for efficiency, this criterion affected the distribution of functions between Oslo and Bergen. This redistribution of resources created a more stable and efficient allocation of positions and functions.

The use of different allocation criteria had also important implications for the integration of tasks and cultures. These will be further explored in chapter ten.

To identify the relevant allocation criteria it is useful to draw on the literature both on power and politics (exercise of power) and distributive justice. Furthermore, the merger and acquisition literature on allocation processes and the distributive justice literature give important insights into the trade-offs between these criteria.

9.3.5 Unification of Power

The impression of the political situations in the two combinations is that Gjensidige had a stable political situation after the initial integration phase, whereas the situation in DnB was characterised by instability. This situation changed in DnB in the fourth integration process when there was a change of CEO and top managers and Oslo became the head office.

The unstable political situation in DnB in the third combination phase was related to the equal distribution of resources, postponed strategy process and possible change of CEO. This instability was characterised by dual power bases, power struggles, lack of congruence in communication and two prevailing management styles.

The change in the fourth phase of the combination process which was strengthened by the banking crisis, implied that the dominant coalition gained control over power bases and that Bergen Bank's traditional banking management style disappeared. Although there was still a lack of congruence in communication and power struggles these were between other parties than the merging organisations.

In Gjensidige's acquisition of Forenede, Gjensidige's dominance was sufficient to create a stable political situation that lasted through the third and fourth combination phases. Firstly, Gjensidige controlled many of the important power bases such as the board of directors, the CEO, key management positions and the distribution system. Secondly, the stable political situation could be traced to Gjensidige's management style, congruent communication and lack of power struggles.

9.4 CULTURE

This section is organised into four parts. First, the focus is on friendliness and secrecy in the pre-combination phase. Then, the positioning and downsizing process, participation and information and communication are addressed. Finally, I discuss the integration of cultures and identities in the two combinations. The main differences between the combinations, the reasons for these differences and the implications are illustrated in Table 9.4 below.

Table 9.3 Differences in, Reasons for, and Implications of Cultural Dimensions

Culture	Differences		Reasons	Implications
	Gjensidige	**DnB**		
Friendliness	Unfriendly	Friendly	Merger or acquisition Approach to top management	Polarisation of organisations Restricted participation
Secrecy	No	Yes	Fear of leakage	Restricted participation
Positioning - 3rd phase - 4th phase	Free re-allocation Controlled re-allocation	Controlled re-allocation Forced re-allocation	Management approach Ec. climate Disc. slack	Cultural integration
Downsizing - 3rd phase - 4th phase	 No downsizing No downsizing	 Downsizing / no lay-offs Downsizing / lay-offs	Management approach Ec. climate Disc. slack	Gains realisation Cultural integration
Participation - 3rd phase - 4th phase	 Extensive voice and influence	 Extensive voice and influence Little voice and influence	Friendliness Secrecy Management approach Ec. climate Disc. slack	Cultural integration
Info. and comm. - 3rd phase - 4th phase	High quality	Middle quality	Management approach	Cultural integration
Cultural integration - 3rd phase - 4th phase	Low degree - good basis for further process High degree based on Gjensidige's corporate culture	Low degree - some basis for further process High degree based on new sub-cultures and areas of attention	Positioning Downsizing Participation Information and communication.	

9.4.1 Friendliness and Secrecy

One of the major contrasts between the cases is the degree of friendliness. There are two important factors which can explain the different degrees of friendliness. First, a merger is per definition friendly, whereas an acquisition can be both friendly and unfriendly.

Secondly, Bergen Bank and Gjensidige had two ver different approaches to the target company's management. Gjensidige's unfriendly take-over attempt started when Jan Willy Hopland, Forenede's CEO, received a phone call late at night the 10th December from Gjensidige asking whether Forenede wanted to enter a co-operative agreement. If not, Gjensidige would inform the Oslo Stock Exchange of its intention to acquire Forenede the following morning.

Gjensidige's request was perceived as an unfriendly take-over attempt by Forenede's management. They claimed that if Gjensidige had seriously desired Forenede's co-operation, the invitation would have been made in a different manner. Gjensidige however, knew of Forenede's strategy to carry on as an independent company and saw no alternative but to pursue an unfriendly take-over.

The unfriendliness implied a polarisation of the people working in the two corporations and as such had a negative influence on the forthcoming cultural integration process. This effect can be explored applying the literature on social identity theory on promoters of identification. Furthermore, the unfriendliness restricted the participation meaning that Forenede did not take part in the process.

Nevertheless, there were two factors which somewhat moderated this effect. The first aspect concerned the conflicts of interests within the Forenede corporation and meant that the employees in Oslo were much more positive to the acquisition than the employees in Trondheim. Secondly, Gjensidige's acquisition regime counter-acted the unfriendliness communicated in the take-over attempt.

In DnB the two CEOs from Bergen Bank and DnC entered negotiations on the basis of a merger between equal parties. The impression is that the friendly climate and equality facilitated the cultural integration process.

Another important difference between the two combinations was the level of secrecy in the pre-combination process. Whereas Gjensidige's middle management and employees were informed about the acquisition when Gjensidige made its offer to Forenede, the middle management and employees in DnB did not get to hear about the merger until it was announced publicly. The reason for not informing the board of directors or the key union representatives in DnB seemed to be the fear of leakage.

This secrecy implied that the middle managers' and employees' ability to influence the process was restricted and may as such have delayed the cultural integration process.

9.4.2 Positioning and Downsizing

The approach to positioning and downsizing were fundamentally different in the two combinations and in the third and fourth combination phases in DnB. The most important reasons for these differences seem to be the management approach, economic climate and discretionary slack.

The positioning process in Gjensidige was to a large extent a free process where it was left up to the employees whether they wanted to re-allocate or not. The aim of the process was to encourage the most competent employees to seek new opportunities within the organisation. This in contrast to the third combination process in DnB where one sought to identify employees in excess and encourage employees who did not have a critical competence to voluntary leave the organisation voluntarily. The implications of these differences were that the cultural integration process in Gjensidige was more positively affected than in DnB. Part of this effect can be explored with the help of social justice theory on procedural justice.

To make the cultural integration process as smooth as possible, Gjensidige chose not to downsize the permanent employees. Hence positions did not become a scarce resource. In DnB downsizing was an explicit goal to cut costs. However, to minimise the negative effect on the cultural integration process, no lay-offs were conducted in the parent bank. This implied that the competition for positions was less fierce in Gjensidige than in DnB. To explore the effects of competition on cultural integration, the social identity theory on promoters of identification is particularly useful.

Gjensidige's approach was possible because of the positive economic climate and its high level of' discretionary resources. However, DnB's approach had a more positive effect on task integration and gains realisation at least in the long run. The reason for this was that it seemed to take longer to realise gains through generating income than through downsizing. In the fourth combination process Gjensidige still had a problem with employees in excess. The aim was still to solve this through increasing income.

The positioning process in DnB in the third phase differed from the fourth phase in one important respect and that was the use of lay-offs. By conducting lay-offs the competition between the employees became fiercer as found in the merger and acquisition literature on realising gains. Moreover, the use of lay-offs affected employees in Bergen Bank more strongly than the employees in DnC and as such strengthened the boundaries between the two former banks. The rationale for this effect can be further explored applying social identity theory on promoters of identification. Finally, the use of lay-offs resulted in a demotivation of employees and polarisation of top management and employees.

Regarding the effect on integration of cultures and identities the process in Gjensidige seems to have had the most positive effect. The reason for the positive reactions in Gjensidige was twofold. Firstly, the positioning process resulted in an extensive job rotation in which the boundaries between Gjensidige and Forenede were torn down. Secondly, by choosing not to downsize there was less reason to preserve or strengthen the boundaries between the merging organisations.

As for the two positioning and downsizing processes in DnB, these processes seem to have strengthened the boundaries between the two organisations, and as such negatively influenced the integration of cultures and identities. The use of lay-offs in the fourth process accelerated this negative effect.

9.4.3 Participation

The extent and character of participation varied both across the various phases in DnB and between the two combinations. The reasons for these differences seemed to be variations in friendliness, secrecy, management approach, economic climate and discretionary slack.

Because Gjensidige's acquisition of Forenede was unfriendly, there was no interaction between the merging parties until the post-combination phase. In DnB in contrast, both merging organisations were involved, but only at board and top management level.

In the third combination phase both parties in the combinations and the employees seemed to be given extensive say and influence. The most important reason for this similarity seemed to be that the management approaches in the two combinations were fairly similar in the third integration process.

In the reorganisation process in DnB, the employees were to some extent invited to participate, but expressed that they had little influence on the outcomes. The process seemed to be more closed than the former, and fewer people knew what was going on. Moreover, because the restructuring of the corporation was implemented at such a high pace, there was little time to feel akin to the new strategy. The reason for the breach in the participation approach from the third phase seemed to be a combination of a change of management approach, a difficult economic climate and a low level of discretionary slack.

The impression is that the employees in the third phase in Gjensidige and DnB were more motivated than the employees in the fourth reorganisation phase. The extensive participation in the third phase brought the employees together and thus had a positive effect on cultural integration.

The effect of the lack of participation in the cultural integration process in the fourth phase is somewhat difficult to detect. Although the restructuring process took the attention away from the merger, it is difficult to assess whether the cultural integration process was put aside permanently or only temporarily.

To identify key dimensions in participation, the literature on procedural justice is particularly useful. In particular the literature suggests that voice and influence should be distinguished. This will be further explored in chapter ten.

9.4.4 Information and Communication

In both Gjensidige and DnB I focused on information quality rather than quantity. The impression from the two cases is that the quality of information and communication in Gjensidige was better than the quality in DnB. The reason for this difference seemed to be that the management in Gjensidige was much more attentive and skilful in facilitating the cultural integration process through communication than DnB's management.

The most important differences in communication and information were reflected in the consideration of the cultural integration process, congruence between what was said and done, realistic merger previews and the emphasis on keeping promises.

The conclusion reached in the cases was that Gjensidige's approach to information and communication facilitated the cultural integration process, whereas the communication strategy in DnB may have disrupted this process. The quality dimensions and their effects on cultural integration can be further explored with the help of merger and acquisition literature on communication and procedural justice literature.

9.4.5 Integration of Cultures and Identities

The impression of the cultural integration in the second data collection was that the process had come a long way in both corporations but that there were considerable differences in how this integration was achieved. In general the management approach seemed to play a more important role in Gjensidige in facilitating the cultural integration process than in DnB. In DnB the cultural integration seems to a large extent to be a result of unintended effects of actions from the top management and pressure from the environment in the fourth phase. Furthermore, the process of cultural integration seems to have proceeded at a higher pace in Gjensidige than in DnB.

The cultural integration in Gjensidige was a process where Forenede was absorbed into Gjensidige. This process can be observed by focusing on the change of primary identity from Forenede to Gjensidige and the presentation of consistent post-merger views. This absorption which started in the first post-combination phase seemed to proceed fairly smoothly for a number of reasons. First, many employees in Forenede were attracted to Gjensidige's culture. Furthermore, the employees in Oslo shared common interests. Third, there was apprehension among the people in Forenede that they had to adapt given Gjensidige's dominance. Finally, the employees and middle managers in Forenede had a history of change, as opposed to Gjensidige's history of stability.

In DnB there seemed to be a fight between the survival of the new DnC culture and the traditional Bergen Bank culture. Neither of these two cultures seemed to be attracted to one another, and neither organisation was sufficiently dominant to try to impose its culture on the other party.

The impression in the third combination phase was that both cultures were very much present, though some basis for cultural integration was created. The only place where there seemed to be some cultural integration in the form of change of primary identity was in Oslo. Here the people in Bergen Bank, in particular in the corporate entities, felt both culturally closer to DnC Oslo than Bergen Bank Bergen, and had common interests in the allocation process.

In the fourth phase of integration the bank was organised into new strategic business units and new sub-cultures were established that transcended the boundaries between former Bergen Bank and DnC. In that sense this was a structure that represented something new for both organisations. The reorganisation process together with pressure from the environment, also took attention away from the cultural integration process. In the sense that time represents a positive influence on the cultural integration process, these events might have had a positive effect. However, if they just represented a disruption of the cultural process, the "old" boundaries might reappear.

9.5 SUMMARY

In this chapter the main differences between the two combination processes, the reasons for these differences and their implications have been discussed. The aim of the chapter has been to review these differences in relation to task, power and the cultural dimensions explored in the two cases. As has been stressed in the discussion all through this chapter, it has been important to distinguish between Gjensidige and DnB in the third and the fourth combination phase. A review of the reasons and implications of the differences between the cases and the relevant theories for exploring these differences are outlined in Table 9.4 below.

The theories listed in the table created the linkages to chapter ten where the analysis of case patterns will be conducted with the help of theory. Furthermore, detailed models for tasks, power and culture will be developed in addition to propositions for future research.

Table 9.4 Differences in Organisational Integration Dimensions in the Two Combinations

ORG. INT.	Reasons	Implications	Theoretical perspectives
Economic climate	Timing of combination Effect of downturn in the economy	Discretionary slack Distribution of power Management of cultural integration process	Merger and acquisition (environmental impact) Strategic and organisational change (triggers of change) Social identity theory (promoters of identification)
Tasks			
Discretionary slack	Economic situation at the outset Different economic climates	Pressure on gains Cultural integration	Merger and acquisition (discretionary slack)
Approach to realising gains	Management approach Economic climate	Pace of task integration Level of gains realisation Cultural integration	Merger and acquisition (strategic fit)
Regulatory authorities	Time to process application Conditional or unconditional approval Changing regulations	Pace of task integration Unification of power Cultural integration	Strategic change (triggers of change)
Integration of tasks	Discretionary slack Approach to gains realisation Regulatory authorities		
Power			
Relative power pre-combination	Merger or acquisition Size of merger parties Profit differential	Organisation of process and new entity and allocation	Power and politics (sources of power) Merger and acquisition (relative power)
Organisation of process	Power balance in management team	Realisation of gains Cultural integration process	Strategic and organisational change (organisational responses) Merger and acquisition (Timing change) Power and politics (dynamics of power)
Organisation of new entity	Timing of strategic process Balance of power	Unification of power	Strategic and organisational change (types of change)
Allocation process	Power balance Time	Task integration Unification of power Cultural integration	Power and politics (exercise of power) Social justice (distributive justice) Merger and acquisitions (allocation)
Unification of power	Organisation of process and new entity Allocation process		
Culture			
Friendliness	Merger or acquisition Approach to top management	Polarisation of organisations Restricted participation	Social identity theory (promoters of identification)
Secrecy	Fear of leakage	Restricted participation	
Positioning	Management approach Economic climate Discretionary slack	Cultural integration	Social identity theory (promoters of identification) Social justice theory (procedural justice)
Downsizing	Management approach Economic climate Discretionary slack	Gains realisation Cultural integration	Social identity theory (promoters of identification) Merger and acquisition (realisation of gains)
Participation	Friendliness/ Secrecy Management approach Economic climate Discretionary slack	Cultural integration	Social justice (procedural justice)
Info. and comm.	Management approach	Cultural integration	Merger and acquisitions (info. and comm.) Social justice (procedural justice)
Cultural integration	Positioning Downsizing Participation Information and comm.		

Chapter 10: Analysis and Development of Propositions

The purpose of this chapter is three fold. First, I explore the patterns that arise from the cases representing possible empirical generalisations. Then I develop three abstract models for task integration, unification of power and integration of identities and cultures. These models use the framework outlined in chapter three as a starting point, and refine the framework with the help of theory and empirical findings. Finally, I propose a number of propositions for future research. These propositions have been selected according to three criteria, i.e. the ones that are: (1) best linked to the cases, (2) strongest in terms of future research, and (3) most researchable.

This chapter follows the structure of the two case chapters and is divided into four main parts; tasks, power, culture and inter-relationships. This structure is outlined below.

Table 10.1 Outline of Chapter

TASKS	**POWER**	**CULTURE**	**INTER-RELATIONSHIPSHIPS**
Discretionary slack Approach to gains realisation Complexity Environmental impact Realisation of gains Integration of tasks	Relative power pre-combination Relative power relationships post-combination Changes in distribution of power Unification of power	Cultural fit Friendliness Management of cultural int. process Economic climate Structural changes Integration of cultures and identities	Approach to gains realisation Environmental impact Allocation of senior positions and functions

10.1 TASKS

In this part I discuss discretionary slack, environmental impact, realisation of gains and integration of tasks. Each section explores how the features can be assessed and possible variations across cases and time. Furthermore, I examine how the features are influenced by other factors, and relate to task integration.

To analyse the findings on tasks, the literature on mergers and acquisitions reviewed in chapter two is most relevant. This regards the sections on discretionary slack and strategic fit. Equally important however, are the patterns arising from the cases themselves.

10.1.1 Discretionary Slack

Discretionary slack is a feature that has been recently introduced into the merger and acquisition literature (Schweiger and Walsh, 1990 and Schweiger, Csiszar and Napier, 1994). As mentioned in chapter two, there seems to be no empirical work that explores this concept, and hence there is a need to identify indicators of the concept and explore how it affects organisational integration.

Schweiger, Csiszar and Napier (1994) define discretionary slack as the availability of discretionary resources during a change process. I found three factors to be important in the assessment of discretionary slack in the two cases. These were type of ownership, i.e. mutual or limited company, solvency and profitability. Here it is important to note that it is the sustained performance assessed over a number of years that is taken into account.

One of the factors suggested in the merger and acquisition literature (ibid) that influence discretionary slack, is business conditions. Changing economic climate was an important factor to take into consideration when explaining variations in slack across the cases and over time. First, the level of slack was considerably lower in Bergen Bank and DnC than in Gjensidige due to the first phase of the banking crisis. Second, the second phase of the banking crisis that hit DnB in the fourth phase of the combination led to rapidly diminishing slack.

The merger literature suggests that when discretionary slack is not available, as was the case in the fourth phase of the DnB merger, firms face short-term pressure to achieve "normal" business results. Moreover, this might lead to shortened time to implement needed organisational changes and require unplanned actions. As such, they argue, little or no discretionary slack will undermine the achievement of synergy.

When comparing the findings in the two cases, the relationship between discretionary slack and realisation of gains or synergy seems to be somewhat contradictory to the merger literature.

The cases support the notion that discretionary slack facilitates change processes in terms of the cultural integration process. In particular, discretionary slack provides the management with resources to initiate actions and conduct downsizing in manners that facilitate the cultural integration process.

When it comes to task integration however, little or no discretionary slack seems to put a pressure on the realisation of gains. As such it facilitates the process towards task integration. The impression from the cases is that Gjensidige due to its high slack, i.e. high solvency, profitability and mutual ownership, lacked the pressure to realise gains. DnB on the other hand, was forced to rationalise and downsize because of its rapidly diminishing slack in the fourth phase of the merger. In formal terms:

> *Proposition 1: The higher the discretionary slack, the lower the pressure to realise gains.*

10.1.2 Approach to Realising Gains

The merger and acquisition literature distinguishes between four types of gains that can be realised in mergers and acquisitions (Haspelaph and Jemison, 1991). These include operational resource sharing, transfer of functional skills, transfer of general management skills and combination benefits. I will concentrate on operational resource sharing since this has been most important in both cases and because it is most closely related to task integration.

In operational resource sharing, value is created through economies of scope or scale. The integration challenge encountered in sharing resources typically involves either combining assets or co-ordinating their joint use (Haspelagh and Jemison, 1994).

There are two important features of resource sharing that vary between the cases and over time. These concern whether gains are sought to be realised over a long or short term, and whether the management seeks to realise gains through cutting costs or generating income.

The long-term, income generating approach was particularly prevalent in the Gjensidige case. Gjensidige's management chose not to downsize personnel in the short run. Rather the corporation hoped to solve the problem of employees in excess through long-term growth. At the end of 1995 this approach had not been fully successful. Nevertheless, Gjensidige's management seemed to be prepared to observe the situation for a couple more years before starting to downsize employees.

In the third phase of the DnB-merger a long-term, cost cutting approach was pursued. This approach aimed at achieving a moderate level of gains based upon a bottom-up approach and downsizing through other means than lay-offs.

This approach was changed in the fourth phase when a short-term, cost cutting approach was implemented. This approach aimed to maximise gains in the short run and was characterised by drastic cost cutting and lay-offs.

The different approaches to realising gains seem to reflect a balance between maximising gains in the short run and facilitating cultural integration in the long run. The impression is that Gjensidige's management was more concerned with cultural integration than DnB's management in the fourth phase.

The approach to realising gains over a long or short period and generating income or cutting costs seems to be influenced by two factors. The first regards who is the dominant coalition at the time. This will be further discussed in the next section on power. Secondly, there is the question of the available slack. High slack seemed to be a necessary condition to pursue a long-term, income generating approach. In a low slack situation, the management's choice of approach is much more restricted. In formal terms:

> *Proposition 2: The higher the discretionary slack, the more long-term, income generating the approach to realise gains.*

I would argue that the integration of tasks and gains realisation are facilitated by a short-term, cost cutting approach. Thus, a long-term, income generating approach might slow down the process of integrating tasks and realising gains. These contrasts were illustrated by Gjensidige's approach to gains realisation in both post-combination phases (long-term, income generating) and DnB's approach in the fourth phase (short term, cost cutting). This argument can be expressed in the following proposition:

> *Proposition 3: The more long-term, income generating the approach to realising gains, the longer time it takes to integrate tasks and realise gains.*

However, a short-term, cost cutting approach does not necessarily provide a basis for a cultural integration. Case evidence suggests that the different approaches reflect a balance between maximising gains in the short run and achieving cultural integration in the long run. Indeed, the impression is that Gjensidige's management was more concerned with cultural integration than DnB's management, in particular in the fourth phase.

10.1.3 Complexity

The degree of complexity was a feature which was not discussed in the literature chapter, but appeared as an important factor in the two cases for influencing the pace of task integration.

Based upon case findings the complexity of integrating operations at business unit level seems to be reflected by five indicators. These include the balance of power between the operations, the difficulties involved in integrating the production systems, the geographical distribution and the size of operations and the number of entities involved in the integration.

In Gjensidige the life assurance area was described as a more complex area to integrate than non-life insurance due to factors such as relative size, production technology and distribution of operations between Oslo and Trondheim. Because of its complexity the integration process in this area was very much perceived as an evolving process. This complexity in integrating the life assurance operations implied that it would take several years before the operations were fully integrated.

The differences in complexity between the divisions in DnB were due to factors such as distribution and size of operations and number of entities involved in the integration process. All divisions faced complexity in terms of balanced operations.

Based upon the fact that more than 65 per cent of the employees in the parent bank were employed in the Banking Division (size of operations), and its offices were scattered all around Norway (distribution of operations), the integration process is described as most complex in this division. This was in contrast to the Corporate Division which employed less than five per cent of the bank's employees and whose operations were located in Oslo.

The complexity of number of entities involved is illustrated in the construction of the Internal Operations Division. The integration process in this division was complex in the sense that this was a new division which neither bank had encountered before and for which the employees had to be recruited from several different areas in the bank.

The conclusion reached in the two cases was that the indicators reflecting the complexity of integrating the operations influence the pace of task integration. In particular there seemed to be a tendency for areas with high complexity to be more time-consuming than low complexity areas. In formal terms:

Proposition 4: The higher the complexity, the longer time taken to integrate tasks.

10.1.4 Environmental Impact

As mentioned in chapter two there has been surprisingly little research looking at how the environment influences the integration process. The few exceptions to this trend seem to have been preoccupied with the effects on cultural integration, and as such will be discussed in the section on cultures and identities.

In chapter five I suggested that characteristics in the environment could be grouped into four categories using Pettigrew, Whipp and Rosenberg's (1989) framework. These included the economic, business, political and social environment. The two most important environmental factors in these two cases were the economic climate and the regulatory authorities. These will be discussed subsequently.

Economic climate

The first factor regards the economic climate in which combinations take place. As discussed in chapter nine, the economic climate in which the combinations took place differed fundamentally from one case to the other. Moreover, the climate worsened substantially in DnB in the fourth integration phase.

To trace the development in the economic climate I used macro-economic indicators such as private consumption growth, gross domestic product for mainland Norway, gross fixed capital formation and bankruptcy proceedings.

The literature on strategic change emphasises that triggers of change such as pressure from the environment, performance crisis and change of CEO and ownership often operate simultaneously (Pettigrew, 1985), and that it may be difficult to distinguish between the original stimulus and mere catalysts for change (Grinyer et al., 1988). Indeed in the case of DnB all these stimuli occurred simultaneously. In particular the banking crisis (negative change in economic climate) resulted in a performance crisis reducing the discretionary slack to a minimum. Moreover, the performance crisis made the bank dependent on the government for capital and through these operations the Government became a major owner in the bank (change of ownership). These changes happened shortly after there had been a change of CEO initiating fundamental changes in the strategy and organisation.

Findings from the case suggest that these triggers of change, i.e. a negative change in economic climate, performance crisis and change of ownership, put pressure on the realisation of gains through reducing discretionary slack and as such positively facilitated the process of task integration. I will argue that the economic climate will influence realisation of gains through negatively influencing performance reducing the discretionary slack. These relationships are outlined in model 10.1 below. In formal terms:

> *Proposition 5: A negative change in economic climate will put pressure on realisation of gains through negatively influencing performance and reducing discretionary slack.*

Regulatory authorities

The regulatory authorities influenced the pace of integration both in the pre-and post-combination phases. In the pre-combination phase the authorities used twice as long to process Gjensidige's concession application as they did to process DnB's. The conclusion drawn in these two cases was that due to this factor the integration of tasks in Gjensidige was slowed down compared with the merger between Bergen Bank and DnB.

Regarding the post-combination process, the process of integrating tasks in Gjensidige was slowed down for two reasons. First, the authorities' approval of Gjensidige's application was made conditional. This meant that Gjensidige continued to be dependent on the authorities' approval of their concession applications. Secondly, the change in regulatory regime in the life assurance sector implied that the resources and attention in the life assurance operations were concentrated on attending to the new requirements. The impression is that the need to apply for concessions and the change in regulatory regime slowed down the integration of tasks. In formal terms:

> *Proposition 6: The longer the time taken to process concession applications and the more change in regulatory regime, the longer the time it takes to integrate tasks.*

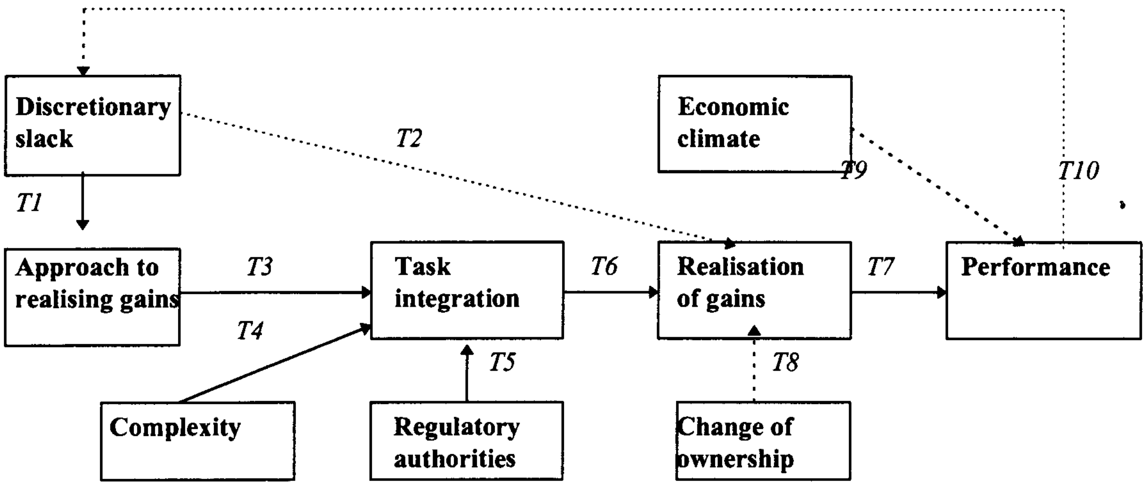
10.1.4 Integration of Tasks

Before discussing the integration of tasks it is important to relate it to gains realisation and performance. I will argue that the integration of tasks influences the gains that are realised from the combination. The realisation of gains needs to be substantiated through a rationalisation of the resources that become superfluous as a result of task integration. This causal relationship can for example be seen in the time lag between integrating personnel and realising gains from the integration. This was the case in the initial combination phase in both DnB and Gjensidige where personnel had been integrated, but gains had not yet been realised. One important reason for this is the time-consuming process of integrating tasks, and requirement for personnel resources during the initial combination phase.

Furthermore, I would argue that the realisation of gains influences performance. That is to say the higher the gains achieved from the integration of tasks, the better the performance.

These relationships and the discussion of factors above can be summed up in the following model:

Model 10.1 Task Integration



The unbroken lines in the model indicate relationships that occur up until the fourth phase of the combination. The dotted lines indicate the changes in the fourth combination process. In the following discussion I will refer to the different relationships in the model by T1 to T10.

Relationships in model 10.1. The rationale behind the relationship between discretionary slack and the approach to realising gains (T1) is that the level of discretionary slack will influence the approach to gains realisation. In particular I have argued that the lower the slack the more short-term, cost cutting the approach to gains realisation. This as opposed to a high slack situation which gives the management the means to pursue a long-term income generating approach.

Similarly the level of discretionary slack will influence the realisation of gains. Findings in the DnB case suggest that the lower the level of slack the more pressure on gains realisation (T2). In DnB the level of slack was reduced dramatically in the fourth phase of the merger due to a negative change in economic climate (T9) and subsequent deteriorating performance (T10). Furthermore, the change of ownership put further pressure on gains realisation (T8).

Task integration is influenced by three factors. Firstly, task integration is influenced by the approach to realising gains (T3). In particular I argued that the more long-term, income generating the approach, the lower the degree of task integration. Secondly, the degree of complexity influences the pace at which tasks can be integrated (T4), i.e. the higher the complexity the longer the time it takes to integrate tasks. Finally, the regulatory authorities influence the pace of task integration through their processing of concession applications and regulatory regime. I argued that the longer the time it takes to process the applications and the more the change in regime, the longer the time it takes to integrate tasks.

The pace or degree of task integration will influence performance though the impact on gains realisation (T6 and T7). In particular, the higher the degree of task integration, the the higher realisation of gains and the better the performance.

The propositions outlined above represent the relationships in model 10.1 that are best linked to the cases, strongest in terms of future research and most researchable. These propositions are summed up in Figure 10.1 below.

Figure 10.1 Propositions for Task Integration

Proposition 1: The higher the discretionary slack, the lower the pressure to realise gains.

Proposition 2: The higher the discretionary slack, the more long-term, income generating the approach to realise gains.

Proposition 3: The more long-term, income generating approach to realise gains, the longer the time it takes to integrate tasks and realise gains.

Proposition 4: The higher complexity, the longer the time it takes to integrate tasks.

Proposition 5: A negative change in economic climate will put pressure on the realisation of gains through negatively influencing performance and reducing discretionary slack.

Proposition 6: The longer the time taken to process concession applications and the more cchange in the regulatory regime, the longer the time it takes to integrate tasks.

Indicators for assessing the degree of task integration. I used three indicators to assess the degree of task integration in the two cases. These were adopted from Shrivastava (1986) and included procedural integration, functional integration and physical integration of personnel. In chapter three I suggested that these indicators should be adapted to combinations that do not result in a parent subsidiary relationship and to the service industry. This implied tracing the integration process beyond the top management teams in the two organisations and making personnel integration an important part of the assessment.

10.2 POWER

This section contains four parts. The first part outlines the power relationships before the combinations took place. Secondly, attention is given to features where the relative power in the first post-combination phase can be traced. Then I focus on the changes in the distribution of power and end the section by discussing the unification of power.

The most relevant perspective with regard to the findings on power is the power and politics perspective discussed in chapter five. The first section on sources of power is useful when analysing the relative power between the parties in the pre-combination. Secondly, the literature on exercise of power is helpful in exploring the allocation processes. Finally, the section on dynamics of power can be applied to understand the character of organising the integration process.

Other important literatures to explore the patterns of power are the literatures on distributive justice and strategic and organisational change. The distributive justice literature is particularly relevant for analysing the allocation process. Regarding strategic and organisational change, this is an interesting perspective to help understand the character of change in organising a new entity and to look at the typical organisational responses in organising the integration process.

10.2.1 Relative Power Pre-Combination

The two most commonly used indicators for measuring relative power in the merger and acquisition literature seem to be relative size and whether the combination is a merger or acquisition (Levinson, 1970; Humpal, 1971; Mirvis, 1985; Cartwright and Cooper, 1990; Haspeslagh and Jemison, 1991b; Rentsch and Schneider, 1991; Ollie, 1994).

In the two cases I found that these two indicators, i.e. relative size and whether the combination was a merger or acquisition (hereafter named type of combination), were sufficient to outline the relative power relationships in Gjensidige. The most important seemed to be that Gjensidige was the acquirer, and because this was an unfriendly take-over this power discrepancy between Gjensidige and Forenede became even more apparent. Secondly, Gjensidige was twice as large as Forenede.

When using the two suggested indicators for the DnB case, the power relationship between the two parties seems very balanced. To explain why the merger was not fully balanced, one has to look at other indicators beside size and type of combination.

Additional indicators suggested in the literature are quality of the loan portfolio (Halvorsen, 1984), and pre-acquisition performance of the acquired firm relative to that of the acquiring firm (Hambrick and Cannella, 1993). Assuming that the quality of the loan portfolio is reflected in the performance, relative pre-acquisition performance is a good indicator of the imbalance in the DnB merger. DnC's sustained negative performance as opposed to Bergen Bank's superior performance provided Bergen Bank with a strong position both in the negotiations and in the integration process.

A fourth indicator that is related to the former is alternatives to negotiation. As discussed in the cases above, the CEO in DnC, Kristian Rambjør, had tried to contact foreign banks when entering merger negotiations with Bergen Bank. These talks did not however reach the stage where they represented a real alternative to the negotiations with Bergen Bank. Moreover, as the negotiations with Bergen Bank proceeded, it became evident that DnC could not survive as an independent corporation throughout the year. Bergen Bank on the other hand, had the opportunity to survive as an independent institution and walk away from the negotiations.

The strength of alternatives is thoroughly discussed in Emerson (1962). Emerson argues that the basis of power will be dependent on the availability of resources outside the parties' relation. This implies that having alternatives to negotiated agreement will strengthen one's negotiating position (Fisher and Ury, 1981).

A fifth indicator of power relationships is the extent of preparedness before the negotiations. When entering the merger negotiations, Bergen Bank was much better prepared than DnC due to its thorough strategic analysis and extensive discussions on the board and in the top management team. DnC on the other hand, had been forced to take action because of its performance problems and only a small group of people was involved in the discussions.

Summing up, I suggest that the power relationships or relative strength between the merging parties consist of relative size, whether it is a merger or acquisition, relative pre-combination performance, alternatives to negotiations and preparedness.

Evidence in the case suggests that the relative power relationship between the combination parties before the integration process influenced the organisation of the new entity, allocation of senior positions and functions and organisation of integration process. This supports power models which hypothesise that the organisation that possesses the greatest power, will receive the greatest reward from the interplay of politics.

However, as I will come back to in the next part, the relative power in the pre-combination phases cannot solely explain the distribution of power in the post-combination processes.

10.2.2 Relative Power Post-combination

The relative power in the post-combination phase can be traced in three features, i.e. organisation of the new entity, organisation of integration process and allocation of senior positions and functions. These three features will be discussed subsequently.

Organisation of new entity

In the section on strategic and organisational change in chapter five, I discussed how changes can be characterised along different dimensions including depth, pervasiveness and size (Mohrman et al., 1989) and whether the change was evolutionary or revolutionary (Miller and Friesen, 1980; Pettigrew, 1985; Tushman and Romanelli, 1985).

When applying the dimensions discussed above to mergers and acquisitions, it is important to take into consideration that mergers and acquisitions involve more than one organisation. This implies that the two merging parties may experience different types of change. Moreover, I will argue that one should focus on the relative rather than the absolute sizes of the merging parties. I have chosen to regard this factor as influencing the change process, not as a part of it.

Findings suggest that the change processes were fundamentally different across and within the combinations. In Forenede the change process can be characterised as deep, pervasive and revolutionary. This as opposed to the changes implemented in Gjensidige that also were pervasive, but did not fundamentally affect the beliefs and values (depth). As such it can be characterised as more evolutionary. Because Forenede was absorbed into Gjensidige, there was little ambiguity and uncertainty about how the corporation was to be structured in the future. In particular, Gjensidige's co-operative structure and distribution system were preserved.

In DnB both parties seemed to be equally affected. The change process can be characterised as deep, pervasive and revolutionary and fits Nadler and Tushman's (1989) description of large-scale changes. Nadler and Tushman claim that large-scale changes often entail multiple and incomplete transitions, uncertain future states and transitions over a long period of time.

The DnB merger was carried out in two distinct stages (multiple transitions), it was cut short by the banking crisis (incomplete transitions), had a high level of ambiguity (uncertain future states) and took at least five years to complete (long transition time).

The transitional period of five years is in accordance with Miller and Friesen (1982) who claim that a period of five years was sufficiently long to reflect a sequence of structural changes that aimed at responding to key changes in strategic goals or environment.

After having provided the evidence of different change processes within and across the combinations, it is important to ask why the processes were so different. One feature which appears in the merger and acquisition literature is the degree of integration related to strategic objective (Siel and Smith, 1990 and Datta and Grant, 1991). Following this line of research one would expect the degree of change to be evolutionary when there is a low degree of integration and revolutionary when there is a high degree of integration. Since both my cases are characterised by a high level of integration, revolutionary change would be expected. Thus, the level of integration cannot explain why there are important individual differences within and across the cases.

One factor which can help in explaining these differences is the balance of power or relative power in the pre-combination process. This can provide the reason for why the parties in the combination were unequally affected and why the level of ambiguity was different in the two combinations.

In acquisitions where the acquirer is the larger party, the acquiring organisation has the opportunity to impose changes and integrate the other organisation into its existing operations. In mergers, neither party can unilaterally impose its frame of reference on the other company (Ollie, 1994). This implies that the parties in imbalanced combinations are likely to be unequally affected whereas parties in balanced combinations probably will be equally affected. Moreover, the more balanced the combination, the higher the ambiguity. These relationships between level of integration, power balance and change characteristics are illustrated in Table 10.2 below.

Interestingly, this pattern can be replicated at the divisional level in Gjensidige. The process in non-life insurance where Gjensidige's operations were substantially larger than Forenede's, was very different from the one in life assurance where the parties were more equal. In non-life insurance Forenede's employees had to adapt to Gjensidige and as such the outcome of the process was known. In the Life Assurance Division, the process affected the two parties more equally and there was a much higher level of ambiguity.

Table 10.2 Determinants of Change Processes

		DEGREE OF INTEGRATION	
		Low	**High**
POWER RELA-TIONS	**Balanced**	Evolutionary Low ambiguity	Revolutionary High ambiguity
	Imbalanced	Evolutionary Low ambiguity	Evolutionary for less powerful party Revolutionary for more powerful party Low to middle ambiguity

The next important issue regards how these characteristics of change relate to unification of power. Findings in the cases suggest that the more revolutionary, large-scale the change and the higher the ambiguity, the longer it will take to establish a stable political regime. In Gjensidige's acquisition of Forenede a stable political situation was created in the initial combination phase. This remained stable throughout the process. This was contrasted in the DnB-case where there was an unstable political situation in the first combination process. Due to several triggers of change that operated simultaneously, the political situation was changed in the fourth phase of the merger. These dynamics of power will be further discussed below. The relationship between type of change and political regime can be expressed in the following proposition:

> *Proposition 7: The more revolutionary the change and the higher the ambiguity in the organisation of a new entity, the longer it takes to establish a stable political regime*

Organisation of process

Beside organisation of a new entity, the distribution of power in the post-combination phase can be traced in the organisation of the integration process. As opposed to the two other areas, organisation of new entity and allocation of senior positions and functions (see discussion below), this is an area where few compromise solutions seem to be available. Indeed, the analysis in chapters seven and eight suggested that the management styles in both combinations were largely incompatible. This implied that in "integrating" the styles one had to choose between them. Thus, one needs to focus on the individual management styles within both combinations.

There seem to be four main features where the management styles or approaches differed in the four corporations. These regard timing of change, extent of crisis orientation, the degree to which the top management invited the middle management to participate and influence, and process orientation. In Figure 10.2 and Table 10.4 below I have outlined the dominating party in the combinations and the profiles in the four companies subsequently. It is important to emphasis that Figure 10.2 focuses on the relative rather than the absolute differences between the corporations.

Figure 10.2 Profiles of Management Styles

Timing change	*short*	DnC/F		BB	Gj.	*long*
Extent of crisis orientation	*high*	DnC		F	Gj./BB	*low*
Participation and influence	*little*	DnC	F	BB	Gj.	*much*
Process orientation	*little*	DnC/Gj.	F		BB	*much*

Table 10.3 Dominating party in the integration process

	Third phase	Fourth phase
Gjensidige/Forenede	Gjensidige	Gjensidige
Bergen Bank/DnC	Bergen Bank	DnC

When it comes to *timing change* the different management styles reflect the two basic schools of thought in the merger and acquisition literature (Searby, 1967; Jones, 1982; Robino and DeMeuse, 1985; Buono and Bowditch, 1989; Business International, 1992; Schweiger, Csiszar and Napier, 1993 and 1994). The first suggests that the changes should be made as quickly as possible to minimise the employee trauma associated with prolonged uncertainty and insecurity. Authors in favour of this school have argued that immediately after the merger there is a period when people in the new organisation expect and perhaps even want change.

The second school of thought suggests that a longer time perspective should be employed, and that the firms should study and learn as much as possible about each other before changes are designed and undertaken. Slow change will enable the two cultures to adjust to each other, rather than clash from the beginning. Moreover, it may be wise to wait a while before introducing controversial changes such as reorganisations and re-allocations.

As illustrated in Figure 10.2 above, DnC's and Forenede's management styles reflected the first school of thought, whereas Gjensidige and Bergen Bank preferred to realise gains over long term and smooth the integration process over time.

The second aspect illustrated in the figure above regards the extent of crisis orientation. Marks and Mirvis (1985) claim that management in mergers and acquisitions often behave in a crisis management manner. Attributes associated with crisis management are features such as centralisation, short-term focus, decreasing morale, politicised interest groups, no slack, increasing conflict, and lack of teamwork (Cameron, Kim and Whetton, 1987; Cameron, 1994).

As illustrated in Figure 10.2 above, DnC's management style was most strongly related to a crisis orientation. This style had marked the reorganisation process in DnC before the merger, but was largely incompatible with Bergen Bank's management style.

The third aspect regards the extent of participation and influence. This feature is included in the third part on culture and will be extensively discussed there. However, as suggested in Figure 10.2 there were important differences in the profiles regarding this feature. In particular, Gjensidige and Bergen Bank seem to favour a bottom-up process inviting extensive participation and influence from the employees and middle management. DnC's and Forenede's management styles were in contrast marked by a more top-down approach, and less participation and influence.

Gjensidige's and Bergen Bank's dominance in the initial combination phase were reflected in the long-term approach, lack of crisis orientation and extensive participation. Moreover, Bergen Bank's domination reflected a task orientation as opposed to process orientation. This was not an important difference in the Gjensidige Forenede combination.

In the fourth combination phase this balance of power was changed in the DnB merger, and as such DnC's management marked the reorganisation process that followed. This change in the balance of power is the theme in section 10.2.3.

Allocation of senior positions and functions

Another important feature where the power relationships in the post-combinations can be traced is the allocation process. I have chosen to focus on positions and functions which represent key power bases in the post-combination process, are highly visible and give important signalling effects to the organisation. Senior positions include the chairman of the board, the CEO, the top management and divisional team and the managers in charge of the local entities. As for positions I focused on the head offices.

I have chosen to focus on the distributive rules that determine the outcome of the allocation process. A discussion of procedural rules will follow in the section on culture. As mentioned in chapter nine, three types of allocation criteria seemed to be apparent in the two combinations, though their relative importance differed. The three criteria were equality, power and competence/suitability/efficiency.

In the third merger process in DnB equality seemed to be the primary criterion. This marked the distribution of top and middle management positions as well as the distribution of functions between Oslo and Bergen. When there were conflicts between equality and competence/suitability/efficiency, the equality criterion seems to have been given primary consideration. Nevertheless, both the chairman of the board and the CEO were recruited from Bergen Bank reflecting Bergen Bank's dominant position. However, because Gade Greve was likely to retire, Bergen Bank's power bases were likely to change.

In Gjensidige's acquisition of Forenede, Gjensidige dominated the distribution of positions and functions. This dominance was apparent in the top management team, choice of distribution system and allocation of local area managers. Nevertheless, the two other criteria were also present. First, three managers from Forenede who were appointed to the top management team seem to have been recruited on the basis of their skills. Competence was also used as a major criterion in selecting key middle managers. The area where the equality criterion seemed to be most prevalent was in the distribution of positions between Oslo and Trondheim.

The use of equality as the primary distribution criterion in DnB had important implications for the unification of power. Case evidence suggests that the use of this criterion in the allocation process provided an unstable political situation that lasted until the new CEO and pressure from the environment lead to a redistribution of positions and functions. In Gjensidige's acquisition of Forenede in contrast, Gjensidige remained dominant, though the power discrepancy from the pre-acquisition was somewhat reduced. Thus in Gjensidige a stable political regime was in place from the start of the integration. These relationships can be expressed in the following two propositions:

> *Proposition 8a: The more the use of equality as the distribution criterion in the allocation process, the more unstable the political regime*

Proposition 8b: the more the use of power as the distribution criterion in the allocation process, the more the stable political regime

Findings in the cases suggest that the relative power in the post-combination process in the form of organisation of a new entity, organisation of integration process, and allocation of senior positions and functions is influenced by three factors. The first and most apparent factor, relative power in the pre-combination process, was discussed in section 10.2.1 above. This is a feature that reflects the potential or structural sources of power in the allocation process. Secondly, the merger and acquisition regime may constrain the use of power. Finally, case evidence indicates that the will and skill in mobilising the resources available (Pettigrew and McNulty, 1994), moderate the relationship between potential power and relative power in the post-combination process. In formal terms these relationships can be expressed:

Proposition 9: The effect of relative power in the pre-combination process on post-combination power, is dependent on the merger and acquisition regime and political skill.

The relative power in the pre-combination process, the merger and acquisition regime and the political skill will be discussed subsequently. Since, the moderating factors are most distinct in the allocation of position and functions, I will concentrate the discussion on this feature.

Relative power in the pre-combination process. The first factor that influences the allocation of senior positions and functions is the potential power or the relative power in the pre-combination process.

The difference between balanced and imbalanced relationships and their effects on allocation processes are discussed in Kabanoff (1991). Kabanoff relates justice and power perspectives and contrasts the distributive orientations and conflict behaviour in equal and unequal relationships. He argues that as the power difference in an organisational relationship increase, the psychological orientations of both parties tend to reflect a greater, though not necessarily equal, acceptance of equity as the distributive rule. Moreover, he argues that the greater the power difference, the less likely that the weaker party perceives inequitable distributions that favour the more powerful party as inequitable.

Evidence from the cases seems to support this view. The balanced relationship between the parties in the DnB merger apparently created expectations of an equal distribution of positions and functions. Indeed, the impression is that the choice of criterion was to a large extent restricted by this balance. As such the use of equality as the primary criterion was to a large extent unavoidable.

In Gjensidige there seemed to be no such expectations of equality. Quite the contrary, the employees and managers in Forenede expected Gjensidige to be more dominant than actually turned out to be the case, due to its behaviour in the pre-acquisition process. This implied that Gjensidige had a much freer choice of distribution criterion than DnB.

Although the merger between DnC and Bergen Bank was fairly balanced, Bergen Bank had a dominant position in the pre-acquisition process due to its superior performance, alternatives to negotiated agreement and extent of preparedness. Gjensidige's dominant position in the pre-acquisition process was related to the fact that Gjensidige was the acquirer and that the corporation was twice as large as Forenede.

Findings in the cases indicate that both Bergen Bank and Gjensidige became less dominant in the post-combination process than in the pre-combination process. Thus, one has to seek other factors that can provide explanation for this finding. As mentioned above, there seem to be two features that are particularly relevant in this connection. The first regards the will to exercise power and is related to the merger and acquisition regime. The second concerns the skill in exercising power and forming alliances.

Merger and acquisition regime. The most important reason why Bergen Bank and DnC constrained their use of power can be traced in the merger and acquisition regime. These regimes show that both Bergen Bank and Gjensidige gave important concessions to the other party in the combination by letting justice and equity concerns constrain their use of power (Cook and Emerson, 1987).

Bergen Bank faced the choice of trying to acquire DnC or entering merger negotiations on the basis that this was to be a merger between equal parties. The impression is that by acting in line with this regime, Bergen Bank constrained its use of power. Indeed, the impression is that this resulted in a more extensive use of equality than would otherwise have been the case.

Gjensidige's acquisition regime was reflected in the declaration of concessions sent to Forenede's board of directors at the end of December 1991. The declaration written by Gjensidige´s top management became a kind of a constitution for the forthcoming process. This declaration contained a number of important concessions on behalf of Gjensidige, and demonstrated the corporation's intent to treat Forenede as an equal party in the process.

The relationship between merger and acquisition regime and post-combination power can be expressed in the following proposition:

> *Proposition 9a: The more the merger and acquisition regime stress equality, the more the relationship between relative power in the pre- and post-combination is moderated.*

The important question in this connection is why Gjensidige and Bergen Bank chose to make more extensive use of the equality criterion than necesarry. The literature on mergers and acquisitions and social justice provides a number of reasons why equality may be a desirable criterion. However, there are also some problems related to this criterion. In the table below I have listed the advantages and disadvantage mentioned in these literatures.

Table 10.4 Equality as Distribution Criterion

Advantages	**Disadvantages**
Both parties are represented in crucial decisions	Discriminatory against the best talent available
Provides learning and understanding	Does not take into account the different management styles and philosophies
Is symbolic in the sense that members of both organisations will be treated fairly and with respect. (Schweiger, Csiszar and Napier, 1994)	Makes the organisation unstable and prolongs the integration process (Schweiger, Ridley and Marini, 1992)
Promotes solidarity and social cohesiveness (Kabanoff, 1991)	Results in top-heavy teams (David and Singh, 1993 and Ollie, 1994)
Fosters group harmony and commitment to the group in the long run (Lind and Tyler, 1988)	

This list of advantages and disadvantages suggests that there is a balance to be struck between facilitating cultural integration and creating a stable political regime and an efficient distribution. Hence, the impression from the cases is that the equality rule was adopted to facilitate the cultural integration process at the expense of the unification of power and task integration. The trade-offs between the different allocation rules will be further discussed in the section on inter-relationships below.

Political skill and formation of alliances. Another factor beside the merger and acquisition regime that seems to have moderated the relationship between potential power and allocation of positions and functions is political skill and the formation of alliances.

Interestingly, Bergen Bank's dominant position seems to have been weakened by these factors, whereas Gjensidige's position was strengthened.

Findings in the DnB-case indicate that the managers and employees from DnC were more political skilled than their counterparts from Bergen Bank. Respondents from Bergen Bank observed that people in DnC acted in groups in contrast to the people from Bergen Bank who acted as individuals. Moreover, the people from DnC seemed to be much more prepared for and experienced in change processes. The relationship between will and skill and relative power in the pre- and post-combination can be expressed in the following proposition:

> *Proposition 9b: If the weak party in the combination has more (less) political skill than the strong party, then the relationship between pre- and post-combination power will be moderated (strengthened).*

Another feature that weakened Bergen Bank's position in the initial combination phase was the divergent interests between Bergen and Oslo. This resulted in alliances formed between the people in Bergen Bank Oslo and DnC.

The same pattern occurred in Gjensidige's acquisition of Forenede. In this combination however, Forenede's position was weakened by the alliances formed between the employees and managers in Oslo. As such Gjensidige gained power because of these alliances.

10.2.3 Changes in Distribution of Power

In the first part of this chapter I discussed change in environmental conditions as one important trigger for change. Another vital trigger for change that appeared in the fourth phase of the DnB merger was the change of CEO.

These changes in the environmental climate and CEO had important implications for the balance of power between the merging parties. In the following discussion I examine how the change of CEO led to a redistribution of positions and functions that changed the power balance in favour of the former DnC. Furthermore I explore how this change in power balance was accelerated by changes in the environmental climate.

Change of CEO. The literature on strategic and organisational change has found that succession of CEO positively influences revolutionary transformations or breaks the organisational momentum (Miller, 1994; Tushman and Romanelli, 1994).

Research has also suggested that there is a significant difference in the likelihood of initiating revolutionary change between inside and outside successors. Indeed, Tushman, Newman and Romanelli (1986) found that outside successors were three times as likely to initiate framebreaking change than existing executive teams.

When studying mergers and acquisitions, it is important to bear in mind that the CEO of the joint corporation will be a mixture of an insider and an outsider unless he or she is externally recruited. Egil Gade Greve for example, was an <u>insider</u> in relation to the employees in Bergen Bank, but an <u>outsider</u> for the people in DnC.

Nevertheless, it is plausible that such a manager will be subjected to some of the same problems as insiders face in initiating revolutionary change. These include commitment to administrative arrangements, selective perception and being content with leaving things the way they are (Miler, 1994; Tushman and Romanelli, 1994).

When comparing the changes in DnB before and after the change of CEO, the changes in the latter period were evidently of a more revolutionary character in line with propositions in the literature. When Gade Greve was appointed CEO for the joint corporation, only minor changes were implemented. Moreover, he chose to postpone the work on a new corporate strategy until after the integration process had been completed.

When Finn Hvistendahl entered the organisation early in 1991, he started work on setting <u>a new strategic direction</u> in conjunction with key members of the top management team. Although Egil Gade Greve was one of the initiators of this process, the impression is that the changes suggested in the new bank's strategy were far more revolutionary than Gade Greve had planned when the two banks announced their merger plans. This concerned the separation of the Banking Division into two divisions and the extensive centralisation that took place.

The new corporate strategy led to significant changes in the primary structure and in the allocation of senior positions and functions. Moreover, the organisation of the restructuring process reflected DnC's type of management style in terms of a short-term, crisis-oriented and top-down process.

The most important change in DnB's primary structure was the decision to divide the Banking Division into two parts. Moreover, the bank's Corporate Customers and International Division were integrated into one division.

The replacement of CEO and the following changes in the top management positions changed the balance of legitimate power (French and Raven, 1959) from Bergen Bank to DnC dominance. According to Brass and Buckhardt (1993), legitimate power is one of the strongest sources of potential power. Before Finn Hvistendahl was appointed two senior managers from each bank had left the top management team. After Hvistendahl became the CEO, four managers from former Bergen Bank left the team.

This change in the top management implied that the positions were no longer equally distributed between the merging parties. The impression is that the managers were recruited on the basis of power and competence as opposed to the former process when equality was the primary criterion.

This pattern was replicated at lower levels in the organisation where organisational affiliation no longer seemed to be a legitimate criterion for selection. The result of this was that some areas became very DnC dominated.

This redistribution of senior positions also had important implications for the distribution of functions between Bergen and Oslo. Egil Gade Greve and Reidar Lien had both been situated in Bergen and were strong defenders of preserving Bergen as one of the head offices. When these two managers left the bank, the head office functions were moved to Oslo, and as such Bergen became a district bank in line with the other districts in the bank.

Change in environmental climate. Shortly after Finn Hvistendahl entered the bank, major problems in the Norwegian banking industry started to become apparent. From 1990 to 1992 the number of bankruptcy proceedings increased by 51 per cent.

The commercial banking industry which was largely affected by this development had negative operating profits from 1990 to 1992. For DnB this performance crisis seriously threatened the bank's survival, and the bank became dependent on the government for equity capital. Through these operations the Norwegian state became a majority owner in the bank and ordered the bank to rationalise and cut costs.

According to Emerson (1962) power is organised around critical and scarce resources. When the organisation is dependent on the environment to obtain these scarce and critical resources, the literature on power and politics predicts that participants who furnish these resources will gain power in the organisation. As such changes in the environment may alter the distribution of power in the organisation requiring new approaches, skills and relationships (Pfeffer, 1992).

Evidence in the DnB case suggests that the changes in the environment and subsequent changes in performance and ownership, strengthened DnC's and the manufacturing coalition's power bases in the form of expert and relationship power and personal prestige (Pettigrew, 1973; Finkelstein, 1992; Pettigrew and McNulty, 1994).

First, the bank's performance crisis put significant pressure on cutting costs. This was a form of expertise or expert power that the managers from DnC had acquired through working in the manufacturing industry. Moreover, they had been in charge of a fundamental restructuring process in DnC before the merger with Bergen Bank. The Bergen Bank managers on the other hand, had gained their expertise in a regulated environment, an expertise that was "outdated" in a deregulated and more turbulent environment.

Because DnB became dependent on the Norwegian state to provide capital, interacting with the external environment became a critical competence. This relationship power was a competence the managers with manufacturing industrial backgrounds, Finn Hvistendahl in particular, had gained through their work in the industry.

Moreover, the banking crisis changed the bank managers' prestige power. This power base reflecting managers' reputations in the institutional environment and among stakeholders influences other's perception of their influence according to Finkelstein (1992).

Through the two phases of the banking crisis, bank managers' respect and good reputation were seriously damaged. Many of the traditional banking managers were replaced by managers with other backgrounds to restore the trust, reputation and profitability of the banks.

The changes in the top management reflected these changes of power bases. At the time of the merger, there was a balance between managers with long banking and manufacturing industry experience. After Finn Hvistendahl was recruited as the new CEO, several managers with long banking expertise were replaced by managers from the manufacturing industry.

Beside the change of CEO and the negative change in the economic climate, the unstable political situation from the third phase of the DnB merger made changes in the distribution of power more likely. These relationships can be expressed in the following proposition:

> *Proposition 10: In situations where there is a change of CEO, a negative change in economic climate and an unstable political regime, there is a higher likelihood of*

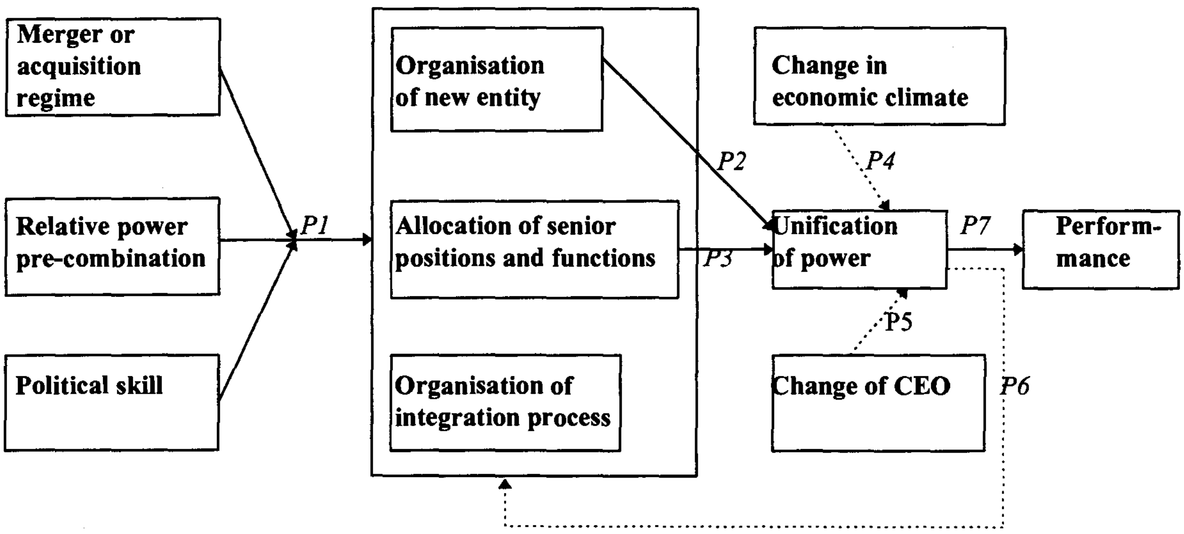
fundamental changes than in situations where there is no change of CEO, a positive or no change in economic climate and a stable political regime.

10.2.4 Unification of Power

As for the integration of tasks, it is important to give some indication of how unification of power is reflected in performance. I will argue that an unstable political regime with all the inherent conflicts in the top management team, is harmful to performance. This relationship however, has to be further explored in future studies.

This relationship and the relationships between the factors and feature and unification of power discussed above, are outlined in model 10.2.

Model 10.2 Unification of Power



The unbroken lines in Model 10.2 represent the second and the third phase of the combination processes. The dotted lines illustrate what happened in the fourth phase. In the following discussion I will refer to the different relationships in the model by P1 to P6.

Relationships in model 10.2. The relationship between relative power in the pre-and post-combination phases is moderated by two factors (P1). These are merger and acquisition regime expressing political will to exercise power and political skill. In the discussion above, I argued that the more the merger and acquisition regime stressed equality, the more the relationship between relative power in the pre- and post-combination phases was moderated. Furthermore, I hypothesed that if the weak party had more political skill than the strong party, this relationship would also be moderated.

The unification of power was influenced by two factors in the Gjensidige combination and in the third process of the DnB merger. These were organisation of a new entity (P2) and the allocation of senior positions and functions (P3). In particular, I argued that the more revolutionary the change and the higher the ambiguity in the process of organising a new entity, the longer it would take to establish a stable political regime. Regarding the effect of allocation, the use of primary allocation criterion seemed to determine whether a stable or unstable political regime was established. The use of power seemed to have the most stabilising effect, whereas extensive use of equality resulted in an unstable political regime.

In the fourth phase of the DnB merger two additional features influenced the unification of power. First, the negative change in the economic climate stabilised the political situation (P4). Similarly the change of CEO had a stabilising effect (P5). These factors and the unstable political regime from the third phase of the merger led to a new change process (P6) and resulted in a reorganisation of the new entity, re-allocation of positions and functions, conducted in the manner of the dominant coalition.

Finally, I argued that the unification of power would influence the performance of the new corporation. In particular, it was proposed that the more unstable the political regime, the more negative the influence on performance.

As for task integration the propositions outlined above in the discussion on power represent the relationships in model 10.2 that are best linked to the cases, strongest in terms of future research and most researchable. These propositions are summed up in Figure10.3 below.

Figure 10.3 Propositions for unification of power

Proposition 7: The more revolutionary the changes and the higher the ambiguity in the organisation of new entity, the longer it takes to establish a stable political regime.

Proposition 8a: The more the use of equality as the distribution criteria in the allocation of senior positions and functions, the more unstable the political regime.

Proposition 8b: The more the use of power as the distribution criteria in the allocation of senior positions and functions, the more stable the political regime.

Proposition 9: The power effect of relative power in the pre-combination on post combination power, is dependent on the merger and acquisition regime and political skill.

> *Proposition 9a: The more the merger and acquisition regime streses equality, the more the relation between relative power in the pre- and post combination is moderated.*
>
> *Proposition 9b: If the weak party has more (less) political skill than the strong party, then the relation between pre-and post combination power will be moderated (strengthened).*

Proposition 10: In situations where there is a change of CEO, a negative change in economic climate and an unstable political regime, there is a higher likelihood of fundamental changes than in situations where there is no change of CEO, a positive or no change in economic climate and a stable political regime.

Indicators for assessing the degree of unification of power. In chapter three I suggested four indicators of unification of power. These were (1) control over power bases, (2) congruence of communication, (3) presence of power struggles, and (4) prevalent management style. I chose to assess these indicators in relation to the top management team, because of their powerful and visible positions. When measuring these indicators however, it is important to focus on the relationships between the merging parties, not the top management as such. In DnB for example, there were still power struggles in the fourth phase, but along other lines than the merging parties.

CULTURE

According to Elsass and Veiga (1992) the acquiring of one organisation by another yields, by definition, two distinct sub-cultures, or cultural groups, "each with values, goals, and technologies that may or may not be compatible" (p. 441). Social identity theory would indicate that because these two groups are made aware of one another, the existence of a boundary between them would be underscored (Ashford and Mael, 1989). Moreover, in the absence of a strong organisational identity, which indeed is the case in mergers and acquisitions, the desire for comparisons generates much conflict between differentiated and clearly bounded sub-groups. This is especially so if a group's status is low or insecure.

The purpose of this section is to identify factors that facilitate or impede cultural integration. Facilitating cultural integration implies that the boundaries between the two merging organisations are torn down. Impeding cultural integration on the other hand, implies that the features contribute to the preservation or strengthening of the former corporate identities. Before identifying these features and factors however, it is necessary to get a grasp of these boundaries or corporate identities.

The section on cultures and identities will be divided into six parts. The first two issues, organisational fit and friendliness are related to the first two phases in the process. Then follow three aspects regarding how the integration process was managed, including downsizing and positioning, participation and information and communication. Third, the effects of the changes in organisational structure and economic climate that happened in the fourth phase of the combinations are examined. The section ends with a discussion of cultural integration.

The two perspectives most relevant for analysing the findings in these areas are social identity theory and social justice. Regarding social identity theory the section on promoters of identification is particularly relevant for analysing the cultural fit, the friendliness in the combination, the effect of competition in positioning and downsizing processes and the economic climate's effect on cultural integration. As for the social justice perspective the section on procedural justice is relevant for explaining findings in the positioning and downsizing process, participation and communication.

10.3.1 Cultural Fit

Cultural or organisational fit is one of the most extensively researched areas in the organisational stream of merger and acquisition literature. However, as mentioned in chapter two, it is a literature in its early stage of theory development in which there is a lack of established concepts and consistency.

The main hypothesis in this stream of research is <u>that different cultures impede the integration process</u>. The main stream of the literature does not however provide the answer as to why different cultures are harmful to integration. One exception to this trend is Elsass and Veiga (1994). They use social identity based upon social categorisation and social comparison theory to explore the inter-group attitudes and behaviour.

According to Elsass and Veiga (1994) initial impressions are formed on the basis of salient, observable behaviour. To the extent that those behaviours reflect consensus values within organisational groups, intergroup differences in culturally expressed values will lead to strong intergroup biases. The more dissimilar out-groups are perceived to be, the stronger the negative feelings in-group members are likely to hold.

According to Larsson (1991) however, not all cultural differences are equally hazardous to the integration process. He argues that different cultures should be assessed according to whether they are unrelated, complementary or conflictual.

To "assess" the organisational fit, I focused on the historical backgrounds of the merging parties. I focused on the dissimilar features in line with the merger and acquisition literature. Moreover, I followed Larsson's recommendations and analysed the differences according to whether they were unrelated, complementary or conflictual.

Because I focused on the differences rather than the whole area of organisational or cultural fit, the selected features in the two combinations somewhat differed. Nevertheless, three features seemed particular important in both cases. These were the <u>organisational structure</u>, <u>management style</u> and <u>decision-making process</u>.

As for the individual combinations, I found that the core competencies and personnel policy reflecting the reward structure was important in assessing the differences between Gjensidige and Forenede. Moreover, I found that the different change processes DnC and Bergen Bank had been through before the merger, were important to take into account. This is a feature that has not been suggested in the previous literature.

Another area that has received only scant attention in the merger and acquisition literature is the existence of sub-cultures. The contributions assessing corporate culture in the merging organisations typically focus on the dominant culture in the organisation (Buono, Bowditch and Buono, 1985; Buono and Bowditch, 1989; Nahavandi and Malekzadeh, 1988 and 1994). However, as many of the authors point out, but fail to use in their studies, culture is multifaceted and complex. I chose to view the organisation as ideographic (Ashforth and Mael, 1989) and found the focus on sub-groups and sub-cultures particularly useful for explaining the pattern of cultural integration.

I found interesting patterns regarding sub-cultures in both the combinations I studied. In Bergen Bank and DnC for example, there were two distinct sub-cultures in both organisations. In Bergen Bank these sub-cultures consisted of a corporate culture in Oslo and a more retail-oriented culture in Bergen. As for DnC, the merger happened in the midst of a cultural revolution. This revolution was characterised by the top management's breach with the "old and traditional banking culture" aiming to replace it with a more change-adaptive culture reflecting the manufacturing industry. In both Bergen Bank and DnC, the impression was that the within-cultural differences were larger than the across cultural differences.

Similar patterns to those in Bergen Bank could be found in Forenede. Although Forenede´s head office was situated in Trondheim, a substantial part of Forenede´s operations took place in Oslo. Because Forenede´s strategy was to strengthen its operations in Trondheim at the expense of the Oslo office however, the tension between Trondheim and Oslo was increasing.

Taking these sub-cultures into consideration, one would expect that alliances would be formed between Bergen Bank Oslo and DnC, and DnC's banking culture and Bergen Bank and Forenede Oslo and Gjensidige. Case evidence suggests however, that although the identification of sub-cultures gives indications of where alliances might be formed, sharing a common culture is not sufficient for cultural integration to occur.

For cultural integration to occur, it is necessary for the two sub-groups to share common interests in the distributions of positions and functions. This was the reason why alliances were formed between Bergen Bank and DnC in Oslo, and between Forenede and Gjensidige in Oslo. As for the common culture between Bergen Bank and DnCs banking culture, alliances were not formed because the two groups had divergent interests in the allocation process. In formal terms:

> *Proposition 11: The more the sub-groups across the organisational boundaries share common interests in the allocation, the more likely that alliances are formed that promote cultural integration.*

The effect of competition for positions and functions will be further discussed in section 10.3.3 below.

10.3.2 Friendliness and Merger and Acquisition regime

Another feature which is included in a number of theoretical frameworks, but has seldom been empirically tested, is the degree of friendliness. Few studies have examined the effect of this feature on the integration process in depth. Hence, I argued that there is a need for exploratory, empirical research investigating the links between this concept and other concepts of integration.

Hambrick and Cannella (1993) classify social climate into three categories; mutually negotiated unions, uncontested tender offers and contested tender offers. In mutually negotiated unions, the executives and boards of both firms participate. The negotiation process allows an open and extended discourse, reducing potential social conflict. The merger between Bergen Bank and DnC would fall into this category. As predicted by the merger and acquisition literature, this form facilitates the cultural integration process by bringing both parties in early in the process and allowing them to influence the outcome mutually.

Contested tender offers represent the other extremity, and represent an extreme in social conflict. In these instances, the target and acquiring party battle against each other in a very public forum, each claiming the other party's inadequacy. The atmosphere surrounding such an acquisition is likely to be characterised by bitterness and acrimony, making smooth social integration after the deal unlikely (ibid). Gjensidige's acquisition of Forenede can be characterised as a contested tender offer. As predicted by Hamrick and Canella, the battle between the two corporations was covered in the public press and the atmosphere was hostile.

Nevertheless, the prediction that smooth integration after the deal is unlikely in such combinations, was somewhat contradicted in this case. In particular I find evidence that the identity in Forenede was strengthened through the period of the take-over, but that the take-over did not affect the organisations equally, and the negative effect rapidly diminished over time. As such the unfriendliness varied across respondents or groups and over time. Moreover, the negative effect was moderated by the merger and acquisition regime.

The strengthening of the Forenede identity in the second phase of the combination can be viewed in the light of social identity theory. This theory predicts that the existence of a shared threat promotes the tendency to identify with groups. In particular I found that the unfriendly take-over attempt had two effects. Firstly, the battle against being acquired seemed to have a cohesive effect in bringing the people working in Forenede closer together. Secondly, the unfriendly atmosphere meant that there was little or no contact between Gjensidige and Forenede.

According to Tajfel (1981) there is a clear convergence in the literature that suggests that external conflict increases internal cohesion under certain conditions. One of these conditions is that the entire group and all its members should be equally and indiscriminately affected.

Evidence in Gjensidige's acquisition of Forenede suggests that the employees in Forenede were not equally affected. Working for keeping and upgrading the operations in Trondheim was not in the interest of the employees in Oslo and the surrounding regions. Quite the contrary, Gjensidige represented an important alliance partner for the employees in Oslo who had recently experienced the removal of important functions to Trondheim. As such the degree in which the take-over was perceived as unfriendly varied across the groups in the organisation.

The other factor that moderated the negative effect on the cultural integration process was Gjensidige's acquisition regime. To maximise the values of Forenede, Gjensidige decided not to act as an acquirer once it had gained control over the company, but to treat Forenede as an equal party. In line with this approach Gjensidige made a number of concessions in a letter of declaration to Forenede's board of directors.

The impression from the case is that this letter of concession had some moderating effect on the cultural integration process in the second phase of the combination. In formal terms:

> *Proposition 12: The effect of an unfriendly take-over on cultural integration, is moderated by an acquisition regime that stresses equality.*

As time passed, and Gjensidige's management showed by their actions that they kept the promises made in the letter, the positive effect on the cultural integration accelerated. The effect of keeping one's promises is further discussed below in the section on information and communication.

10.3.3 Managing the Cultural Integration Process

Three features seem to be particularly important in the management of the cultural integration process. These include downsizing and positioning, participation, and information and communication. These features will be discussed subsequently.

Downsizing and positioning

There are two issues that are important when discussing case findings in the light of the literature. The first regards the effect of competition and extent of scarcity in the process of positioning and downsizing. The second aspect concerns how the downsizing and positioning are conducted.

Effect of competition and extent of scarcity

In the merger and acquisition literature the selection process is often characterised as a highly political process where competitors jostle for positions to take-over particular roles (Buono and Bowditch, 1989; Marks and Mirvis, 1992b). Few contributions within the merger and acquisition field however actually discuss how this competition affects the cultural integration process.

One exception to this tendency in the literature is Elsass and Veiga's (1994) paper. They argue in line with the social identity theory, that the structure of intergroup relationships, i.e. different perceptions of status and intergroup conflict or competition, is one of the major factors that influence cultural differentiation (which implies a strengthening of the former cultural boundaries).

The notion that competition exacerbates the cultural differentiation process is extensively discussed and supported in the social identity theory. Ashford and Mael (1989) for example, argue that during competition lines are drawn more sharply, values and norms are underscored, and them/usdifferences are accentuated. This tendency is exacerbated by competition between sub-units for scarce resources and by reward and communication that typically focus on sub-unit functioning and performance.

Case evidence supports the proposition in the social identity theory that competition strengthens the former organisational identities and is thus harmful to cultural integration. In both the cases the aim was to achieve economies of scale and scope, and the initial phase of the integration process was characterised by competition for scarce positions and functions.

I also found that the effect on cultural integration varied according to degree of scarcity. Gjensidige chose not to downsize the permanent employees, and hence positions did not become a scarce resource. This implied that the competition for positions was less fierce than in DnB where downsizing was an explicit goal in the integration. It is also evident that Gjensidige's approach was possible because of its high discretionary slack and the positive economic climate.

Thus findings suggest that the greater the scarcity, the more intense the competition and the more harmful the effect on cultural integration. The relationships between scarcity and competition in the downsizing process can be expressed in the following proposition:

> *Proposition 13: The more competition and scarcity in the downsizing process, the more negative the effect on cultural integration.*

How positioning and downsizing is conducted

Three issues are of particular importance when assessing the effect of positioning and downsizing processes. The first two regard the procedures for the positioning process in the form of fairness and freedom. Secondly, there is the question of how to downsize the employees.

Fairness. The research on procedural justice acknowledges that individuals are not just concerned about the outcome of decisions, but also about the fairness of procedures used in making decisions. In fact, research suggests that people are affected by such procedures regardless of the perceived fairness of the decision itself (McFarlin and Sweeney, 1992).

The literature on procedural justice has suggested a number of rules which in this context should guide the positioning process. These include formal characteristics in terms of consistency, bias suppression, accuracy, correctability and ethicality; participation in terms of input and influence, and communication in terms of providing an explanation for the decision and treating people with dignity and respect.

When applying these rules to the initial combinations in Gjensidige and DnB, managers in both combinations seemed to be concerned about treating the two parties equally (consistency), providing systematic appraisal (bias suppression), and to base the positioning on as accurate information as possible. Moreover, union representatives participated in both combinations, and the employees were extensively informed through internal newsletters. In Gjensidige the employees were also allowed to reserve their decisions to accept a job offer. The participation and communication features will be further explored below.

In the fourth phase of the DnB merger positions and functions were re-allocated. The conclusion reached in the case was that the procedures for positioning in this process were not as thorough and fair as in the first process. First, the two merging parties were no longer treated equally. Furthermore, the selection process, especially at management level seemed to have been more biased in allowing personal self-interest to be pursued.

Procedural justice theorists have argued that fair procedures serve two purposes. The first purpose is to protect individuals' interests and is thus associated with positive attitudes toward a decision such as satisfaction, agreement, and commitment. The second function of fair procedures is symbolic and "helps to strengthen individual's relationship with a group, leader, organisation" (Korsgaard et al., 1995, p. 66) and promotes group harmony, trust in leader, and organisational commitment. Similarly Lind and Tyler (1988) argue that procedural justice enhances commitment and loyalty to groups and institutions.

This second function of fair procedures provides an explanation as to why establishing fair procedures is so important in promoting cultural integration. The impression from the two cases is that the fairness in the positioning processes in DnB and Gjensidige promoted cultural integration. In the fourth phase of the combination in DnB however, the effect on cultural integration seemed to be more negative, primarily because the two merging organisations were unequally affected.

Freedom. In chapter nine I claimed that the main difference between the two combinations, was the extent of freedom in the positioning processes. The positioning process in Gjensidige can be characterised as a free process where it was left up to the employees to decide whether they wanted to re-allocate or not. The aim of the process was to encourage the most competent employees to seek new opportunities within the organisation. This was in contrast to the third combination process in DnB where one sought to identify employees in excess and encourage employees who did not have critical competence to leave the organisation voluntarily.

The impression from the cases is that the freedom in the positioning process in Gjensidige had a more positive effect on cultural integration than the process in DnB for two reasons.

Firstly, by stimulating the employees to re-allocate freely, one did not create dissatisfied losers. Secondly, the creation of an internal job market resulted in an extensive job rotation that seemed to tear down the boundaries between the two former organisations.

Terminating employees. When activities are eliminated or absorbed in mergers and acquisitions, the result is often termination of individuals in redundant positions (Schweiger et al., 1994). Research on mergers and acquisitions suggests that the way employees are terminated can significantly affect morale and attitudes (Buono and Bowditch, 1989; Mirvis and Marks, 1992b), and those who leave and those who stay (Ivancevich, Schweiger and Power, 1987; Leana and Feldman, 1989; Panos, 1989).

Several ways of downsizing have been suggested in the literature including voluntary turnover, early retirement, change of jobs and lay-offs (Cabrera, 1982; Ivancevich et al., 1987). Of these approaches lay-offs is regarded as having the most negative impact on affected employees (Leana and Feldman, 1989).

The main difference between Gjensidige and DnB, was that Gjensidige chose not to downsize, neither in the initial combination process, nor in the fourth phase of the acquisition. In DnB, in contrast, downsizing was conducted both in the third and fourth phases of the combination.

The approaches used in the two phases varied considerably however. Case evidence suggests in line with the merger and acquisition and downsizing literature that the <u>use of lay-offs had the most negative effect on cultural integration</u>. This implied a more fierce competition among the employees and promoted individualism at the expense of collectivism and group loyalty. Moreover, it hit the two former organisational groups differently, and as such strengthened the old cultural boundaries.

Regarding the effect on performance, the literature on downsizing has found interesting patterns regarding different approaches. Cameron (1994) investigated the organisational effects of downsizing and found that a gradual, incremental approach to downsizing is the strategy associated with organisational improvement and effectiveness. This strategy outperformed the strategy chosen by the majority of managers which was to apply a "rapid, quick-hit approach to downsizing" (p. 201). In fact, the author found that downsizing through lay-offs negatively influences effectiveness.

Although two cases do not provide a sufficiently broad base for detecting performance patterns, it is evident that the approaches to downsizing differed substantially in the two combinations, especially between Gjensidige and DnB in the fourth phase. I would suggest that DnB's approach to positioning and downsizing in the fourth phase of the merger had a positive direct effect on performance in the short run by cutting costs rapidly. However, it is also likely that the long-term effects were negative because the process created anxiety and unrest in the organisation. Gjensidige's approachon the other hand, had a negative direct effect on performance in the short run, but a long-term positive, indirect effect on performance through facilitating organisational integration.

These different approaches seem to reflect the balance between long-term and short-term goals. In Gjensidige the long-term positive effect of the positioning process was given primary consideration. In DnB on the other hand, there was strong pressure to restore the bank's profits in the short run.

Participation

Although the importance of participation in bringing about organisational change is often mentioned in the merger and acquisition literature, few authors have explored this feature in depth. In chapter two I discussed two dimensions to participation. The first horizontal dimension concerns the involvement of both parties in the combination. Furthermore there is a vertical dimension related to the involvement of employees. In the two combinations I studied, this involvement of employees was first and foremost organised through union representatives.

One interesting finding in the DnB case concerned how the extent and character of participation varied over time. This variation seemed to be related to the shift in dominant coalition from a management with a bottom-up approach to a coalition with a more top-down style. Indeed, the restructuring process was very much in line with Buono and Bowditch's (1989) finding that the process is usually tightly controlled by the top management.

To understand fully what happened in the restructuring process however, it is necessary to distinguish between voice and influence. This is in line with social justice theory (Thibaut and Walker, 1975; Korsgaard et al., 1995) which focuses on the role of both these features of participation.

Thibaut and Walker (1975) found that procedures were perceived as more fair when affected individuals had an opportunity either to influence the decision process or offer input. Korsgaard et al. (1995) argue however that voice does not ensure that a process is perceived as fair unless the decision-maker shows consideration of others' input.

Korsgaard et al's argument is supported by the finding in the DnB case in the fourth phase of the merger. Although participation in the form of voice was somewhat more restricted in the fourth than the third phase, the major difference seemed to be in the form of influence. In particular the employees and middle managers were given the opportunity to express their opinion, but had little or no influence on the outcome. This seemed to create major frustration and unrest in the organisation.

Apart from being influenced by the management approach, I found that participation was influenced by the degree of friendliness and secrecy. As for degree of friendliness an unfriendly combination restricts the horizontal dimension in participation by resulting in minimum contact between the merging parties. Secrecy on the other hand, influences the vertical dimension by limiting the employees participation.

The merger and acquisition literature mentions a number of advantages in inviting participation. Contributors say that participation provides input (Buono and Bowditch, 1989; Mirvis and Marks, 1992b), gives opportunity to learn about the acquired firm's business (Shrallow, 1985), facilitates communication, (Buono and Bowditch, 1989; Shanley and Correa, 1992), reduces resistance (Marks, 1982), gains commitment and ownership to the new organisation (Hunsaker and Coombs, 1988; Burke and Jackson, 1992), and promotes agreement between management teams (Shanley and Correa, 1992) and with the decision to merge (Shirley, 1973).

The factors most closely related to cultural integration are gaining commitment and ownership to the new organisation. Furthermore, the social justice theory proposes a linkage between participation, perception of fairness and organisational outcomes such as group harmony and loyalty to groups and institutions Lind and Tyler, 1988; Korsgaard et al., 1995) (see Figure 5.1 in chapter five).

Observations in the two combinations indicate that there is some correlation between participation and cultural integration. In particular, members of the organisation that were highly involved in the process both in the form of voice and influence, such as the top management team and key union representatives, reported a higher degree of cultural integration than members that had only been involved to a limited extent. As such, the case evidence suggests that participation contributes positively in tearing down the boundaries between the two former organisations.

Information and communication

In chapter two I distinguished between two dimensions of information and communication. The first aspect, quantity of information, includes the questions of how frequent the communications should be, for how long and through which media. Secondly, there is a quality dimension related to the information and communication in merger and acquisition processes. In the two case chapters I chose to put the main emphasis on the quality of information.

Various aspects of quality of information and communication frequently mentioned in the merger and acquisition literature are realistic merger previews (Schweiger and Ivancevich, 1985; Schweiger and DeNisi, 1987; Buono and Bowditch, 1989; Mirvis and Marks, 1992b; Schweiger et al., 1994), honest communication (Shirley, 1977; Hunt et al., 1987; Schweiger et al., 1987; Davy et al., 1988; Haspeslagh and Jemison, 1994), keeping promises (Pritchett, 1985; Kanter, Ingols and Myers, 1987; Galosy, 1990; Larsson, 1990), congruence between communication and action (Bastien, 1987; Elsass and Veiga, 1994), and clear and accurate information (Pritchett, 1985; Buono and Bowditch, 1989).

Furthermore, the interactional justice perspective (Bias and Moag, 1986) emphasises the role of clear and adequate explanations and treating people affected by the decisions with dignity and respect.

As commented in chapter eight, the content of information from DnB's corporate management was marked by an emphasis on the good news. One example of this mentioned in the case was the internal newsletter which was nicknamed "Pravda" by the bank's employees. This biased picture created major frustrations among the employees, particularly as the environmental climate worsened and the bank's performance deteriorated. Rather than contributing to certainty and a sense of security, this communication strategy created anxiety and uncertainty making a fruitful exchange of information and cultural elements between the merging parties rather difficult. Moreover, the lack of information about losses led to speculations about which party was responsible for the bank's deteriorating performance. These effects led to the organisational boundaries being preserved and strengthened, and as such the information strategy had a negative effect on cultural integration.

The information and communication strategy in Gjensidige was marked by an emphasis on keeping the promises made in the declaration of concessions and a congruence between what was said early in the process and what was carried out. Because this was an unfriendly acquisition, the employees in Forenede had negative expectations about the outcome of the forthcoming integration process. They did not believe that the promises made in the declaration of concessions would be carried out.

By keeping their promises and acting according to the intentions, Gjensidige's management seems to have succeeded in turning the negative attitudes in Forenede to positive, and in building trust in Gjensidige's management. Several respondents reported that this communication strategy was one of the major reasons why the cultural integration had run so smoothly. In particular, this strategy contributed positively in tearing down the organisational boundaries in Forenede that had been strengthened through the unfriendly take-over.

10.3.4 Effect of Economic Climate

As mentioned above, the social identity theory argues that a common, external enemy increases the tendency to identify with groups. To promote identification however, the external threat needs to affect the entire group and members equally and indiscriminately.

The important question when discussing the effect of the change in the economic climate, was whether the banking crisis was a feature that facilitated the cultural integration by uniting the two banks against a common enemy, or contributed to a cultural differentiation. In the case I found the cultural integration was affected in several ways.

Respondents who claim that the crisis promoted the integration claim that it took people's attention away from the cultural clashes between Bergen Bank and DnC and made them concentrate on fighting the crisis together. This supports the view that the crisis united the two banks and contributed positively to building a new, corporate identity.

One the other hand, the crisis also focused people's attention on which bank was responsible for the losses. People from DnC in particular seem to have felt a need to correct the impression of DnC as the weak party at the time of the merger. This implied that the two parties perceived themselves as unequally hit by the crisis and as such the old organisational boundaries were strengthened.

The crisis also had implications for cost cutting and downsizing. In particular, the crisis led to more scarce resources and in line with social identity theory, led to a strengthening of former organisational identities. Moreover, the downsizing in the form of lay-offs affected former Bergen Bank employees more than former DnC employees. The conclusion reached in the case was that these effects negatively influenced the cultural integration process.

Furthermore, I found that the crisis resulted in individualism rather than collectivism. This finding is in line with Milburn, Schuler and Watman (1983) who suggest that one of the short-term responses to crisis is a breakdown of cohesiveness among groups in the organisation. Hence, the effects that broke down the boundaries among former Bergen Bank and DnC members seemed to be stronger than the effect that brought them closer together. In formal terms:

Proposition 14: The overall effect of a negative change in the economic climate on cultural integration is likely to be negative.

10.3.5 Effect of Structural Changes

Another approach to promoting cultural integration which has the same effect as a common enemy (affecting the parties equally), is to implement <u>radical structural changes</u> that <u>transcend the boundaries of the old corporate identities</u>.

This factor seemed to be the most important contributor to the cultural integration process in DnB, and was not discovered until the second data collection. The seemed to be two major reasons why these structural changes in DnB promoted cultural integration.

The first effect of the radical change was that <u>new in-groups and out-groups were created</u> through the division of the Banking Division across the old cultural boundaries. Thus, people became more concerned about fighting against the new out-groups rather than the merging party from 1989. As such people from DnC and Bergen Bank became united against a new common internal enemy. This argument can be expressed in the following proposition:

Proposition 15: Structural changes that transcend old organisational boundaries, are likely to have a positive effect on cultural integration.

The need to distinguish oneself from the new outgroup seemed to be strongest in the new Retail Division which was regarded as the low status group in the bank. Respondents from other parts of the bank claimed that the Retail Division went too far in their efforts to differentiate themselves from the new out-groups, and in initiating actions that did not serve the bank as a whole.

This finding is in line with social identity theory which says that the identity of a low status group is implicitly threatened by a high status group (Tajfel, 1982). A high status group however, is less likely to feel threatened, and thus in less need of affirmation. Accordingly, while a low status group may go to great lengths to differentiate itself from a high status comparison group, the latter may be relatively unconcerned about such comparisons and form no strong impression about the low status group (Ashford and Mael, 1989).

The second reason why the radical changes promoted cultural integration was that it took the attention away from fighting against the old boundaries to challenging and resisting the changes initiated by the top management. The new strategic direction was perceived as radical and was widely contested throughout the bank. It was a change implemented at a high pace in a top-down approach. Moreover, the employees and middle managers claim they had little influence on the changes made. This resistance from the middle management level in the bank can be analysed applying the work of Guth and MacMillan (1986).

Guth and MacMillan argue that middle managers will put little effort into implementation of a particular strategy when they believe that (1) they have a low probability of performing successfully in implementation the strategy; or 2) even if they do perform successfully individually, that performance has low probability of achieving the organisational desired outcome; or 3) the organisationally desired outcome does not satisfy their individual goals.

In the case of DnB, all these three conditions seemed to be present. Firstly, because some of the middle managers had not been involved in the strategy formulation process, they faced difficulties in "selling" the new strategic direction their employees. Secondly, a number of managers did not believe that the new strategic direction represented the right strategic move for the bank. Indeed they pointed out that DnB seemed to be the only Norwegian bank following this path. Third, the new strategic direction was not compatible with their individual goals.

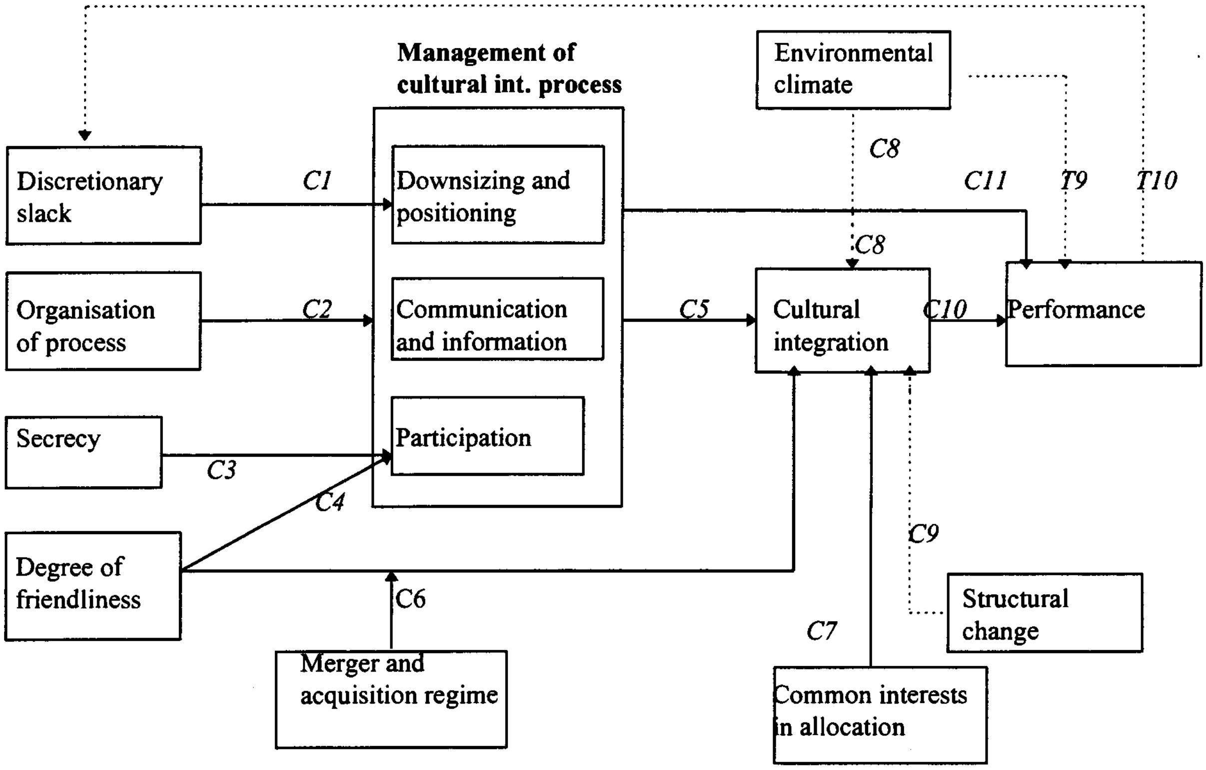
According to Guth and Macmillan interventions from middle managers can be both active and passive. In DnB the resistance towards the new strategy seemed to take both forms. An example of active intervention was when bank managers allied with local community members to write letters to the bank's top management.

10.3.6 Integration of Cultures and Identities

As for the integration of tasks and the unification of power, it is necessary to discuss how cultural integration relates to performance. I would argue that there is a positive relationship between cultural integration and performance because it serves the new organisation not to have two closely integrated sub-groups constantly fighting one another. However, as discussed above, the features that positively influence cultural integration might also have a direct negative effect on performance in the short run. This is an area that has to be further explored in future research, but which these two cases give some interesting indications in.

The relationships between the factors and features and cultural integration discussed above, are outlined in model 10.3.

Model 10.3 Integration of Cultures and Identities



The unbroken lines in Model 10.3 represent the second and the third phase of the combination processes. The dotted lines illustrate what happened in the fourth phase. In the following discussion I will refer to the different relationships in the model by C1 to C11.

Relationships in model 10.3. The first relationship in the model concerns how the level of discretionary slack influences the positioning and downsizing process. I argued that the higher the slack, the more resources which can be spent in the positioning and downsizing process, and the longer the time perspective that can be adopted (C1). However, the approach to downsizing and positioning will also be reflected in the management style of the party dominating the integration process, i.e. organisation of process. Beside influencing the downsizing and positioning process, the dominating party will have an impact on the information and communication strategy and the involvement of members of the organisation (C2).

Participation will also be influenced by the secrecy and degree of friendliness in the pre-combination process. Secrecy will as mentioned above restrict the horizontal level of participation, i.e. the middle management and employees (C3), whereas unfriendliness will imply that the target organisation is not involved (C4).

In the section on culture I discussed how the management approach to cultural integration influenced cultural integration (C5). In particular, I argued that the less competition and scarcity of positions, and the more fairness and fewer lay-offs there were, the more positive the effect on cultural integration. Furthermore, I suggested that the higher the quality of communication the more the cultural integration process will be facilitated. Finally, the more the members of the organisation are involved in the form of voice and influence, the more positive the effect on cultural integration.

Beside affecting cultural integration through participation, the effect of degree of friendliness is conditioned by the merger and acquisition regime (C6). A regime that stresses equality and implies concessions on behalf of the weaker party in the combination moderates the negative effect of unfriendliness on cultural integration.

The three other features beside management of cultural integration process and the degree of friendliness that influence cultural integration are common interest in the allocation process, environmental climate and structural changes. I argued that common interests across the organisational boundaries in the allocation process would facilitate the cultural integration process (C7). Furthermore, it was proposed that the overall impact of a negative change in economic climate on cultural integration would be negative (C8). Finally, major structural changes that transcend the old cultural boundaries were proposed to facilitate cultural integration (C9).

Regarding performance I argued that the higher the degree of cultural integration, the more positive the effect on performance (C10). Moreover, the performance would be directly affected by how the downsizing and positioning process was conducted. The effect of the economic climate on discretionary slack (T9 and T10) was discussed in the section on task integration above.

As for task integration and unification of power the propositions outlined above in the discussion on culture represent the relationships in model 10.3 that are best linked to the cases, strongest in terms of future research and most researchable. These propositions are summed up in figure 10.4 10.3 below.

Figure 10.4 Propositions for Cultural Integration

Proposition 11: The more the sub-groups across the organisational boundaries share common interests in the allocation, the more likely that alliances are formed that promote cultural integration.
Proposition 12: The effect of an unfriendly take-over on cultural integration is moderated by an acquisition regime that stresses equality.
Proposition 13: The more competition and scarcity in the downsizing process, the more negative the effect on cultural integration.
Proposition 14: The overall effect of a negative change in the economic climate on cultural integration is likely to be negative.
Proposition 15: Structural changes that transcend old cultural boundaries are likely to have a positive effect on cultural integration.

Indicators for assessing the degree of cultural integration. In chapter three I suggested three possible indicators. These included mentioning former organisations, keeping score of appointments and promotions and presenting consistent views of post-merger culture. These indicators were based on suggestions made in the merger and acquisition literature.

The first indicator, mentioning former organisations, proved rather difficult to assess because the study's primary data consisted of interviews and not observations. In the interviews I explicitly ask the respondents to reflect on the two former organisations, and as such they did not represent a good way of measuring this indicator.

Keeping track of promotions and appointments seemed to be a well functioning indicator. I suggested that this indicator should be extended to include terminations and re-allocation of functions also. One interesting finding in both cases was that this indicator was most prevalent in the fourth phase of integration in areas where the distribution was biased in the initial combination process.

Regarding presenting consistent views of post-merger culture, the questions in the interviews were not sufficiently refined to fully reflect this indicator. Nevertheless, in both Gjensidige and DnB there were indications that the parties presented consistent post-merger cultures. In Gjensidige both representatives from former Forenede and Gjensidige described the emerging culture as very similar to Gjensidige's corporate culture before the merger. In DnB on the other hand, both parties expressed that something new had partly or fully replaced the old cultures.

A fourth indicator that came up as a result of the case studies, was change of primary identity. This approach to measuring cultural integration involves detecting when members of the organisation no longer primarily identify with their old organisation affiliation. It draws on the social identity theory which acknowledges that members of the organisation have several identities, and focuses on which is the most important in allocation processes in particular.

In both combinations this change of primary identity happened in the allocation of positions and function between the two head offices. Both people from Forenede and Bergen Bank located in Oslo gave their Oslo identity primary consideration at the expense of their old organisational affiliation. Later in the process the people from Forenede changed their primary identity to Gjensidige, and in DnB the old organisational affiliation was replaced by new sub-cultures.

Using Schweiger et al.'s (1993, 1994) typology for integration options, I argued in chapter three that organisational integration could be achieved through either assimilation (forced or voluntary), or novation. Assimilation which is a form mentioned by many authors (Haspelaph and Jemison, 1991b; Mirvis and Marks, 1992; Nahavandi and Malekzadeh, 1988, 1994; Elsass and Veiga, 1994), implies that one unit is absorbed into another. Novation occurs when the two units are combined and a new identity created.

When comparing the two cases, it seems evident that their acculturation processes have been different. The conclusion reached in Gjensidige's acquisition of Forenede was that Forenede was very much enfolded or absorbed by Gjensidige. This assimilation seemed to be voluntary, based on employees in Forenede's attraction to Gjensidige's culture and its somewhat negative perception of its own culture (Nahavandi and Malkzadeh, 1988, 1994). Furthermore, based on the power asymmetry (David and Singh, 1993), the employees in Forenede seemed to assume that they were the ones that had to adapt.

In DnB the acculturation process seemed to be characterised by integration first (Nahavandi and Malekzadeh, 1988, 1994; Schweiger et al., 1994) followed by a mixture of novation and assimilation. In the initial combination neither party seemed to want to adhere to the other party's culture. Hence, only the structural features of the two organisations were combined. After the banking crisis, new sub-cultures that transcended the old cultural boundaries were created. As such, one can argue that new identities were formed based on novation. However, the new cultures seemed to resemble the old industrial DnC culture more closely than the old Bergen Bank banking culture. Hence, one can argue that Bergen Bank employees were somewhat assimilated into the DnC culture.

It is often argued the socio-cultural integration will take the longest time to achieve (Shrivastava, 1986, Buono and Bowditch, 1989). Integrating tasks on the other hand, is often viewed as a less complicated and time-consuming process. This implies that the time it will take to achieve integration will differ according to the various dimensions.

In chapter three I argued in line with the merger and acquisition literature that task integration would probably take the shortest time to achieve followed by unification of power and cultural integration. The DnB case seems to follow this pattern, but in Gjensidige the cultural integration and unification of power seemed to proceed at a faster pace than task integration. One reason for this contradictory finding might be the substantive attention Gjensidige put on cultural integration, sometimes at the expense of task integration and gains realisation. Moreover, the process of unifying power seemed to progress fast because of Gjensidige's dominant position.

10.4 INTER-RELATIONSHIPS

In this section I have chosen three indicators that seem to be particularly important when studying the inter-relationships between the dimensions in organisational integration. These include approach to gains realisation, environmental impact and allocation of senior functions and positions.

10.4.1 Approach to Gains Realisation

In the section on tasks I discussed two indicators which dealt with the approach to realising gains. These concerned whether gains were sought to be realised over a <u>long or short term</u>, and whether the management pursued gains through <u>cutting costs or generating income</u>. Beside focusing on how these indicators foster organisational integration in different ways, it is important to look at the short-term and long-term consequences of these approaches. The possible effects derived from the case data are illustrated in the table below.

Table 10.5 Approaches to Gains Realisation

	Effect on task integration/ gains realisation		Effect on integration of cultures and identities	
	short	long	short	long
Short-term/	+		-	
long-term	-	(+)	+	+
Cutting costs/ increasing income	+	+	-	+/-

Before discussing the various effects, it is important to emphasise that the possible effects of various approaches indicated in the table above should be further explored in future studies.

The short-term approach to gains realisation marked the fourth phase of the DnB merger. Because this restructuring happened as late as in the fourth phase, it was difficult to assess the long-term effects of this approach. As for the short-term effects, this approach seemed to disrupt the cultural integration process, but facilitated the integration of tasks and realisation of gains.

The long-term approach which marked the integration process in Gjensidige, had apparently positive short-term and long-term effects on cultural integration. However, this approach also implied that fewer gains were realised in the short term. As for the effect in the long run, this may be positive provided that one succeeds in realising gains. In Gjensidige this was still an ongoing process at the end of 1995.

The second indicator regarded cutting costs or increasing income. Findings in the two cases indicate that it takes a longer time to realise gains through increasing income than through cutting costs. Thus, cutting costs has the most positive effect on gains realisation in the short term. In the long run, the effect of increasing income might be positive, provided that one succeeds in generating a higher income.

As for the effect on cultural integration, increasing income produces less scarcity of positions than cost cutting, and hence has a more positive effect. The short-term and long-term effects of cost cutting will also be dependent on how the costs are cut. If lay-offs are pursued for example, the effects in the short and the long run will probably be more negative than if other alternative forms of downsizing are pursued.

10.4.2 Environmental Impact

The banking crisis seems to have affected all three indicators in organisational integration. Firstly, the crisis facilitated the integration of tasks by putting pressure on the realisation of gains and leading to a more effective distribution of functions. In Gjensidige there was no such pressure facilitating the realisation of gains.

Secondly, the crisis changed the distribution of power and as such promoted unification of power. In DnB this implied that the situation was changed from an unstable to a stable political regime.

Finally, the crisis had both positive and negative effects on the cultural integration process. The crisis had a positive effect in uniting the two former banks in a common struggle to survive. The negative effects were related to downsizing and the development of individualism rather than collectivism. Moreover, the focus on losses seems to have had a negative effect.

10.4.3 Allocation of Senior Positions and Functions

When comparing the different allocation criterion I found that they fostered organisational integration in different ways. In particular the case evidence suggested that choosing between the criteria is a difficult matter of judgement. This is illustrated in Table 10.5 below.

Table 10.6 Equity, Equality and Power

	Task	Power	Culture
Equity	+	(+)	(-)
Equality	(-)	-	+
Power	(+)	+	-

First, equity promotes task integration by leading to a more efficient distribution of resources. It is also reasonable to expect that it facilitates unification of power because an equal distribution is avoided. However, it might hinder cultural integration because of its emphasis on short-term efficiency and productivity (Lind and Tyler, 1988).

Equality on the other hand facilitates cultural integration for the reasons quoted in Table 10.2 above, but disregards the achievement of short-term productivity and efficiency. Thus, it hinders the process of task integration. Similarly, an equal distribution creates an unstable political situation because neither party has sufficient control to impose its own frame of reference unilaterally on the other company (Ollie, 1994).

As for the power criterion, this form of distribution rule creates a stable power regime and thus facilitates the unification of power. On the other hand, this biased distribution is likely to have the opposite effects from equality in terms of cultural integration. As for integration of tasks, case evidence suggests that a power distribution rule led to a more efficient distribution of resources. This effect needs to be explored further however.

10.5 SUMMARY

In this chapter I have (1) suggested possible indicators to assess the various features and factors, (2) explored how these features influence and relate to one another, and (3) examined how the factors relate to organisational integration.

In the final section I chose three features which influenced the three indicators of organisational integration in various ways. These included the approach to gains realisation, the economic climate and the allocation of senior positions and functions.

In Table 10.6 below I have listed the factors and features and the suggested indicators.

Table 10.6 Possible Indicators for Assessing the Task, Power and Cultural Features

Tasks	Power	Culture
Discretionary slack *- type of ownership* *- solvency* *- profitability* **Approach to gains realisation** *- short/long-term* *- cutting costs or generating income* **Complexity** *-balance of power* *- integration of production systems* *- distribution of geographical operations* *- size of operations* *- number of entities involved* **Environmental impact** *- economic climate* *- regulatory authorities*	**Relative power pre-combination** *- relative size* *- merger or acquisition* *- relative pre-acquisition performance* *- alternatives to negotiation* *- extent of preparedness* **Organisation of new entity** *- evolutionary/revolutionary* *- degree of ambiguity* **Allocation of senior positions and functions** *- equity* *- equality* *- power* **Organisation of process** *- timing* *- crisis orientation* *- participation and influence* *- process orientation*	**Cultural fit** *- organisational structure* *- management style* *- decision-making process* *- reward structure* *- change processes* **Friendliness** **Downsizing and positioning** *- competition* *- scarcity* *- fairness* *- freedom* *-termination* **Participation** *- horizontal* *- vertical* *- voice* *- influence* **Communication** *- quality* *- quantity*

The outcome of this chapter is three-fold. First, I identified patterns in the cases which represent possible empirical generalisations. Then I refined and developed more detailed models of organisational integration than the framework suggested in chapter three. In particular I developed models for task integration, unification of power and cultural integration. Third, I proposed 15 propositions to be tested in future research.

To aid me in achieving these outcomes I applied the merger and acquisition theory reviewed in chapter two and the five theoretical perspectives outlined in chapter five. Apart from a few features, the merger and acquisition literature proved to be somewhat insufficient to explain the findings in these cases. When examining the findings on tasks, this implied that the findings from the cases had to be explained to a large extent by the patterns arising from the cases themselves.

Regarding power, the perspectives on power and politics, strategic and organisational change and distributive justice were particularly useful. Put together with the patterns arising from the cases, the application of these theories led to a number of interesting conclusions. This concerned issues such as identifying the character of change that is likely to take place in various types of mergers and acquisitions and analysing how the power relationships change over time.

As predicted in chapter five, the social identity theory gave some interesting insight into the cultural features of the combination. In particular this theory was useful for understanding the integrative and disintegrative forces influencing the cultural integration process. The other theoretical perspective that was particularly relevant was the literature on procedural justice. This concerned identifying underlying indicators and exploring the linkages to cultural integration.

Based on this chapter I would argue that studies on mergers and acquisition highly benefit from borrowing from other fields of research. My research confirms Schweiger and Walsh's (1990) contention that M&A theorists and researchers must look beyond the current M&A literature to the wealth of other literatures that may help them understand and study this complex phenomenon better.

Chapter 11:
Conclusions and Implications

This chapter is divided into four parts. The first part discusses the major contributions of this study to the organisational stream of merger and acquisition literature. In the next section possible limitations of the dissertation are outlined. Then I examine the implications for practitioners and for future research.

11.1 CONTRIBUTIONS

The discussion of contributions to the organisational field of mergers and acquisitions is divided into five parts including (1) applying theoretical perspectives, (2) introducing a framework that combines task, power and culture, (3) assessing organisational integration, (4) assessing features and examining linkages, and (5) studying combination processes over time.

11.1.1 Applying New Theoretical Perspectives

Researchers in the organisational field of mergers and acquisitions have recently started to apply theory from other fields, in particular literature on organisational culture, cultural anthropology, psychology, strategic management and organisational theory. The potential of contributing to the merger and acquisition field by applying literature from other fields is however far from exhausted. Schweiger and Walsh (1990) say:

> M&A theorists and researchers must look beyond the current M&A literature to the wealth of other literatures that may help them better understand and study this complex phenomenon. While the extant M&A literature (especially the practitioner literature) has helped in the identification of important issues to study, it is time that theorists and researchers both challenge this literature and indeed move beyond it.

In chapter five I discussed how four theoretical perspectives raised new questions and themes in relation to the merger and acquisition literature. These theoretical perspectives included the literature on strategic and organisational change, power and politics, social justice and social identity theory. The questions and themes raised in chapter five are listed in Table 11.1 below.

Table 11.1 Themes Raised in the Literatures Relevant to Mergers and Acquisitions

Strategic and organisational change	**Power and politics**	**Social justice**	**Social identity theory**
Why are the change processes in various mergers and acquisitions likely to be different ? How do merger and acquisition processes evolve over time ? What kind of environmental pressures are merger and acquisition processes likely to be subjected to ? Which implications do these pressures have for the integration process ? Why are change processes likely to vary in accordance to the target's performance ? What are the pros and cons of inside versus outside directors How do different groups of members of the organisation act and react when faced with shrinking resources and turbulence in merger and acquisition processes How do these organisational responses affect cohesiveness	How do the alternatives to negotiated agreement affect the parties' negotiation positions ? Which power sources are important in the post-combination process ? How do some of the sensitive issues in mergers and acquisitions, such as the allocation of head office functions, get excluded from decision-making ? How do will and skill influence the allocation of positions and functions in mergers and acquisitions ? How do members of the organisation react to the allocation of positions and functions ? How and why do power relationships change over time ?	Which factors influence the choice of distribution rules, the trade-offs between them and their influence on perception of fairness and individual and organisational outcome variables ? Which procedural rules are most important in the positioning and downsizing process ? What are the important mechanisms of participation ? Which features are important in assessing the quality of communication ? How do procedural rules influence the perceptions of fairness and individual and organisational outcomes? Which groups are likely to be mostly concerned about procedural justice?	What happens when two organisations are brought in close contact with one another ? How do them/usdifferences become accentu-ated during competition for scarce resources ? How and under what conditions do external threats increase internal cohesion ?

A number of these themes were central in the analysis of the cases in chapter ten. The application of the literatures to the case analysis had a number of advantages. First, it provided me with richer and more precise concepts. Second, the literature contributed by identifying underlying indicators. Third and most importantly, the perspectives were helpful in explaining the case findings. Some of these explanations will be further explored below.

In Table 11.2 below I have indicated the most important linkages between the theoretical perspectives and the themes. In particular the merger and acquisition literature was most important for analysing the findings on tasks. Regarding power, the perspectives on power and politics, strategic and organisational change and distributive justice were all highly relevant. For analysing the cultural feature, the literature on social identity theory and procedural justice were the most important.

Table 11.2 Themes and Theoretical Perspectives

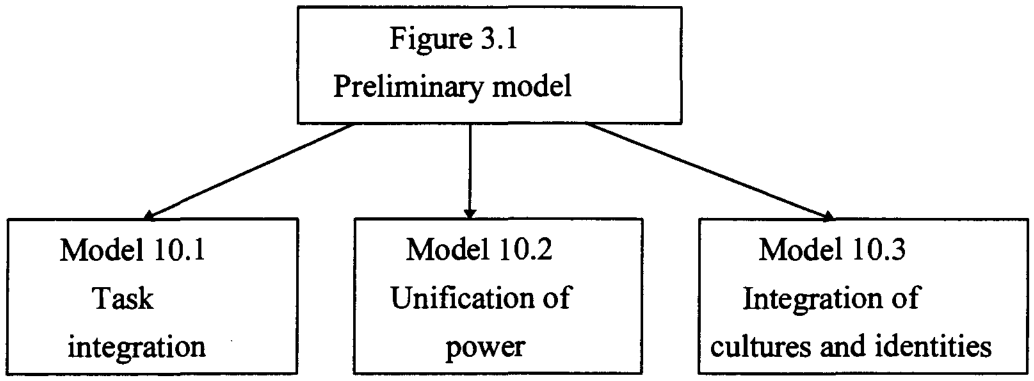
ORG. INT.	**Theoretical perspectives**
Economic climate	Merger and acquisition (environmental impact) Strategic and organisational change (triggers of change) Social identity theory (promoters of identification)
Tasks	
Discretionary slack	Merger and acquisition (discretionary slack)
Approach to realising gains	Merger and acquisition (strategic fit)
Regulatory authorities	Strategic change (triggers of change)
Power	
Relative power pre-combination	Power and politics (sources of power) Merger and acquisition (relative power)
Organisation of process	Strategic and organisational change (organisational responses) Merger and acquisition (timing change) Power and politics (dynamics of power)
Organisation of new entity	Strategic and organisational change (types of change)
Allocation process	Power and politics (exercise of power) Social justice (distributive justice) Merger and acquisitions (allocation)
Culture	
Friendliness	Social identity theory (promoters of identification)
Secrecy	
Positioning	Social identity theory (promoters of identification) Social justice theory (procedural justice)
Downsizing	Social identity theory (promoters of identification) Merger and acquisition (realisation of gains)
Participation	Social justice (procedural justice)
Info. and comm.	Merger and acquisitions (info. and comm.) Social justice (procedural justice)

11.1.2 Introducing a Framework that Combines Task, Power and Culture

Previous studies in the organisational stream of mergers and acquisitions have been biased towards studying the cultural integration process only. This study suggests that there are three dimensions in the organisational integration process one of which is cultural integration. The other two dimensions are integration of tasks and unification of power.

In chapter three I introduced a broad framework as a point of departure for the study. This framework built upon the organisational stream of merger and acquisition literature, the selection of cases and choice of outcome variable. An important aim for the study was to refine this framework and develop models for all three dimensions in organisational integration. This approach is illustrated in Figure 11.1 below.

Figure 11.1 Development of Models



Based upon the identification of patterns and the construction of these models in chapter ten I generated a number of propositions to be tested in future research.

In chapters seven and eight the various features from the preliminary model in chapter three were organised into three groups on task, power and culture respectively. This categorisation was used as a point of departure for the analysis of cases and for the development of models 10.1, 10.2 and 10.3.

11.1.3 Assessing Organisational Integration

One of the important aims of the study was to develop indicators for measuring organisational integration. Shrivastava's (1986) contribution was helpful in developing indicators for task integration. These indicators included procedural integration, physical integration and transfer of personnel. I suggested that transfer of personnel should be extended to include personnel integration not only at top management level, but at middle management and employee level too.

Regarding unification of power, this dimension had not been included in previous studies on mergers and acquisitions. Hence, I used the four indicators that emerged from the first phase of the DnB-study. These indicators included control over power bases, prevailing style of leadership, presence of power struggles and congruence in communication. Although assessing organisational integration along these four indicators seems to work in these two cases, it is nevertheless important that they are subjected to further and more rigorous testing in future studies.

Possible indicators for measuring cultural integration that have been proposed in the merger and acquisition literature include mentioning former organisations, keeping score of appointments and promotions, and presenting consistent views of post merger culture.

Mentioning former organisations was difficult to trace because I used interviews as the primary data collection method. As for keeping score of appointments and promotions, this indicator provided interesting results. In particular, I found that employees at lower levels seemed to keep track of these issues much longer than members of the organisation at higher levels in the organisation. Moreover, this was a feature that was particularly prevalent in areas where the distribution of positions or functions had been biased in the initial combination. I suggested that this indicator should be extended to include terminations of personnel also. Moreover, re-allocation of functions should be included.

When it comes to presenting consistent views of post-merger culture, there were some indications of such consistency in both cases. The questions used in the interviews were however not sufficiently sophisticated to fully investigate this concept.

A fourth way of measuring cultural integration emerged from the case data. This was change of primary identity. This concerned tracing when members of the organisation shifted their primary identity from their former organisational affiliation to a new identity.

In the figure below I have outlined the indicators for measuring organisational integration as they appear in this study.

Figure 11.2. Organisational Integration

Integration of tasks
- Procedural integration
- Physical integration
- Integration of personnel

Unification of power
- Control over power bases
- Prevailing style of leadership
- Presence of power struggles
- Congruence in communication

Integration of cultures and identities
- Keeping score of appointments, promotions, and people leaving the organisation
- Keeping score of re-allocations of functions
- Presenting consistent views of post-merger culture
- Tracing change of primary identity

Another interesting finding concerned the pace of integration. Contrary to the merger and acquisition literature, I found that the integration of cultures proceeded faster than the integration of tasks in the Gjensidige case. The major explanation for this finding seemed to be the approach to realising gains and the management of the cultural integration process.

11.1.4 Assessing Features and Examining Linkages

Beside developing indicators for organisational integration, possible indicators for measuring the various features and factors were suggested. These indicators were summarised in Table 10.6 in chapter ten. The development of these indicators was particularly important to be able to test the propositions for task, power and culture in future research.

I used three criteria to guide my selection of propositions. In particular I chose the propositions that were best linked to the cases, strongest in terms of future research, and most researchable. These fifteen propositions are outlined in Figure 11.3 below.

Figure 11.3 Propositions for Future Research

Task

Proposition 1: The higher the discretionary slack, the lower the pressure to realise gains.

Proposition 2: The higher the discretionary slack, the more long-term, income generating the approach to realise gains.

Proposition 3: The more long-term, income generating the approach to realise gains, the longer time taken to integrate tasks and realise gains.

Proposition 4: The higher the complexity, the longer the time taken to integrate tasks.

Proposition 5: A negative change in economic climate will put pressure on the realisation of gains through negatively influencing performance and reducing discretionary slack.

Proposition 6: The longer the time taken to process concession applications and the more change in regulatory regime, the longer the time taken to integrate tasks.

Power

Proposition 7: The more revolutionary the changes and higher the ambiguity in the organisation of new entity, the longer it takes to establish a stable political regime.

Proposition 8a: The more the use of equality as the distribution criterion in the allocation of senior positions and functions, the more unstable the political regime.

Proposition 8b: The more the use of power as the distribution criterion in the allocation of senior positions and functions, the more stable the political regime.

Proposition 9: The effect of relative power in the pre-combination on post combination power, is dependent on the merger and acquisition regime and political skill.

Proposition 9a: The more the merger and acquisition regime stresses equality, the more the relationship between relative power in the pre- and post-combination is moderated.

Proposition 9b: If the weaker party has more (less) political skill than the stronger party, then the relationship between pre-and post-combination power will be moderated (strengthened).

Proposition 10: In situations where there is a change of CEO, a negative change in economic climate and an unstable political regime, there is a greater likelihood of fundamental changes than in situations where there is no change of CEO, a positive or no change in economic climate and a stable political regime.

Culture

Proposition 11: The more the sub-groups across the organisational boundaries share common interests in the allocation, the more likely that alliances are formed that promote cultural integration.

Proposition 12: The effect of an unfriendly take-over on cultural integration is moderated by an acquisition regime that stresses equality.

Proposition 13: The more competition and scarcity in the downsizing process, the more negative effect on cultural integration.

Proposition 14: The overall effect of a negative change in the economic climate on cultural integration is likely to be negative.

Proposition 15: Structural changes that cut across old cultural boundaries are likely to have a positive effect on cultural integration.

In the following paragraphs I will briefly discuss the key findings in the cases. These include approach to realising gains, environmental impact, allocation of senior positions and functions, organisation of a new entity, cultural fit, friendliness and acquisition regime, management of cultural integration process and effect of structural changes. The first three features are related to all three dimensions of organisational integration.

(1) Approach to realising gains. This feature contributes to the understanding of pace in the integration of tasks. In particular, the study suggests that the more long-term, income generating the approach and the higher the degree of preservation, the longer time it takes to integrate tasks and realise gains. In contrast, a short-term, cost cutting approach with a low degree of preservation will facilitate task integration and realisation of gains.

However, the first approach is a better facilitator of the cultural integration process. The rationale is that a planned, gradual approach which creates little competition and scarcity of positions and functions and maintains both parties' interests at least in the short run, will provide a better basis for integrating cultures.

(2) Environmental impact. This study has demonstrated that merger and acquisition processes evolve over long periods of time. Thus it is unlikely that the combination process can be conducted in isolation from events in the environment. I argued that the merger and acquisition literature should import literature on strategic and organisational change to link the merger and acquisition processes to the environment.

I found two features in the environment to be of particular importance. These concerned regulatory environment and economic climate. Regarding regulatory authorities I found that their actions influenced the pace of the integration of tasks.

The other feature, economic climate, seemed to influence all three dimensions of organisational integration. In DnB there was a financial crisis in the sector, and this negative change of economic climate brought the bank into a strained economic situation.

This pressure from the environment had a positive effect on the integration of tasks because it forced the bank to get rid of the inefficiencies from the first phase of the merger process. Similarly it had a positive effect on the unification of power because it led to changes in the power bases. However, because the bank had to cut costs and lay off people, the cultural integration process was disrupted. Moreover, the strained economic situation led to increased attention on which was party to blame for the losses.

In contrast, Gjensidige experienced a recovery in the economy, and the results in the corporation were some of the best in the corporation's history. This seems to have had a positive effect on the cultural integration, but at the same time somewhat restricted the realisation of gains.

(3) Allocation of senior positions and functions. The literature on power and politics and on social justice were useful in identifying possible allocation criteria, the trade- offs between them and their influences on the various dimensions of organisational integration. I found that the use of equality as the primary distribution criterion positively facilitated cultural integration, but had a negative effect on the unification of power. In contrast, the use of power as the primary allocation criterion facilitated unification of power, but disrupted the cultural integration process.

The literature on power and politics was also useful when studying the changes in distribution of positions and functions over time. I found that changes were likely when there was an unstable political regime, a change of CEO and a negative development in the economic climate.

(4) Organisation of a new entity. The literature on strategic and organisation change provided some important insights regarding the organisation of a new entity. In chapter five I argued that the merging parties and the acquired party in acquisitions were likely to experience revolutionary changes provided that there was a high degree of integration. The cases supported this presumption, but indicated that the extent of ambiguity probably would vary according to the power balance in the combinations. In particular, the level of ambiguity seemed to be higher in mergers between equal parties than in acquisitions.

(5) Cultural fit. The contributions assessing corporate culture in the merging organisations typically focus on the dominant culture in the organisation. However, as many of the authors point out, but fail to use in their studies, culture is multifaceted and complex. I chose to view the organisation as ideographic and found the focus on sub-groups and sub-cultures particularly useful for explaining the pattern of cultural integration.

My findings suggest that focusing on the differences between the two parties' organisational cultures may be too impresise to explain the pattern of reactions and detect the long-term changes in the cultures. Hence, I focused on the sub-cultures that appeared in the detailed examination of the parties' historical backgrounds.

This examination revealed important differences and conflicts of interests between key locations in the corporations. Beside opening for a more detailed and richer description of the cultural integration, this approach opened for the possibility of having sub-cultures where both parties are represented.

(6) Friendliness and acquisition regime. Contrary to the merger and acquisition literature, findings in the Gjensidige case indicate that although Forenede was subjected to an unfriendly take-over process, the integration process proceeded very smoothly. Indeed, the process in Gjensidige seemed to be smoother than in DnB which was a friendly merger. There seem to be two explanations for this finding.

Social identity theory proposes that for an external conflict to increase internal cohesion, it needs to affect the entire groups equally. The case findings suggest that Gjensidige's unfriendly take-over attempt did not meet this condition. In particular, the acquisition was in the interests of employees from Oslo who had experienced a recent re-allocation of resources from Oslo to Trondheim. They expressed their support for the acquisition. In contrast, the management and employees in Trondheim fought the take-over bitterly.

Secondly, and most importantly, Gjensidige's acquisition regime and actions in the integration process counteracted the company's behaviour in the take-over attempt. This meant that the employees in Forenede who had formed negative expectations through the acquisition process, were positively surprised and indeed changed their negative attitude towards Gjensidige.

(7) Management of cultural integration process. The literature on social justice and social identity give important insights into how the management approach influences the cultural integration process.

Social justice theory proposes that procedural fairness in terms of formal characteristics, participation and communication positively influence organisational outcomes such as group cohesiveness through the perception of procedural fairness. Hence, I argued that applying fair procedures in the positioning and downsizing process, inviting the employees to express their opinions and influence the outcome, and obtaining a high quality in the communication and information towards the employees, would facilitate the integration of cultures and identities.

Social identity theory on the other hand, provides some explanation as to why the cultural integration process is disrupted during allocation and downsizing processes. In particular, social identity theory proposes that group identity is strengthened when competing for scarce resources. This form of competition can be traced in positioning and downsizing processes when the members of the organisation compete for scarce positions.

(8) Effect of structural changes. The effect of structural changes was a new feature that emerged from the case findings. Indeed, this seemed to be one of the factors with the highest explanatory power in the case of DnB. I argued that structural changes which transcend the old organisational boundaries will facilitate cultural integration. The reason is that during such reorganisations, these new boundaries become more important than the old organisational affiliations. In that sense, one can argue that old "enemies" become united against new internal enemies. In other words, the definition of out-groups changes.

11.1.5 Studying Combination Processes Over Time

One serious limitation of a number of previous studies in the merger and acquisition field is their limited time perspective. The emphasis in the literature so far has been on assessing the effects of acquisitions or mergers after a relatively short time. Few go beyond two years, many focus on the first months or year of transition. A number of researchers claim that there is a need for sustained examination of mergers and acquisitions over time.

This study contributes to the merger and acquisition field by following the combination process over a number of years. It provides evidence that these combination processes do evolve over long periods of time. Firstly, case evidence supports Napier's (1989) argument that the benefits from such combinations often take several years to achieve (Napier, 1989). Secondly, the study suggests that the process of unifying power evolve over a number of years, especially in balanced combinations.

Thirdly, it seems difficult to achieve cultural integration in the initial combination phase when the two organisations are fighting for positions and functions. Indeed, the essence of this process is to maximise the interests of one's organisation. This implies that it is important to trace the cultural integration process after the initial one or two years of integration. Moreover, the effects of management actions on cultural integration are difficult to estimate until some time has passed. This was demonstrated in the first data collection in the DnB-study. At this point the employees in DnB were in the midst of a reorganisation process. The effects of this reorganisation process on the cultural integration were not detected until the next data collection two years later.

11.2 LIMITATIONS OF STUDY

The limitations of this study are closely related to the choices I have made during the dissertation. These concern choices of phenomenon and selection of cases, choice of design, sampling time, choice of data collection methods and interviewees. These issues will be discussed subsequently.

Choice of phenomenon and selection of cases

The first limitation concerns the choice of phenomenon and selection of cases. I have chosen to focus on organisational integration in the context of mergers and acquisitions along three dimensions, i.e. integration of tasks, unification of power, and integration of cultures and identities.

It is not reasonable to assume that organisational integration along all these three dimensions will be equally important in all types of mergers and acquisitions. In unrelated acquisitions for example, only limited integration is expected to occur. Hence, the choice of phenomenon guided and restricted the selection of cases to horizontal combinations where achieving a high degree of integration in all three dimensions an explicit aim.

Choice of design

In chapter six I argued that a comparative, longitudinal case study was the design that best suited my research questions. Nevertheless, there are important limitations to this design.

The first limitation concerns the number of cases I have chosen. Since I have selected only two cases, my study is to some extent subject to the same limitations as a single case study. This regards problems of generalisation and the researcher's information processing biases.

First, the number of cases restricts the opportunity to test stability of indicators across cases. The use of more than one unit of analysis within each case somewhat helped in overcoming this limitation. The desire for depth, adopting a pluralist perspective and following cases over time did however imply that the number of cases had to be rather few.

To overcome potential information processing biases I described the data collection procedures and process of analysing data in detail. Furthermore, I displayed the primary data in the form of quotations and extracts from documents to support and illustrate my interpretations of the data. Since the dissertation is in English, I included the Norwegian text in the appendix of each case chapter. Finally, all the primary data from the study is accessible to the dissertation committee.

The second limitation regards the longitudinal character of the study. In these types of studies researchers are in danger of losing objectivity, of becoming too involved with the organisation, the people and the process (cf. chapter six)..

To overcome these biases I explicitly recognised my presuppositions and made a conscious effort to set these aside in the analysis. Moreover, I consciously searched for negative evidence and problems by interviewing outliers and asking problem-oriented questions. Finally, I used feedback loops returning to interviewees with my interpretations.

Sampling time

I chose to study the combination process by collecting real time and retrospective data at two points of time with one and a half and two year's intervals in the two studies. The limitations of this approach concerned the lack of real time data in the pre-combination process and in the process immediately following the decision to merger or concession to acquire.

Nevertheless, my priorities were to study the post-combination process and to follow the process over a number of years. Taken the limited time perspective of the dissertation into account, this would not have been possible if I have not chosen to enter the organisations at a later stage in the combination process.

Choice of data collection methods

One way to strengthen indicator validity is to use multiple sources of evidence to build construct measures. My study responded to this requirement in its sampling of interviewees and use of multiple data sources. The first issue will be discussed in the next paragraph.

I used three data collection methods including in-depth interviews with key informants, documentary or archive data and observational material. The weakness of the study is the limited use of observation. As mentioned in chapter six, this was related to the limited time available for collecting data, and the difficulties gaining access to this type of data collection early in the process.

Selection of interviewees

Key informant interview was the most important data collection method throughout both studies. The first data collection in DnB was primarily focused at the top management level. The limitation was compensated in the second data collection when I sampled from the middle management and employee levels.

Some of the interviews, in particular in the first phase of the data collection in DnB, were not tape-recorded. Although we were two researchers present at these interviews, it would have been desirable to record these interviews. Hence, in the next phases of data collection I tape-recorded all interviews with few exceptions.

11.3 PRACTICAL IMPLICATIONS

There are a number of practical implications of this study and I will briefly discuss the most important ones.

(1) The study shows that there <u>is no one ideal way to manage merger and acquisition processes</u>. Various approaches have different strengths and weaknesses. The choice between them should reflect the desired balance among the three features of integration; i.e. integration of tasks, unification of power or cultural integration.

(2) <u>The management is not entirely free to choose the approach to integration under all circumstances</u>. The study shows that the management must take the economic climate and discretionary slack into consideration when choosing their course of action.

(3) <u>An efficient distribution of positions and functions may be difficult to achieve in the short term</u>. The reason for this is two fold. Firstly, it is likely that one does not have sufficient information early in the process to make optimal decisions. Secondly, concerns of fairness such as achieving an equal distribution, may be given higher priority in the first phase of the combination. This is especially the case in mergers between "equals".

(4) <u>Mergers between equal parties are more difficult to plan in advance and manage</u> because one party cannot unilaterally impose its decisions on the other party as in acquisitions. The dual power situation in mergers also implies that it will take longer to establish a stable political regime in equal mergers than in imbalanced acquisitions.

(5) <u>Merging cultures is a time-consuming process</u>. Although the top management perceives the process to be over, people at lower levels in the organisation will often be concerned with merger issues for a long period of time after the merger.

(6) If management actions are to have a positive effect on cultural integration, they <u>need to affect the members of the organisation equally across the former organisational affiliations</u>.

If they affect the two organisations unequally, the cultural integration process is likely to be disrupted.

(7) The historical backgrounds of the two organisations should be analysed in the pre-combination phase to detect in which respects the cultures are similar, complementary, unrelated or conflictual. Difficulties in the integration process are expected to arise in the areas where the two cultures are incompatible.

(8) One organisation is likely to consist of a number of sub-cultures. These sub-cultures should be identified to be prepared for how various sub-groups will react to the combination. Moreover, alliances across the organisations are likely to be formed between sub-groups that share common interests in the allocation process.

(9) A change of CEO in the middle of the process is likely to change the power balance, and disrupt the cultural integration process. The reason is that new CEOs typically set in motion a series of actions which are designed to solidify and institutionalise the executives' power such as changing the top management team and organisational structure.

(10) Transfer of competencies from the acquired to the acquiring party may be difficult when a high level of integration is chosen. The reason is that the acquiring company is likely to dominate the allocation of positions and functions, and important competencies may be lost in this process.

11.4 IMPLICATIONS FOR FUTURE RESEARCH

This section is divided into three parts. The first part uses the research questions as a point of departure and questions possible fruitful extensions. In the second sub-section, I explore possible theoretical perspectives that could be applied in relation to the present and future studies. Finally, I examine methodological issues to be addressed in future research.

11.4.1 Substantive Implications

The objective of this study has been to (1) identify factors and features that facilitate or impede organisational integration, and (2) study how the three dimensions in organisational integration; i.e. integration of tasks, unification of power and integration of cultures and identities interrelate and evolve over time. One interesting extension of the study would be to study integration processes in relation to different integration designs.

As mentioned in the discussion of limitations above, the research questions somewhat restricted my choice of cases to horizontal combinations where there was an aim to achieve a high degree of integration in all three areas. An interesting extension of the dissertation would be to study integration processes in combinations where the aim was not to achieve a high level of integration along all three dimensions. In other words to study alternative integration designs to full integration.

Several interesting problems arise from this extension. First, questions should be raised concerning when the benefits of integration outweigh the costs. According to Schweiĝer et al. (1994) executives should carefully examine when implementing mergers and acquisitions, where organisational changes in the combined value chains are needed, and what form those changes should take. "Organisational change is costly; it requires time and other scarce resources and can perpetuate itself through unintended consequences" (p.35).

As opposed to horizontal combinations where the aim is to create one unit from two, both entities might be preserved in related or unrelated combinations. One important question which arises from this difference is how to manage the acquired entity or entities to maximise the synergy potential in related or unrelated combinations.

The third area where interesting questions are raised concern relating the different integration designs to performance. In chapter ten I argued that a high level of integration in all three dimensions in horizontal combinations was positively related to performance. Recent research in the merger and acquisition field indicates that the relation to performance in other types of mergers and acquisitions may be less straightforward. In combinations where there is an aim to transfer competencies for example, a medium degree of integration increasing to a high degree over time may give the best result (Haspeslaph and Jemison, 1989; Haspeslaph and Farquar, 1994).

11.4.2 Theoretical Implications

The discussion of the theoretical implications will be divided into two parts. In the first part I examine literatures relevant to the present study. Then in the second part literatures relevant to the questions raised above are examined.

Literatures relevant to the present study

Although I adopted four theoretical perspectives in this study, the potential for shedding light on integration processes is far from exhausted. A number of additional theoretical perspectives could be used to enrich the concepts in the study and to provide explanations for the case findings.

One field which is relevant to the study task of integration is the literature on co-ordination examined in Larsson (1990). This literature is especially relevant for exploring the co-ordination integration mechanisms. As for the power dimension, the negotiation literature might be useful when studying the negotiation processes between the merging parties in the pre- and post-combination phases.

The literatures on organisational culture and cultural anthropology are especially relevant for studying the cultural integration process. Although there is probably more to learn about integration processes from these fields, studies within the merger and acquisition field have to a large extent already exploited the potential of these literatures.

Other literatures relevant for studying the management of the cultural integration process include the organisational development literature, and literature on communication, empowerment and leadership. The organisational development literature is especially relevant for exploring the various interventions adopted. The literature on communication has to some extent been utilised already, though there is probably still potential for learning from this field. The empowerment literature is a relatively new field, and should be fruitful for exploring the character and importance of participation in merger and acquisition processes. Finally, the literature on leadership can shed light on the role of the leader (s) in bringing the two merging organisations together.

Literatures relevant to new research questions

A number of the literatures outlined above will be relevant to the study of the new research questions also. The co-ordination literature for example, can explore the co-ordination between the two separate entities. Moreover, the negotiation literature may give valuable insight to the ongoing negotiations between these organisations.

New developments within corporate strategy exploring parenting advantages (Gold et al., 1994) are particularly relevant for studying the management of acquired entities. Apart from these literatures recent developments within the merger and acquisition field itself (see for example Schweiger et al., 1994 and Haspeslaph and Farquar, 1994) will be important to take into consideration.

11.4.3 Methodological implications

I would suggest a two step approach in doing further research on organisational integration processes in the context of mergers and acquisitions. This involves conducting further longitudinal, comparative studies followed by a large sample survey. The rationale for this approach is that the existing framework and propositions should first be extended to include other types of mergers and acquisitions and integration designs before being tested through a survey.

Conducting further longitudinal case studies would be useful for a number of purposes. Firstly, these studies could explore the extensions of the dissertation's research questions discussed above regarding integration design and management of acquired companies.

Secondly, the study could provide further insight into the most sensitive and complex issues outlined in the dissertation. An objective here would be to gain access earlier in the pre- and post-combination processes. Moreover, it would be desirable to make use of more observation than in the present study to better embody the political and cultural aspects. These are issues that would be difficult to study in a large sample survey. Finally, a new longitudinal, comparative case study could be used to replicate the findings from the present study.

My next project is in line with the approach outlined above. The aim of this project is to study how the gains can be maximised in the implementation and management of four acquisitions made by the Norwegian Telecommunication company, Telenor. This project will extend my dissertation by focusing on various integration designs and the management of the acquired companies. Furthermore, it extends my study to another industry.

The second step in my future research would be to conduct a large sample survey to test the propositions outlined in the longitudinal, comparative case studies, and to relate organisational integration and other features to performance. The Foundation for Research in Economics and Business Administration (SNF) has access to a large database that could provide key information on individual companies and performance data in terms of accountancy based measures. This database would be used in relation to the large sample survey of merging companies.

Besides doing further work on mergers and acquisitions, it would also be relevant to study other contexts in which organisational integration processes are important. Examples of these contexts could be merging and co-ordinating departments or other entities within organisations or merging counties. Moreover, it is possible that the present study could give insights into integration processes such as in the European Union.

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APPENDIXES

Appendix for Chapter 2

Table A2.1 Assessment of Organisational and Cultural fit

Authors	Concept	Items
Korman, Rosenblom and Walsh (1978)	People-organisation fit	Executive, management, employee, organisation climate and organisational structure fit
Krupar and Krupar (1988)	People-organisation fit	Management, employee, organisational climate and executive fit
McCann and Gilkey (1988)	Organisational fit	Structures, process and systems, human resources and cultures
Somers and Bird (1990)	Post-merger human resource fit	Employee/job fit, culture/climate fit, structural fit and management fit
Siel and Smith (1990)	Organisational fit	Compatibility, style, culture and vision
Blumenthal (1992)	Characteristics of the acquired firm Characteristics of the acquiring firm	Skills and resources; systems and procedures and distribution of ownership Skills and resources; systems and procedures, centralisation, tolerance of diversity, staff orientation, organisational learning and commitment to strategy
Mirvis and Marks (1992a,b)	Organisational fit	Size and shape, management control systems, human resources
Ollie (1994)	Organisational fit	Administrative practices, management styles, organisational structures and organisational culture
Schweiger, Csiszar and Napier (1994)	Value chains of acquired and acquiring firms	Value chain as a reflection of technical, political and cultural patterns

Table A2.2. Contributions on Reward and Compensation Systems and Management Styles

Authors	Concept	Items
Davis (1968)	Business styles	Risk/gain philosophy, time/return attitude, disposition of profits, delegation of authority, functional emphasis
Hayes (1979)	Management styles Compensation systems	
Schweiger, Ivancevich and Power (1987)	Reward systems	Job security, pay and benefits, degree of autonomy at work and performance feedback
Datta (1991)	Organisational fit - Differences in management styles Differences in reward and evaluation systems	Risk taking propensity of management groups, extent of participation encouraged in decision-making, approach to decision-making, emphasis placed on formality (17 items) 8 items
Schweiger and Weber (1989)	Personnel policies and systems	Pension/retirement plans, medical, dental insurance, deferred income plans, performance appraisal system, training and development, HR planning system, career management system, compensation system, life-assurance, long term disability, vacation policies, holidays/sick pay/leave of absence, incentive plans, annual bonuses/profit sharing
Business International (1992)	Management style	The basic driving force, the key business factors, the reward system, the corporate climbing frame, the margin environment, the operating environment and the personal characteristics
Shanley and Correa (1992)	Agreement between top management teams	Perceived, actual, accuracy and internal

Table A2.3. Contributions on Corporate Culture

Authors	Concepts	Items
Sales and Mirvis (1985)	Differences in culture	Philosophy, values, interpersonal behaviour and business related behaviours
Buono, Bowditch and Lewis (1985)	Organisational culture	Subjective culture Objective culture
Viljoen, 1987	Constituent elements of corporate culture	Critical success factors, values, style of management, idiosyncratic practices
Siel et al. (1988)	Organisational culture	Basic assumptions, values, artefacts and perception of company practices
Siel and Smith (1990)	Organisational fit	Style, culture and vision
Pedersen (1991)	Cultural patterns of the two pre-merger firms	Power bases, internal organisational traditions and practices and external business relations
Cartwright and Cooper (1992, 1993a and b)	Organisational cultures	Power, role, task/achievement and person/support
Mirvis and Marks (1992b)	Cultural differences	Business related behaviour, interpersonal behaviour, values and philosophy
David and Singh (1993)	Organisational culture	Cultural operations, media of communication and cultural access Difference between an organisation's frontstage and backstage culture
Elsass and Veiga (1994)	Cultural differentiation	Perception of differences and structure of inter group relations
Nahavandi and Malekzadeh (1994)	Choice of acculturation mode - for acquirer - for acquiree	 Type I and type II leaders Organic/mechanistic structure Degree of multiculturism Strength of culture Perception of attractiveness of acquirer

Table A2.4. Integration Designs

Authors	Integration design	Items
Hayes and Hoag (1984)	Operating autonomy	Parent company directives and decisions, operating control, reporting requirements and corporate staff interference
Siel and Smith (1990)	Acquisition integration strategies	Pillage and plunder, one night stand, courtship/just friends and love and marriage
Haspeslagh and Jemison (1991b)	Integration approaches	Preservation, absorption and symbiosis
Marks and Mirvis (1992a,b)	Degree of integration	Separate holding, strategic control, managed subsidiary, operational control, merged and consolidated
Napier (1989)	Type of merger and acquisition	Extension mergers, collaborative mergers and redesign mergers
Schweiger, Csiszar and Napier (1994)	Technical configuration changes in value chain Organisational changes in value chain	Independent, linked or interrelated, eliminated and absorbed Integration, assimilation, novation
Elsass and Veiga (1994)	Organisational integration	Forces: acquisition motive and implementation processes

Appendixes for Chapter 7

Appendix 7.1 Chronologies

Chronology of Phase Two

8 and 9.10.91	Gjensidige buys 8.8 % of the shares in Forenede
10.12.91	Gjensidige´s CEO phones Forenede´s CEO and informs him about Gjensidige´s intentions
10.12.91	Gjensidige´s CEO sends a letter to the Minister of Finance to inform him about Gjensidige´s intentions
10.12.91	Gjensidige enters option contracts for rights to buy 46 % of the shares in Forenede
15.12.91	The boards of directors and the management of the two companies meet
20.12.91	The board of directors in Gjensidige sends declaration of intentions to Forenede´s board of directors
24.12.91	Application for concession is sent to the Ministry of Finance
27.12.91	Gjensidige offers the shareholders in Forenede to buy shares at a price of 145 NOK
2.1.92	The supervisory boards in Gjensidige Skade and Gjensidige Liv give their approval of the take-over attempt
3.1.92	Codan offers the shareholders in Forenede to buy shares at a price of 200 NOK
6.1.92	The board of directors in Forenede assesses the offers from Codan and Gjensidige
30.4.92	The Ministry of Finance turns down both applicants
22.6.92	The Price Council approves Gjensidige's attempt to acquire Forenede
30.6.92	The Ministry of Finance grants Gjensidige concession
14.8.92	Gjensidige's offer to solve Forenede's liquidity problems by a private placement is accepted
21.9.92	Forenede's supervisory board changes the Articles of Association
28.10.92	Codan and Gjensidige enter an option contract where Gjensidige is entitled to buy Codan´s shares in Forenede

Chronology of Phase Three

6.08.92	The board of directors and the supervisory board decide to co-operate with Gjensidige
11.08.92	The top management teams from Gjensidige and Forenede have their first meeting
18.09.92	A central committee is established
21.10.92	The electronic mail system in Gjensidige sends out a message stating that Gjensidige and Forenede shall no longer compete in the market
5.10.92	Jan Willy Hopland informs his board of directors that he wants to resign
23.10.92	The report from the central committee is put forward
16.11.92	The unit and distribution committee put forward their report
November 1992	The boards of directors in Gjensidige and Forenede approves the new structure
December 1992	Top management for the new organisation is appointed
February 1993	The organisational and professional committees put forward their final reports
1.4.92	Application of concession for approval of new structure is sent to the Ministry of Finance
1.4.92	Transfer of management responsibility in central units
1.1.93	Transfer of management responsibility in local units September 1993 New board of directors in Forenede
1.1.93	Elcon acquires the shares in Forenede BK Finans and Forenede Credit Finans
May 1993	The board of directors in Elcon decides to buy all shares in Forenede Bokreditt Finans, including Pro Finans, BK Finans, Cresco Finans, Sør Finans and Cresco Finans.
27. 09.93	The supervisory board in Elcon approves integration of the financial companies
December 1993	260 employees in the central unit in Oslo move locations

APPENDIX 7.2 Financial Highlights

Table A7.1 Financial Highlights for Gjensidige, Forenede and all Insurance Companies from 1990 to 1994[1]

	Gjensidige							Forenede			All					
	1990	**1991**	**1992**	**1992**	**1993**	**1994**	**1995**	**1990**	**1991**	**1992**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
Non-life																
Gross premiums	4.132 (16.5)	4.050 (15.6)	4180 (15.3)	4956 (18.1)	5261 (18.7)	5324 (18.3)	5272 (19.2)	717 (2.9)	727 (2.8)	799 (2.9)	25123	25.970	27.339	28.199	27.381	27.500
Profit ratio[2]	19.3	14.8	15.3	15.0	19.0	19.7	22.1	18.3	13.1	13.0	11.4	6.8	2.4	15.4	12.7	14.9
Cost ratio[3]	26.4	28.4	29.4	29,0	29.0	28.6	27.9	35.6	36.2	33.6	29.9	29.3	28.9	28.0	26.7	29.3
Solvency margin[4]	107.5	126.6	137.8	128.2	130.2	136.8	148.1	98.5	90.1	87.8	51.5	74.5	81.1	94.0	106.6	111.2
Life																
Premiums written	1.049 (8.1)	1.453 (9.6)	1559 (9.8)	3114 (19.6)	3116 (19.6)	3642 (19.0)	3456 (18.3)	1.329 (10.3)	1.475 (9.6)	1.555 (9.9)	12.963	15.085	15.913	15.882	19.300	18.900
Cost ratio[6]	29.2	26.1	20.0	25.4	21.4	16.9	15.8	27.3	27.1	30.9	20.6	18.6	17.8	17.0	13.47	13.76
Total yield	11.5	9.3	7.4	8.0	13.3	5.4	8.8	8.0	7.4	8.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital ratio	7.2	7.6	5.7		6.9	9.9	9.8	4.4	7.0	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Number of employees	2.106	2.215	2.298	4.190	4.113	4.141	4.235		1.056							

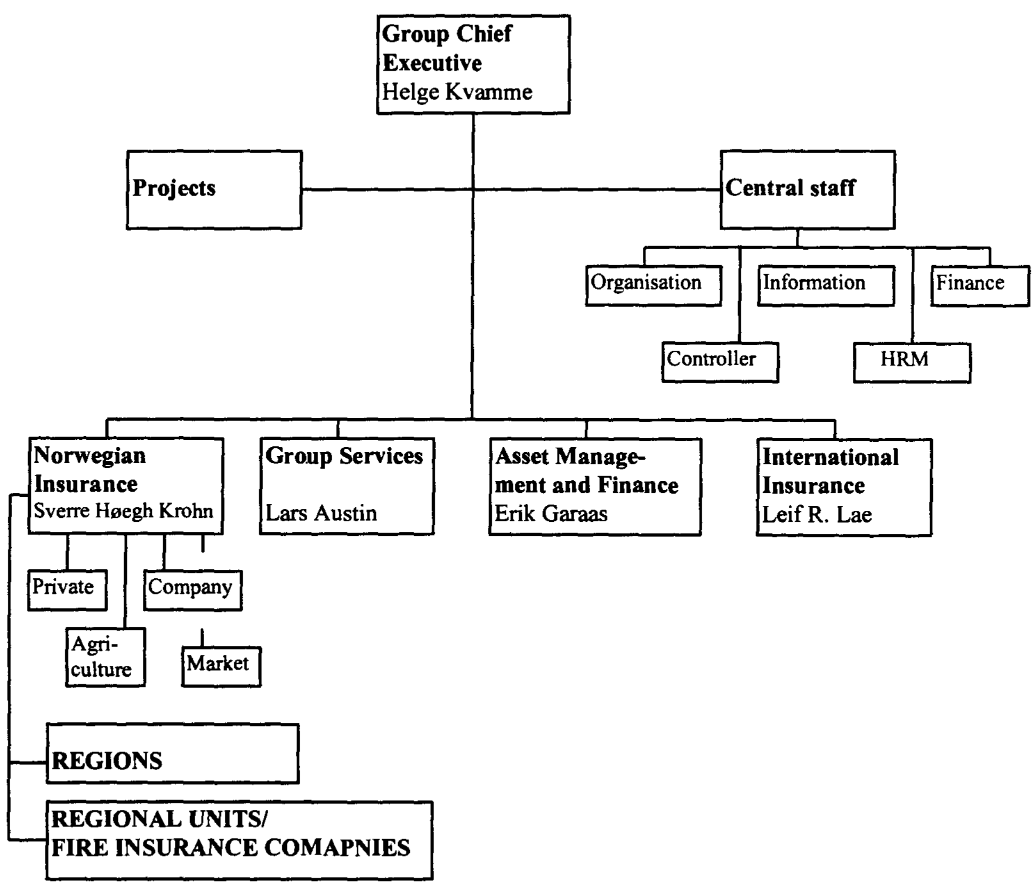
[1] Numbers extracted from Din Forsikring 1991, 1992 and 1994, and from Gjensidige's annual reports 1991, 1992 and 1994, and from Forenede's annual report 1992
[2] Operating profit in per cent of premiums earned for own account
[3] Net costs in per cent of premiums earned for own account
[4] Solvency capital in per cent of premuims earned for own account
[5] "All "includes eight companies
[6]Operating expences in per cent of premiums written

Appendix 7.3 Historical Backgrounds

Historical background for Gjensidige

Gjensidige is the oldest life-assurance company in Norway and the Nordic countries. It was a result of a co-operative agreement entered into in 1974 between Samtrygd, established in 1922, and Gjensidige Liv, founded in 1891. This co-operation was strengthened in 1985 when a common administrative unit, Gjensidige Forsikring, was established. The corporation's head office was situated in Oslo. Helge Kvamme had been the CEO of the Gjensidige Corporation since 1986. Line managers in Gjensidige´s top management were Sverre Høegh Krohn, Lars Austin and Erik Garaas. The organisational structure of Gjensidige in 1991 is shown in figure A7.1 below.

Figure A7.1 Gjensidige's Organisational Structure



Life and non-life-assurance. The dominant activity in Gjensidige´s insurance business was non-life-assurance. Although the corporation had expanded its life-assurance business substantially in the late 1980s, from 737 in 1986 to 1561 in 1992, non-life-assurance was still dominant. This dominance was reflected in the corporation's management where most of the leaders were recruited from the non-life sector. The structure of the group's operations into market segments also contributed to this pattern. The fire insurance entities had traditionally also been more strongly linked to Gjensidige's non-life-assurance business through the systems of election.

Life-assurance was sold as a supplementary product to non-life-assurance utilising the opportunity of cross-selling products in Gjensidige's fine-meshed network of offices. Gjensidige's strategy was to further expand into the market of life-assurance to utilise this opportunity of cross-selling.

Relationship between central and local units. In 1991 Gjensidige had five regions with full business responsibility in addition to a number of legally independent mutual fire insurance companies and regional units, 200 sales offices altogether. The independent entities undertook fire insurance for their own account and represented Gjensidige for all other types of insurance. Over the past few years there had been a development towards fewer and larger entities, and the number of entities was reduced from 103 in 1985 to 48 in 1991. However, the reduction in the number of units also led to a more uneven distribution of size, and hence a more complicated structure to manage. Just before the acquisition of Forenede, Gjensidige established a marketing unit with responsibility for co-ordinating the activities in promotion and advertising. Although there was an increasing acknowledgement for the need to co-ordinate the operations on marketing, this work had not come very far.

Although these entities were legally independent with full business responsibility and their own boards of directors which appointed the managing director, there was strong interdependence between the independent entities and the central units. This interdependence was reflected in group loyalty, commitment and co-operation. All entities in the corporation, local as well as central, were mutual, and used a common logo that emphasised the long-standing tradition of the group. This logo symbolised a watchman from the olden days together with the saying "Tiden går, Gjensidige består" (As time goes by, Gjensidige persists). Finally, there was a formal agreement regulating the relationship between the central and local units.

The structure of independent entities also ensured continuity as a new board and a new director would seldom be replaced simultaneously. Moreover, the extensive decentralisation in the corporation seemed to make the managing directors of the local units very business oriented.

Decision-making. Because of its constitutional structure the central units were not in a position to command the legal independent units to follow their instructions, but had to "sell" their ideas and opinions. Managers and employees in Gjensidige describe decision-making in the corporation as a democratic, lengthy process where a large number of people were invited to participate and influence the process. This feature was not only reflected in the central units′ relationship to the local entities, but also in the organisation's relationship to its employees who were involved to a large extent and effectively influenced the decisions.

The CEO of Gjensidige, Helge Kvamme, characterised the decision process in a letter to the corporation's top management dated 1st March 1993:

> It is a form of organisation that is cumbersome and time-consuming in many instances. However, because it spreads risk it provides protection against wrong decisions.

One manager in the Forenede corporation claims that in Gjensidige decisions were not made, but evolved through a lengthy process. He says:

> In Gjensidige's organisation this is a process that takes a long time. The dough is made, kneaded, pulled together again, extended, and kneaded again. It is like a real bakery. Then, it happens that when you put the buns in the oven, you have to take them out again because they are not sufficiently raised, and then start all over again.

Core competence and marketing approach. The core competence and the dedication of resources in the corporation were in the area of technical insurance, and Gjensidige had a separate unit of development in this area. Both in Gjensidige Skade and Gjensidige Liv professionals held the key management positions. As a result of this focus on the development of professional skills, Gjensidige was also among the foremost companies in upgrading its products and systems to meet the regulatory requirements.

In Forenede Aktuelt No. 1, 1993, Torstein Øverland, new manager of the life-assurance division, reflected on the differences between Gjensidige and Forenede:

> Forenede has allocated substantial resources to marketing and made this a core area for innovation and development. In Gjensidige the core competencies are within technical insurance.

Gjensidige's reward systems were directed towards preserving its customers, apparently independent of how much they contributed to the total earnings. Compared to Forenede, Gjensidige was less focused on selecting specific customer segments and less outreaching. This was partly due to the extensive network of offices scattered all around the country, in particular the rural areas, where the customers traditionally had come to the offices to set up their insurance policies. Furthermore, the extent of co-ordination of sales and marketing was rather limited as mentioned above.

Personnel policy. One of the most prevalent features of Gjensidige´s culture as described by managers and employees of both former organisations was its caring orientation which also was reflected in its attitude towards its customers. One newcomer describes his experience of the culture:

> In Gjensidige it is like a religion. It is an organisation with long traditions and a high degree of stability and people stay for a very long time. The employee relations in Gjensidige could probably be compared to Japanese conditions. There is a high loyalty to the company, one feels that the organisation has not commercial goals only, but is a movement that originates from local roots.

The turnover in Gjensidige was extremely low. In the central units, it was below the average for the country, in the local units there was hardly any turnover at all. Gjensidige´s caring culture was also reflected in the organisation's reluctance to lay off people. One employee in the Gjensidige organisation says that "In Gjensidige insurance agents will not quit until they are shot".

The caring culture and democratic decision-making structure in Gjensidige were deeply rooted in its long traditions and company structure. These particular features seem to have made the organisation rather slow to adapt to rapid changes in the environment, although that had not been a disadvantage in the past.

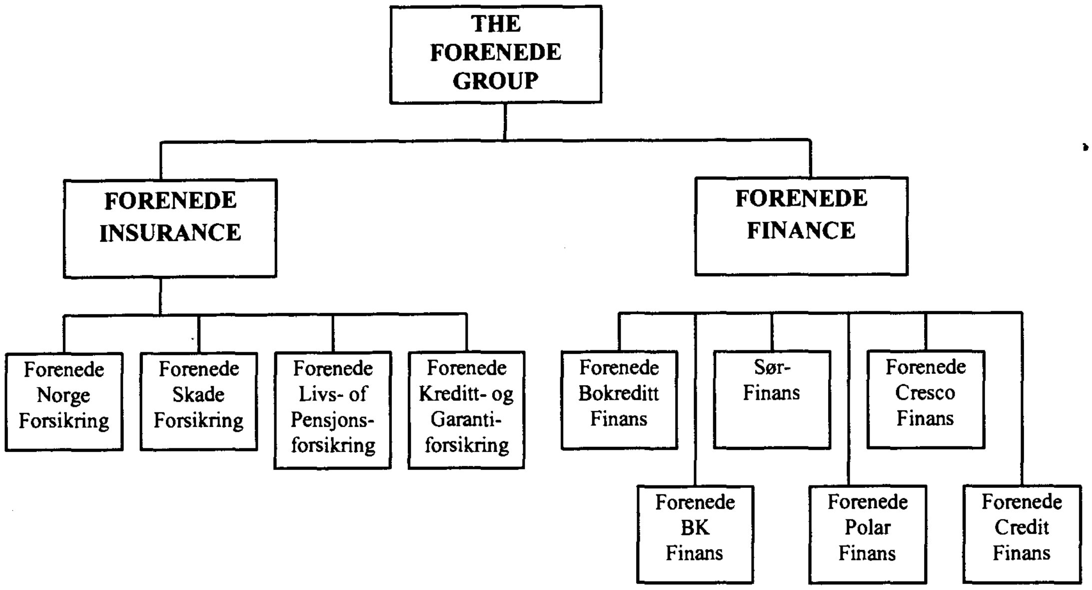
The implications for integration of cultures and identities will be discussed after describing Forenede´s historical background.

Historical background for Forenede

The origin of the Forenede Corporation was Trondheim´s Branforsikringsselskap founded in 1863. This company acquired the majority of the shares in Norske Forenede Livforsikringsselskap in 1927 which was founded in 1857 and merged with Sparetrygden in 1968.

The Forenede corporation was organised as shown in figure A7.2 below.

Figure A7.2 Organisational Structure for the Forenede Group



Jan Willy Hopland had been the director of Forenede Liv since 1976 and CEO for the group from its beginning in 1979. The two line managers were Kjell Fossli, deputy managing director of insurance and Bente Rathe, deputy managing director of asset management.

Life and non-life-assurance. Life-assurance was the core activity in the Forenede corporation. As such, non-life-assurance was sold as a supplementary product to life-assurance. This also implied that the life-assurance sector had to bear the majority of the costs in distribution.

In the life-assurance segment, Forenede apparently struggled with its development of a new life-assurance computer system in the private sector. Part of this problem was the new rules and regulations from the government, requiring constant changes and adaptation. At the time Gjensidige approached Forenede, these operations were about to be transferred to Trondheim (see next sub-section).

Forenede´s strategy was to grow in the non-life-assurance segment which was quite a profitable business for the company, see table A7.1. The acquisition of Norge Forsikring in 1987/88, was a part of this strategy, and was acquired in competition with Gjensidige.

Relationship between Trondheim and Oslo. Forenede´s head office was situated in Trondheim. However, a substantial part of Forenede´s operations took place in Oslo, and indeed there were more employees in Oslo than in Trondheim in the life-assurance operations. The operations in Oslo included private and group life-assurance, whereas Trondheim handled company pensions and non-life-assurance. Forenede´s strategy was to strengthen its operations in Trondheim at the expense of the Oslo office.

One member of Forenede´s top management describes the situation:

> The organisation in Oslo was scared stiff that the production operations were to be moved to Trondheim... Our long term strategy was to move the production to Trondheim and over time reduce everything apart from the sales activities in Oslo. This was sensed by the organisation.

As the chief actuary and computer technology competence were moved to Trondheim, and all new development projects were allocated there, the employees in Oslo began to feel insecure about their future in the company. Thus, the tension between Trondheim and Oslo was increasing. According to one former manager in Forenede, the Oslo office was more concerned with maintaining their status and size relative to Trondheim, than pursuing customers and achieving results.

Decision-making process. Compared to Gjensidige, Forenede had much more of a line management with centralised control in the Trondheim head office. Managers and employees in both Gjensidige and Forenede describe Forenede as a commanding organisation where a decision was taken at the top and expressed as an order through the system. Many used phases from the army as metaphors when characterising decision-making in Forenede. One example of this is the following statement from an employee in Gjensidige:

> My perception of the decision-making in Forenede is that it is based on a command structure where the top manager says go and the troops act accordingly...

According to the union representatives their opinion did not matter much when it came to changing the organisational structure, something which seemed to happen quite frequently. The employees seemed to have followed instructions from the organisation's top management without questioning, and people from both Gjensidige and Forenede describe the employees of Forenede as very loyal.

In contrast to Gjensidige where there was traditionally a lengthy and time-consuming debate before making important decisions, the decisions in Forenede were made in a swift and dynamic manner. One top manager in Forenede claims that the decisions were often made so swiftly that the debate came afterwards.

Core competence and marketing approach. The driving force in Forenede was the marketing unit. This unit not only directed the corporation's marketing and sales initiative, but also the product development in the corporation. A member of the top management group in former Forenede says:

> Forenede was a very uncharacteristic organisation. More than 60 per cent of the employees within the insurance operations were employed in the marketing unit. You do not find this anywhere else in Europe. We were a completely different and offensive organisation where the marketing unit was much more in charge. It was a marketing organisation.

Few professionals in Forenede were involved in product development, and there was no single department dedicated to this purpose. One effect of this policy was according to one key manager that Forenede lagged somewhat behind in keeping up with recent developments in the government's rules and regulations.

The head of the marketing unit was Kjell Fossli. As Jan Willy Hopland became more and more involved in the conflicts between the owners of the company, Kjell Fossli became the chief operating officer, if not in name, than in practice. One manager from Forenede says:

> The marketing group was a very dominating feature of Forenede's organisation. Kjell Fossli as deputy director played a relatively dominant role in the organisation. Hopland listened to what he said, and I believe that a large part of the growth and development in Forenede was due to his policy of how to approach the market.

In Forenede, there was a close relationship between the assurers and the marketing management, and the insurance sales people were followed up on a daily to weekly basis. The assurers were rewarded and measured in a manner that stimulated the selling of new insurance, rather than maintaining customer relationships. Thus, although the company might have had a higher influx of new contracts than its competitors, it also had a higher rate of cancellations. One of the former top managers in Forenede says that "this was a balance between growth and profitability, and some would in retrospect claim that the emphasis on growth was too dominating".

In contrast to Gjensidige where the customers to a large extent came to the offices to be served, Forenede's insurance sales people were more outreaching and worked late nights. Forenede was also more selective in its choice of which customers to pursue. In the market for private insurance, the group's policy was to pursue individuals with a high income and sell them a multi-insurance package. In addition, Forenede had succeeded in developing an attractive portfolio of professional associations and trade organisations.

Personnel policy. The marketing unit had their own personnel files and policy, and they seemed to distance themselves from the central personnel department. The personnel policy was quite harsh compared to the policy in other Norwegian insurance companies, the company had a high rate of turnover among its insurance agents. The management seems to have handled the rules and regulations of employment rather leniently. One top manager in Forenede describes the personnel policy in the marketing unit:

> In Forenede we often tuned the group of insurance sales people. If there were 250 assurers and there was a negative development, we decided to get rid of the 70 worst performers. We started to cleanse the organisation systematically after which there was an increase in productivity. The insurance sales people who were left sold more than the 250 assurers all together.

One assurer in Forenede says that the corporation always have had a harsh personnel policy, almost without scruples. Another claims that Forenede "chewed their assurers and spit them out again". To lay someone off was perceived as mere routine in the company, and respondents claim that the company controlled their insurance agents using threats.

Appendix 7.4. Concessions

The most important concessions made in this document sent to Forenede's board of directors 20th December 1991.

> We intend to keep Forenede Liv as an ongoing corporation with its head office and management in Trondheim... The company will continue to operate as a limited company.
>
> The non-life operations will be continued, but integrated in the Gjensidige group's non-life activities.
>
> The intention of the acquisition is to strengthen Gjensidige and Forenede's joint position in the Norwegian insurance market through an integration of operations. The joint operation will be an active and strong competitor to the benefit of the market and our customers. To achieve this aim, we have to take the best from each organisation without any special consideration to Gjensidige as the acquirer. (My underlining.)
>
> Employees in the joint organisation will be given equal opportunities when the organisation is changed. Re-deploying tasks will be emphasised, and it is neither the intention nor the desire to reduce costs in the combination process through lay offs. (My underlining.)
>
> Forenede stands for traditions we want to hold on to. To achieve continuity in the steering bodies we will aim to ensure that Forenede's customers and organisational attachment are reflected in the bodies of the new corporation both locally and centrally.
>
> The person in charge of Forenede Liv will be a member of Gjensidige's top management team.
>
> We wish the head office operations to be located in both Oslo and Trondheim. In addition to Forenede Liv which naturally will have its head office in Trondheim, we foresee that a joint entity of the professional associations and trade organisations and primary industry and/or the whole or part of the financial operations may be situated in Trondheim.
>
> Nationally we wish to maintain the businesses wherever Forenede and/or Gjensidige are represented. In places where there is an overlap between the customers, an integration is natural. This local integration will normally happen with the local Gjensidige unit as the acquiring party.

Appendix 7.5 Guidelines for the Positioning Process in Gjensidige

Openness and information. In the report from the committee of personnel recruitment it was stated that "The guidelines and criteria for co-ordination and appointment for positions shall be known and easy accessible" and that "Information about the process is to be given consecutively. New positions and positions that are not filled by any present occupant are to be publicly advertised."

The recruiting committee's report was to be accessible to all employees and was sent out to all departments and units. Shortly after Easter 1993, an internal advertisement journal was sent out to the employees in the two organisations. This was the first journal of a total of 8. Approximately 500 jobs were advertised through this journal.

Three categories of positions were established. These were co-ordinated positions, new positions and vacancies. Only new positions and vacancies were advertised, and employees did not have to apply for their own jobs. Candidates applying for jobs were to be assessed according to four criteria; (1) fulfilment of job requirements, (2) probability that the applicant's present job would be discontinued, (3) fit into the department in terms of age, gender and organisational affiliation, and (4) seniority. For managers the first and third criteria were to be used.

When two or more candidates applied for the same position, the appointments were to be treated in one of the two appointment councils consisting of representatives from the personnel department and from the unions.

The report on personnel recruiting was apparently perceived as thorough and fair by the management and employees in both organisations. One representative from Forenede for example says that "the report was great as a starting point". However "it did not always work the way it was intended. One thing is to set up criteria, another is to get the area and local managers to follow them in detail". One middle manager in a quite large local entity did for example not have knowledge of the committee's report and was rather stunned when he and his colleague got their new and downgraded jobs presented at a meeting with several other attending managers.

Purpose and opportunities. According to the report the purpose was to move tasks, not individuals if this is necessary. Change of location was to be based on employees' own desires. Moreover, the report stated that the process should give the employees the best possible departure for development and competence building. Before the employee made a decision on his future work situation, the alternatives were to be known in so far as this was feasible

Apart from some of the operations in Trondheim, this reallocation was a free process where the employees could either choose to stay in their present positions or apply for new jobs. By organising the process in this manner, Gjensidige hoped to encourage the best qualified and most adaptive employees to change jobs. One key manager from Gjensidige says:

> We wanted to stimulate the most talented people to apply for jobs within priority areas... We did not want a C-team of people in every department whom no manager wanted.

The employees working in the non-life sector in Trondheim had no choice but to apply for new jobs. These were mainly women in their 40s and 50s with long seniority and little education. The conversion of Forenede's portfolio seemed to have somewhat complicated the transfer to new jobs because of the time lag between being accepted for and starting in the new job. Moreover, the employees in Trondheim felt under pressure to apply for and accept jobs before they had a review of all their alternatives. As a consequence of this they were allowed to have a second and sometimes even a third choice of new jobs.

Equality and security. The report on recruitment of personnel followed up the declaration of concessions and stated that all permanent staff should be assured positions in the new corporation. Moreover, there would be equal opportunities for the employees in the joint corporation when the necessary organisational adjustments are implemented.

However, employees in Forenede expressed that some of the recommendations could not be accomplished because of the predetermination of positions following Gjensidige's distribution network. Nevertheless, because of the employees' knowledge of this report, shortcuts became more difficult.

Appendix 7.6 Quotations

p. 158 and 159

Den som er mye større og da den førende i fusjonen har valget mellom to strategier. Den ene strategien er å gjennomføre dette etter seierherrens prinsipp, og skjære bort alt som er unyttbart i den mindre organisasjonen og ta til inntekt det som er mulig. Men man kan også velge en annen strategi... Fordi man er stor så har man råd til å søke lenger og søke bedre frem det som er godt i den lille organisasjonen. Vi har valgt den siste strategien fordi vi mener at vi kan ta vare på de langsiktige verdier på en bedre måte... Det er klart rent psykologisk så er det en kjempestor fordel å velge en slik variant. De som kommer fra den mindre organisasjonen vil da ikke føle dette som en trussel. I tillegg vil den store organisasjonen ikke føle seg overkjørt fordi den likevel er så stor og den som eier uansett.

p. 164

Jeg ser ikke på hvilken måte de kunne kjøre parallelle løp i forhold til det å forberede seg på en eventuell fusjon. De kjente intensjonene, de kjente Gjensidige's organisasjon, men de kjente ikke strategien eller fikk være med på strategidrøftinger om hvordan det skulle bli. Jeg tror ikke de mentalt eller på noen annen måte aksepterte at Gjensidige's oppkjøp av Forenede kunne bli en realitet.

Vi gjorde oss noen tanker, men det var mer frykt for hva da. Vi laget ikke noen konstruktive planer for det scenariet. Utgangspunktet var at man ikke skulle gjennomføre kjøpet dersom det ikke ble mottatt positivt i ledelsen og de styrende organer. Vi opplevde det så uvennlig at vi hadde problemer med å se hvordan vi ble invitert til en reell medvirkning.

p. 165

I den tiden ble det veldig fronter... Det var ingen som turde å snakke med meg, jeg hørte jo til fienden, Gjensidige... I ettertid synes jeg vi skulle vært flinkere å ha kontakt og sett vårt fellesskap som tillitsvalgte på et tidligere tidspunkt... I FL blandet vi det å ta kontakt med det å ta parti.

p. 166

Jeg hadde etterhvert et nettverk med Forenede ansatte som gav meg informasjon. Jeg kan nok i dag si med en viss ærlighet fordi jeg aldri bad om å få det, men de meldte seg etterhvert selv. Det var sågar folk på tillitsvalgtnivå, riktignok ikke plassert i Trondheim. Det gav meg en viss nyansering fordi det var ingen tvil at det som kom sentralt fra Trondheim... nok gav et skjevt bilde av hva organisasjonen totalt mente.

p. 168

De største vanskelighetene har vi hatt med myndighetene og deres sene behandling. Vi har aldri hatt følelsen at noen har motarbeidet noe som helst, men realiteten i den saksbehandlingen er at vi har fått massevis av problemer som vi ellers ikke ville ha fått. Vi kan ikke gjøre noe før vi har fått de formelle beslutningene. Da går vi og venter og vet ikke hva vi skal gjøre.

p. 168 and 169

Vi har tatt ut noe, men det er klart at det er veldig mye å ta ut ennå i hvert fall innenfor mitt område... Skal vi ta ut noe mer, så må vi fusjonere begge livselskapene. For det andre må vi investere en god del for å komme over på ny teknologiplattform på endel områder.

p. 169

Vi har nok endel sløyfer fortsatt å rette ut. En leder for et område sitter i Trondheim, og en del av det området er lagt til Oslo. Så har de igjen visse underfunksjoner som ligger i Trondheim, og jeg skal ikke totalt utelukke at det kanskje er noe i 4. ledd. Det må vi selvfølgelig gradvis få bort, men dette er en prosess. Det viktigste av alt er at vi nå ikke mister noen babyer i skyllevannet.

p. 170

Gjensidige har jo økonomi til å stå løpet. Og det er klart at også en organisasjon som Gjensidige med fire milliarder i overskudd i fjor. jeg mener det er ikke noen forståelse i organisasjonen for å si opp folk, og det må man akseptere.

p.172

Jeg tror ikke de var vant til å jobbe med organisasjonsutvalg. Alle endringer i Gjensidige har skjedd gjennom utvalg der en har fått anledning til å komme med innspill. Måten å jobbe på var ny for Forenede.

I det lange løp så går det ikke an å gjøre dette hurtig... Det du kjøper er menneskers kunnskap og tillit til organisasjonen og kundenes tillit til dem. Hvis du mister det, har du igrunnen mistet mesteparten av det som var verdien av hele kjøpet. Derfor må man bruke tiden som er nødvendig for å skape sikkerhet og trygghet blant dem som sitter med nøkkelkompetansen.

p. 176

Jeg hadde folk som jeg kjente godt i Gjensidige. De ble ikke forespurt engang.

Mange advarte meg mot å ta så mange fra Forenede. Jeg så risikoen der, men tok den fordi dem kjente jeg, jeg kunne stole på dem. Jeg visste svakhetene dere og styrkene.

Da vi holdt på med denne integrasjonsprosessen her, så var vi jo Forenede og Gjensidige Oslo. Så hadde du Forenede i Trondheim. Så ble det plutselig vi og Trondheim som ble to forskjellige grupper i forhold til tidligere Forenede og Gjensidige. Ikke sånn formelt, men man hadde jo de samme problemstillingene.

p. 179

Jeg gikk såpass tidlig og raskt ut at mange sa til meg at han snur kappen etter vinden. Det er jo engang slik at det er lett å sitte på tribunen fremfor å stå midt i sølepytten.

p. 180

Det har bare på en måte smeltet sammen veldig fort. Mange er kommet inn i nye avdelinger..., og da spiller det ikke noen rolle hvor du kommer fra. Da er man nye alle sammen.

Det er noe av det gode jeg føler kom ut av den prosessen for de ansatte på lavere nivåer. At det var muligheter til å skifte litt arbeid.

p. 180

Vi ble kanskje litt overrasket over hvor mange ting som ikke var helt gjennomtenkt og for integrasjonsprosessen var det en fordel.

p. 181

I ettertid skjønte vi mye bedre hvorfor de gjorde det slik. Det stemmer overens med måten de jobber på... Jeg tror at for det resultatet som vi begynner å se nå, så har den måten Gjensidige har gjort det på vært veldig bra.

Jeg følte at det var reelle drøftinger vi satt i... Av og til kunne vi skimte bjørnen som sa at OK dit har vi drøftet, men det er dit vi skal. Men i stor grad følte jeg at man lyttet.

p. 182

De signalene som har gått fra Helge Kvamme og Sverre Høgh Krohn det har de nesten hamret inn hele veien... Forenede har masse som Gjensidige ikke hadde, Gjensidige har masse som ikke Forenede hadde.

p. 182 and 183

Skepsisen var veldig dyp, og vi trodde ikke på de fine ordene... Sånn sett har vi blitt veldig positivt overrasket, og det benytter jeg enhver anledning til å si at Gjensidige har kjørt et veldig ryddig løp og stått ved det de sa. Det tror jeg også har bidratt til at prosessen har gått så bra og at resultatet ser ut til å bli så bra.

p. 184

Det nye systemet er ganske forskjellig fra det man var vant til i Forenede. Her er det mer omstendelig. Det er mer byråkratisk på mange måter, det er mye mer formalistisk... Det er klart at man er kommet inn i et sysetm, og man må vel bare ta det til etterretning.. Her er det liksom en annen organisering. I realiteten er det 40 forskjellige firma eller arbeidsgivere. Det er klart at for det første tar det tid å bli ferdige om ting... Så skal tingene modne seg litt rundt omkring før man setter dette i kraft.

p. 185

Mange har sagt Forenede må kollidere veldig med Gjensidige's kultur. Det har det ikke gjort i praksis. Tvert imot så har dette gått veldig greit sammen på det personlige plan rundt om i organisasjonen... Det var nesten påfallende, den eneste forklaringen jeg kan gi på det er at Forenede var relativt raske til å tilpasse seg en ny organisasjon.

p. 188

Det forlenger prosessen i den forstand at vi har nesten all vår kapasitet, jeg vil si all vår kapasitet, de siste årene har gått med til å gjennomføre myndighetspålagte endringskrav.

Hvis en skal se noe negativt her, og nå prater jeg om skadesiden, så har vi jo ikke fått til den veksten som vi satset på. Vi sa at det er veldig viktig nå å få til en vekst. På grunn at man går sammen to organisasjoner så vil det bli overtallighet, og den overtalligheten må vi løse gjennom å få til vekst som gjør at flere mennesker da kan komme igjen i en kundeekspederingssituasjon.

Jeg håper selvfølgelig at det må forsvinne noen ut fra liv...Hvis det ikke gjør det så må vi i hvert fall selge mye mere, og alle de som gir litt input de må skape mer verdier. For p.t. er det veldig mye sånn at vi gjør altfor mye ting som vi ikke bør gjøre, og de tingene vi gjør bør vi gjøre på en mer fornuftig måte. Og vi må gjøre det med de rette folkene. Det må bli en endring.

p. 189 and 190

Vi hadde en periode her hvor den markedsmessige effekten av det å ha to selskaper forsvant i og med at det rant ut av Forenede porteføljen. Forenede navnet liksom visnet hen på en måte. Det skyldes manglende fra før av oppfølging av porteføljen. Veldig mye giret mot nysalg. Det andre var det at vi hadde en lang beleiring og en lang integrasjonsprosess som gjorde at markedsfokusen ble for dårlig.

p. 190

Vi så det nokså tidlig følte jeg at det å sitte igjen med noen livselskap i dette konsernet det virket galt. Etterhvert som jeg sa så blir en flinkere å legge følelser til side. Du blir tvunget til å være mer rasjonell i dine egne vurderinger.

Slik som det er nå så har vi oppi Trondheim tarmer av alt...Så da må man etter min mening rendyrke mer funksjoner. Si at det skal vi ha der og fullt og helt føler jeg og likedan her.

p. 191

Jeg tror det var veldig positivt mottatt i Trondheim. Jeg vet det fordi jeg spurte... I Trondheim var det en bekreftelse på at Gjensidige stod for det de hadde sagt.

p. 192

Ellers vil det bli slik at en stadig kommer opp i diskusjoner Trondheim Oslo, og så føler man at det blir en gradvis tapping av Trondheimsmiljøet. Både av uønsket og ikke nødvendigvis at det er så veldig gjennomtenkt.

Det er ikke til å komme forbi at det er negativt at vi må ha kontorfunksjoner innenfor et område som er så sterkt Oslo dominert på skadesiden, at vi må ha bemanning på forskjellige områder i Trondheim. Det er vanskelig å se fordelene av det.

p. 192

Den har vi forsatt ikke funnet. Vi har funnet en arbeidsform, men der har vi ikke den ideelle løsningen etter mitt syn fortsatt... Der vil det nok komme til å skje en vurdering i 1996.

p. 193 and 194

Jeg tror nok de fleste også vil si at det har ikke blitt noen dreis på det nye marked. Sier man. Også spør jeg, men hva vil dere ha. Hvis det er dreis dere skal ha så skal jeg garantere at etter en måned så skal vi ha full rulle. Jaja, men ikke kom med noe sånn Forenede opplegg. Neimen sier jeg kan dere ikke fortelle meg hva dere vil ha så skal jeg virkelig få det til å svinge... Jeg sier at de roper på noe som de ikke vil ha.

p. 197

I dag så føler jeg at vi har slukt Forenede skade. Vi sitter tilbake med Gjensidige skade med veldig liten påvirkning fra Forenede siden. Vi er tilbake med litt større markedsandeler og et lite ekstra problem som ligger i den fysiske plasseringen.

Jeg tror at det er Gjensidige kulturen som vi nå er blitt ende av. Og at forhåpentlig har vi kanskje tilført den noe fra Forenede som gjør at man har styrket den på Gjensidige kulturens svake punkter. Men det er helt klart at det er Gjensidige rammene som vi fungerer innenfor. Å trekke en annen slutning vil være helt galt.

Forenede er borte med Forenede Liv. Jeg er ansatt i Gjensidige. Spurte dere meg en tid tilbake, ville jeg ikke svart det samme.

p. 198

Det som jo var en realitet det var at det var blåst voldsomt opp at Forenede hadde slik fantastisk salgskultur og var så flinke å selge. Det som har vært en realitet hvis en analyserer hva som skjedde, så var det jo bare en stor bløff hele opplegget... Når vi skrellet appelsinen, så var det jo ikke noen annet enn Gjensidige sitt. Det var endel ting som ikke var tillatt i Gjensidige.

p. X

I Gjensidige organisasjonen er det en prosess som må ta lenger tid. Der skal deigen snus, bakes ut, samles sammen igjen, ispedd noe mer på nytt for å kna det ut igjen, det er nesten som et skikkelig bakeri. Det hender vel mange ganger at man setter bollene i, men må ta de ut igjen for de er ikke hevet nok, og starte på nytt.

p. XI

I Gjensidige er det litt mer religion. Her er det lange tradisjoner, stor grad av stabilitet, folk er her over veldig lang tid, nesten japansk ansettelsesforhold. Stor lojalitet til selskapet, føler at man er i en organisasjon som ikke bare har kommersielle målsettinger, men en bevegelse som er sprunget ut av lokal forankring.

I Gjensidige systemet så sluttet ikke assurandørene før de ble skutt.

p. XIII

Organisasjonen i Oslo var livredd for at Capsil ble utviklet her i Trondheim, og at all produksjonsmiljøet fremover skulle flyttes til Trondheim. Så det var en bombe som lå der, og det var ingen tvil om hva vi ønsket, vi ønsket jo det. Det var jo det vi hadde som en langsiktig strategi, å bygge opp en mye større del av produksjonen i Trondheim, og etterhvert trappe ned annet enn salgsaktivitetene i Oslo. Dette været organisasjonen.

Strukturen i Forenede oppfatter jeg som å være en kommandostruktur der en leder på toppen sa gå så gikk troppene...

p. XIV

Forenede var en veldig atypisk organisasjon. Over 60 prosent av de ansatte i forsikring var ansatt i markedsorganisasjonen. Det ser du ingen andre steder enn i Europa. Vi var en helt annen offensiv organisasjon hvor det var markedsorganisjonen som styrte mer. Det var en salgsorganisjon.

Det som har vært et sterkt dominerende element i Forenede's organisasjon var markedsorganisasjon. Kjell Fossli som viseadministrerende direktør spilte en relativt dominerende rolle i den organisasjonen. Hopland lyttet mye til ham, og mye av vekst og utvikling som Forenede var inne i tror jeg ble til ved at man i stor grad fulgte Fossli´s opplegg for hvordan man skulle angripe markedet.

Da fikk du en balansegang mellom vekst og lønnsomhet. Noen vil nok i ettertid si at veksten for dominerende.

p. XV

Vi i Forenede vi trimmet apparatet rett som det var. Var vi 250 selgere og vi så at de begynte å bli dårlig, da sa vi at da må vi ta bort de 70 nederste. Da begynte vi å rense organisasjonen systematisk. Da steg produktiviteten. Vi solgte mer på dem som var igjen enn alle disse tilsammen.

Tygget assurandørene og spyttet dem ut igjen.

p. XVIII

Det ville være veldig positivt i organisasjonen og miljøet hvis vi kunne stimulere til å la de beste, de mest ressurssterke, de som omstillingsvillige og dyktige til å søke nye utfordringer... Vi skulle ikke te oss slik at vi satt igjen med et C-lag på bånn.

Appendixes for chapter 8

Appendix 8.1 Chronologies

Chronology of Phase Two

End of June 1989	The two CEOs have their first meeting. Theme: Integration of international networks
July 1989	The two CEO's second meeting where they agree to pursue a merger between Bergen Bank and DnC
Early August	The CEO's and chairmen of the boards meet. Agreement in principle is reached, letter of intent is signed and further progress is agreed.
September 1989	The Norwegian authorities are informed about the intention to merge
2.10 89	The boards of directors, The Central Bank of Norway, the Bank, Insurance and Securities Commission, the chairman of the supervisory boards and the Ministry of Finance are informed.
4.10.89	The Parliament is informed

Chronology of Phase Three

5. 10.89	The boards of directors approve the intention agreement. Public announcement of plans to merge
6.10.89	First number of joint internal newsletter replacing the two former
7.10.89	General meeting with managers and union representatives
7-8.10.89	The new top management meet to discuss the integration process
9.10.89	Local entities are informed
14.10.89	First meeting in the corporate steering committee
23.10.89	The boards of directors approve the merger agreement The concession application is sent to the Ministry of Finance
End of October 1989	The corporate steering committee approve mandate and working schedule for the division committees
November 1989	Most divisional committees hand in their suggestions for business strategy and organisational structure
1.11.89	The supervisory boards approve the merger agreement
28.11.89	The shareholders meetings' approve the merger agreement
December 1989	Area managers are appointed
1.1.89	Bergen Bank and DnC emerge as one accounting entity

15.1.90	Transfer of command to managers on corporate level
31.1.90	The new logo is presented
1.2.90	Integration reports from the divisional and corporate sub-committees are handed in
16.2.90	The Norwegian Authorities give concession for Bergen Bank and DnC to merge
23.2.90	The top management presents its estimates on manning concluding that the employees in excess amount to 1100-1200
6.3.90	The suggestion for manning is approved in the interim board
3.4.90	The first supervisory board meeting in DnB
4.4.90 in	The employees receive a letter from the bank concerning their employment DnB
Easter 1990	The banking computer systems are integrated
17.4.90	Legal integration The new bank becomes operative
14.5.90	Kristian Rambjør resigns
2-5.6.90	The two banks' databases are integrated
June/July 1990	The two banks' financial reporting systems are integrated

Chronology for phase 4

3.12. 90	Finn Hvistendahl is appointed deputy corporate executive officer from the first of February and Gade Greve´s successor
April 1991	The process leading to a reorganisation of the bank is initiated
June 1991	DnB receives 939 million NOK of preference capital from the Commercial Bank Guarantee Fund
6.8.91	Finn Hvistendahl is appointed CEO
1.10.91	Reidar Lien, head of the Banking Division, resigns
October 1991	Announcement of reorganisation of Banking Division into Consumer and Small and Medium Sized Businesses Divisions
	The Commercial Bank Guarantee Fund supplies DnB with 1.25 billion NOK in preference capital
End of November 1991	Announcement that International Division and Corporate Customers Division are to be integrated

December 1991	The Government Bank Insurance Fund puts 3.25 billion NOK in core capital into the bank. In addition the Government Investment funds acts as an underwriter for 1.675 billion NOK. As part of this deal DnB acquires Realkreditt
January 1992	The new regional managers are appointed
March 1992	340 employees are laid off
November 1992	The Government Bank Insurance Fund supplies the bank with a capital of 2.1 billion NOK.

Appendix 8.2 Financial Highlights

Table A8.1. Asset Capital, Total Loans and Number of Employees in DnC, Bergen Bank and the Commercial banks in the Period 1986-1989. Numbers in Million NOK and in Per Cent.

	DnC			Bergen Bank		
	Asset capital	**Gross loans**	**Number of employees**	**Asset capital**	**Gross loans**	**Number of employees**
1986	84.833 (28.1)	52.912 (26.0)	5015	55.503 (18.4)	41.379 (20.3)	3376
1987	90.757 (25.2)	58.988 (24.3)	4923	78.263 (21.5)	49.246 (20.3)	3574
1988	75.865 (21.8)	51.447 (20.5)	4332	78.254 (22.5)	60.553 (24.1)	3546
1989	75.795 (20.7)	57.255 (20.7)	3616	89.277 (24.4)	73.042 (26.4)	3433

Table A8.2. Financial Highlights for DnC, Bergen Bank and the Commercial Banks in the Period 1986-1989. Numbers in million NOK and Per Cent of Asset Capital.

	1986	**1987**	**1988**	**1989**
Losses				
- DnC	500 (0.69)	980 (1.12)	1329 (1.60)	1178 (1.55)
- Bergen Bank	244 (0.50)	389 (0.58)	797 (1.02)	866 (1.03)
- Commercial banks	1.383 (0.52)	3.170 (0.95)	5.420 (1.52)	5.554 (1.56)
Operating profit after losses				
- DnC	670 (0.92)	- 1.227 (- 1.40)	- 696 (- 0.84)	- 261 (- 0.34)
- Bergen Bank	651 (1.33)	374 (0.56)	275 (0.35)	846 (1.01)
- Commercial banks	2.410 (0.80)	- 1.292 (- 0.35)	- 908 (- 0.26)	91 (0.02)

Table A8.3 Financial Highlights for DnB in the Period 1989-1994

	1989	1990	1991	1992	1993	1994
Net interest and credit commission income	5441 (2.73)	4975 (2.51)	4662 (2.71)	4675 (2.44)	5372 (3.08)	4744 (3.01)
Total other operating income	4130 (2.07)	3566 (1.81)	2359 (1.37)	2689 (1.40)	3486 (2.00)	2450 (1.66)
Total other opera-tinge expenses	5991 (3.00)	5980 (3.03)	5772 (3.36)	4763 (2.48)	4607 (2.64)	4606 (2.92)
Net losses, write downs and gains on fixed assets, etc.				815 (0.43)	156 (0.09)	12 (0.01)
Profit before losses	3580 (1.80)	2543 (1.29)	1249 (0.73)	1786 (0.93)	4095 (2.35)	2576 (1.64)
Losses/ (reversals) on loans and guarantees	3237 (1.62)	3803 (1.93)	5580 (3.25)	4842 (2.53)	3113 (1.79)	(114) (0.07)
Operating profit	343 (0.17)	-1260 (-0.64)	-4331 (-2.52)	-3055 (-1.59)	982 (0.56)	2689 (1.71)
Subordinated and preference capital	6762	6102	7713	11637	11373	6966
Untaxed equity/ Net pension premium fund	1759	1503	649	663		
Equity	4503	4324	690	286	4136	10493
Asset capital	198680	195538	195821	187810	160595	154366

Table A8.4 Reduction in Man Labour Years and in Per Cent Distributed on Divisions and Units

	1990 Parent bank	1990 Group	1991 Parent bank	1991 Group
Banking Division	278 (6.5)	474 (8.6)	192 (4.8)	527 (10.4)
Internal Operations Division	92 (8.3)	95 (8.5)	27 (2.7)	26 (2.6)
Investment Banking Division	96 (20.0)	102 (19.1)	80 (20.4)	103 (23.5)
Corporate Division	30 (15.6)	41 (16.9)	- 8 (- 4.9)	1 (0.5)
International Division	15 (8.9)	223 (28.1)	11 (7.2)	94 (16.5)
Corporate staff	30 (10.4)	52 (10.9)	29 (11.2)	71 (16.6)
Reorganisation department			- 55	- 55
Sum	541 (8.3)	987 (11.4)	276 (4.6)	767 (10.0)

Appendix 8.3 Historical Backgrounds

Historical background for Bergen Bank

Bergen Bank was a result of the merger in 1975 between Bergens Privatbank founded in 1855 and Bergens Kreditbank founded in 1928. At the time of the merger the asset capital in the bank amounted to 8.5 million NOK and the number of employees was 2300. During the 1980s the bank had a strong expansion within retail banking and related services. After the Norwegian authorities liberalised the concession rules for establishing new branches, Bergen Bank became a nation-wide bank with representation in all the nineteen counties in Norway. Moreover, the bank expanded the range of financial services after acquiring a number of businesses during the 1980s. By the end of 1989 the bank's asset capital had increased to over 89 billion NOK and the bank employed 3183 people.

Retail and corporate banking. Bergen Bank's operations in 1989 were structured into two main business areas, retail and corporate banking. Retail banking had a very strong standing in Bergen Bank, and three of the bank's six divisions were dedicated to this business area. These were Division Oslo, managed by Tor Brekke; Division Bergen, managed by Ove Johannessen; and Division Branches, managed by Oddbjørn Velve. From September 1989 Reidar Lien became deputy managing director for the retail operations, responsible for co-ordinating the activities in these three divisions.

Corporate banking was also organised in three divisions. These were the Foreign Exchange and Money Market Division, managed by Svein Eidem, the Capital Market Division, managed by Kjell Frønsdal; and International Division, managed by Tom Grøndahl. These three divisions were, like the retail divisions put together in one business area with deputy managing director, Øivin Fjeldstad, as co-ordinator. Bergen Bank's organisational structure in 1989 is illustrated in figure A8.1.

Figure A8.1. Organisational Structure for Bergen Bank in 1989

- **Corporate Management**
  CEO Egil Gade Greve
  Deputy Managing Director
  Ingebrigt Børsheim
  Deputy Managing Director Retail
  Reidar Lien
  Deputy Managing Director Corporate
  Øivind Fjeldstad
  - **Division Bergen** – Ove Johannessen
  - **Division Oslo** – Tor Brekke
  - **Division Branches** – Oddbjørn Vevle
  - **International Division** – Tom Grøndahl
  - **Investment Banking** – Kjell Frønsdahl
  - **Foreign Exchange** – Svein Eidem

Division between Bergen and Oslo. One characteristic of Bergen Bank that distinguished it from a number of other banks, was the division of the top management group between Oslo and Bergen. Indeed, this division was probably the reason why Bergen Bank had no official head office. Until the merger with DnC there was an equal balance in the operation between the two cities with just below 30 per cent of asset capital in Bergen, just above 30 per cent in Oslo and about 40 per cent in the rest of the country.

Apart from the division in Oslo, the bank's retail operation was managed from Bergen. The appointment of Reidar Lien as the head and co-ordinator of the three divisions situated in Bergen further emphasised this picture. The corporate banking activities were in contrast all managed from Oslo. The concentration of the corporate operations in Oslo and the retail activities in Bergen was deeply rooted in the bank's past, even before the merger between Bergens Kreditbank and Bergens Privatbank in 1975.

This division between the retail and corporate operations in the two cities seems to have resulted in the development of two distinct sub-cultures. One key manager from former Bergen Bank claims that the cultural differences between Bergen Bank Bergen and Bergen Bank Oslo were greater than the differences between Bergen Bank Oslo and DnC. This pattern was probably strengthened by the common background and close relationships that often existed between the employees in the various banks in corporate banking.

International orientation. Bergen Bank's ambition was to become one of Norway's leading international banks. To achieve this ambition the bank established branches in London and New York, subsidiaries in Singapore and Luxembourg besides around ten representative offices. Moreover, the bank entered into an alliance with other Nordic Banks. This alliance, Scandinavian Banking Partners, consisted of Skandinaviska Enskilda Banken, Sweden; Union Bank of Finland, Finland, and Privatbanken, Denmark as well as Bergen Bank. Through this alliance the bank was represented in more than 1100 branches in the Nordic countries.

Organisational changes. The period before the merger with DnC was marked by continuity, stability and strong expansion. Apart from Tom Grøndahl who came to the bank in 1987 from Citibank, all managing directors had been with the bank for a long time. Moreover, they all had considerable experience from the banking industry. Egil Gade Greve was recruited to the bank in 1980 from his position as managing director and chairman of the trading company Peter M. Koldrup, and became CEO in 1982.

In the summer 1988, Bergen Bank initiated an efficiency program to restructure and re-allocate the tasks between the parent bank and the subsidiaries. The result of this program was a staff reduction of more than 340 man-labour years (7,4 per cent) from 1988 to 1989, of which 152 man-labour years were reduced in the parent bank.

Decision-making process. The decision-making process in Bergen Bank before the merger is described by former BB managers as consensus oriented. One former Bergen Bank top manager says that the top management team acted as a decision-making body: "In the minutes from the meetings, these decisions were referred to. Thus, one experienced the top management team as harmonious".

One key manager who was employed in neither bank at this stage claims that this feature reflected the credit processes where decisions are made in collective groups, and no one in particular can be made responsible for the decision. "If you ask three years later who is responsible for the decision, it is either all of them or none."

Another feature of the decision-making process in Bergen Bank was extensive decentralisation. This was a feature that was apparent in many banks at this point in time, but which made them vulnerable in the forthcoming crisis. One key manager in Bergen Bank says:

> Gade Greve chose a structure where the divisional managers were managing directors in their own entities... Some people thought that this impaired the

> corporation, because there was too little corporate control and management... We delegated extensively without having systems to control and follow up, and perhaps also without ensuring that the people had the competence to fulfil these obligations...

This decentralised structure was also reflected in the network of branches in which Oddbjørn Vevle, divisional manager of the Branches Division, had all the branch managers reporting directly to him. One former manager of a branch says.

> The policy in the network of branches was that the branch managers were like managing directors... My superior was the manager for all the 40 or so branches, and with this kind of control span the possibility of having close relationships to each and every one of us was limited.

Style of management. Egil Gade Greve was viewed as a very charismatic person with an ability to inspire and develop trust among the employees. One former key manager in Bergen Bank and DnC compares him to Leif Terje Løddesøl, DnC's former CEO, and claim that they both had strong charisma and personalities.

Gade Greve had a very strong standing both internally and externally and was described as a hands-on manager with a keen sense for operations and details, a characteristic shared by other central members of the team. One former key manager in Bergen Bank says this reflected the culture in the bank which was marked by "Traditional, thorough and detailed banking".

The top management team in Bergen Bank was a highly stable management without many replacements and according to one key manager in BB, few stimuli from the outside. Areas such as management development and team building apparently had a rather low standing. Although individual members went through management development programs, there seemed to be no systematic attempts to benefit from these programs as a group.

Beside being task oriented the style was marked by an emphasis on stability, continuity and long-term thinking. It was a style that reflected the environment of the banking industry in the past decades. First a long period of stability in a regulated regime, then substantial growth in the past few years following the deregulation of the financial markets.

Historical background for DnC

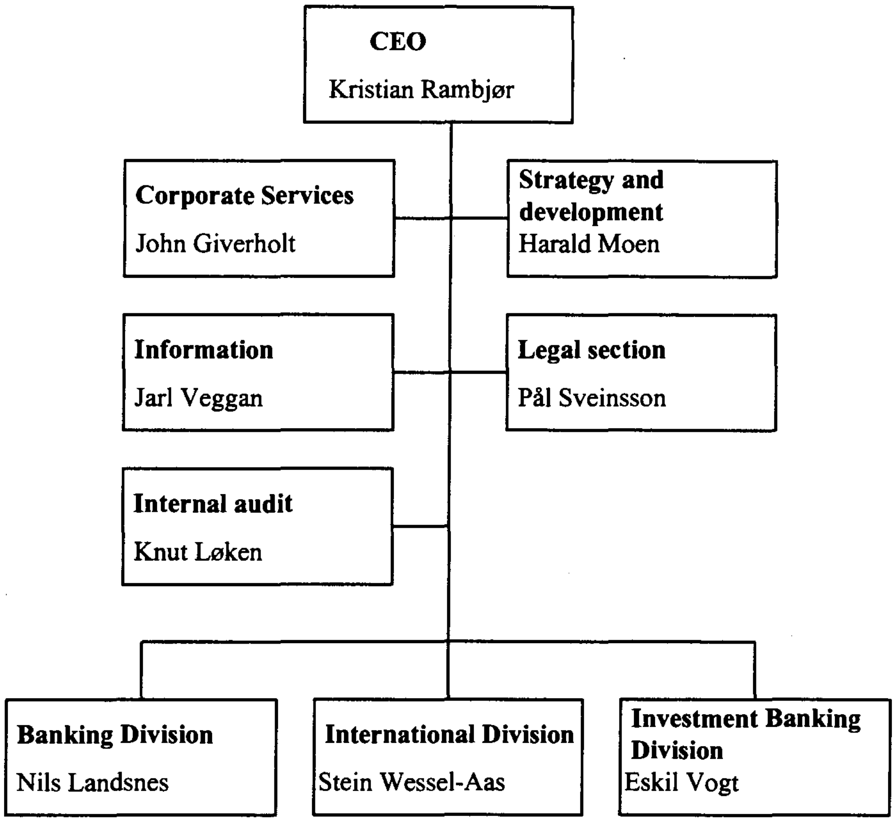
DnC was founded in 1857. In the years from 1945 until 1987 the bank prospered in line with the Norwegian economy, and was for decades the largest and leading bank in Norway. Like Bergen Bank, DnC expanded considerably in the 1980s after the deregulation of the financial market. At the beginning of 1980 the bank's total assets amounted to 20,6 billions, and at the end of 1987 the asset capital had increased to more than 90 billions in the parent bank. Through 1987-89, DnC downsized its activities considerably, and in 1989 it was Norway's third largest bank after Kreditkassen and Bergen Bank.

The development in DnC through the 1980s was characterised by a strong expansion both nationally and internationally. Like Bergen Bank DnC seized the opportunity to become a nation-wide bank, and in 1985 and 1986 the bank established 12 and 16 new branches respectively. However, the bank was still most widely represented in the Eastern regions.

Retail and corporate banking. In contrast to Bergen Bank, DnC was much more oriented towards the international and corporate customers. Indeed, this was the area in which DnC had established itself as the leading bank in Norway. Retail customers, in particular consumers, seemed to have had a relative low standing. Hence, the core operations in the bank were concentrated in the Oslo region where the bank's head office was located.

After a restructuring of the bank´s operations, DnC´s activities were structured into three divisions, the Banking Division, International Division and Division of Asset Management and Capital Market. DnC´s organisational structure in 1989 is illustrated in figure A8.2.

Figure A8.2 Organisational Structure for DnC in 1989



International orientation. After being a part-owner in a number of Nordic consortium banks in the late 1970s and in the early 1980s, DnC chose to buy the shares from the other owners in Nordic Bank Plc. and Nordic Banking Corporation in the period 1983-1985. Before the merger with Bergen Bank, DnC´s international network consisted of six wholly owned subsidiaries, four branches and eight representative offices.

Organisational changes. The negative development in DnC in 1987 and in early 1988 triggered the resignation of the board of directors and a new board was constituted in February 1988. The new board appointed Kristian Rambjør as new CEO with effect from 1st June 1988. Rambjør was recruited from Aker, a manufacturing industrial company, where he had been deputy chief executive. Two managing directors from DnC´s former top management survived this process.

With Rambjør as CEO, the bank's operations were <u>consolidated and downsized</u>. Three key deputy managing directors were laid off to rebuild trust in the top management, and approximately 50 per cent of the middle managers were replaced. As new deputy directors, Rambjør chose to recruit managers with background from the manufacturing industry.

In the time that followed, the new top management team chose to focus their attention on restructuring the domestic operations. They initiated a top-down process with the aim of balancing the accounts in 1989. To achieve this rather short-term goal, costs had to be dramatically reduced. After signalling a 25 per cent reduction without achieving satisfactory results, the management announced that costx had to be cut by 40 per cent. 820 employees were laid off and costs were eventually cut by 28 per cent. From 1987 to 1989 the number of employees was reduced from 4538 in 1987 to 3320 in 1989 (see table 8.3).

Through this restructuring process the union representatives in DnC gained considerable experience. This downsizing process was the first of its kind, and as mentioned above, the banking industry had until this moment been characterised by either stability or growth. Hence, the turnaround operation represented a major and revolutionary change for the employees, a change that caused a lot of resistance.

Cultural revolution. The new management recruited by Kristian Rambjør in 1988 brought a new culture and style of management into the bank. The new culture implied changes in the decision-making structure to control through the line management. Furthermore, the new management style was more confrontational and marked by short-term focus, management by crisis and process orientation.

In the short intermediate period before the merger with Bergen Bank became a reality, the new management tried to change the bank's culture which they perceived as an inadequate survivor from the times of regulation, by use of strong means and symbols. One key manager who had been employed in both banks says:

> They strongly desired to break down the culture with the use of strong means. One measure was to demand that pictures of former chairmen should be taken down, another was commanding old and venerable rooms central to the bank's past history to be torn down and refurbished. This might seem insignificant, but they were strong signals.

The reorganisation and cultural change process were apparently most strongly opposed by the employees in the Oslo region. This was the region where DnC's core business had taken place for decades, and where the history and traditions of a more than one hundred year old bank were preserved. Furthermore, the corporate staff were located there, and they had lost considerable power through the reorganisation process. One former DnC local manager says:

> Unfortunately the new culture that entered DnC in 1988 did not filter right through the organisation. Before 1988 DnC was a staff controlled organisation. Kristian Rambjør's aim was to introduce a line management structure... Some people welcomed this change, whereas others, in particular in the Oslo area, felt they lost power... I think it (the new culture) was very much accepted in the local entities, but not in centrally located staff units.

Hence, many local managers viewed the changes in the decision-making structure in terms of stronger control through the line managment and less power in the hands of corporate staff as positive. At the time when the merger between Bergen Bank and DnC was announced, they felt that the situation in the domestic network had changed positively, and had started to adopt the new management style and culture.

Decision-making processes. Before the change process in 1988, DnC was very much centrally governed, and the corporate staffs had a strong position internally. Some DnC line managers claim that this controlling structure undermined the positions of the line managers and blurred the distribution of responsibility.

When Rambjør and his new top management team entered the bank, this controlling and decision-making structure was changed. They introduced a much stronger line management structure with clear distribution of responsibilities and less power for the corporate staff. Moreover, they did not perceive the top management group as a decision-making body, but made individual managers responsible for the decisions made. According to one manager employed in neither bank at the time of the merger this decision-making process reflected their background from the manufacturing industry: "In the manufacturing industry individuals make the decisions, but after a process of collecting information on a broad basis."

Regarding the local entities, the new management established much closer links between the local and central line management. Furthermore, they reduced the control span and apparently gave less autonomy to the local managers. One former Bergen Bank local manager reflects on his impression of the DnC's decision-making structure before the merger:

> After the Hecker case in October 1987, there seemed to be a higher degree of centralisation in DnC.. A strong loyalty was developed between the bank's top management and the local managers. There seemed to be more control and the local managers acted on the superiors' orders with less autonomy.

Style of management. The standing Leif Terje Løddesøl had in DnC before he resigned can in many respects be compared to the standing Egil Gade Greve had internally in Bergen Bank. Both were known to be charismatic leaders with a high standing among the employees.

Rambjør in contrast, had not the same ability to evoke enthusiasm among the employees, and would indeed have had a difficult task in doing so in the reorganisation process that followed. The new managers represented a very different style of management which was a clear break with the style of traditional managers.

These managers perceived change, not stability as the name of the game, and had a much more confrontational style in dealing with conflicts. Compared to former managers in the banking industry, they seemed to prefer to execute rapid and substantial changes rather than the more long term step by step approach. Furthermore, in achieving their goals they did not seem to resist the use lay-offs or for that sake create a crisis if needed. Hence, they seemed to be viewed as more cynical and with less empathy than the traditional bank managers. One former Bergen Bank top manager reflects on the style of one of the more powerful DnC managers:

> His attitude is that crisis is quite healthy, and if there is no crisis, one should be created to change the organisation... His philosophy is that if you are experiencing a difficult period, create more chaos. Many prefer dealing with one issue at a time, he says let´s do it all simultaneously.

As opposed to the management in Bergen Bank, these new managers were much less operative or task oriented. They seemed to view general management competence as more important than long experience from the banking industry. This line structure implied that they devoted much more of their attention to strategic and more macro oriented issues, and delegated the operative responsibilities to their subordinates. Moreover, some of these managers, in particular Kristian Rambjør and Nils Landsnes, initiated processes such as team building and management development to build up trust and confidence after the turnaround operations.

Appendix 8.4 Article from DnB's newsletter 10.10.89

Påstander og svar om fusjonen mellom Bergen Bank og DnC

Er Bergen Bank i ferd med å spise DnC? Vil DnC-miljøet i Oslo suge kraften ut av Bergen? Slike og beslektede påstander er dukket opp i våre to banker i kjølvannet av fusjonsplanene – ofte med motsatt fortegn. Fellesavisen fremsetter her noen av dem.

– Bergen Bank fikk både styreformann og konsernsjef. Dette viser at DnC er den tapende part . . .

Svar: Temaet ble diskutert mindre enn fem minutter i løpet av forberedelsene til fusjonen. Forslaget kom fra DnC; som en nestor i norsk banknæring var Egil Gade Greve den naturlige konsernsjefen. Og med sikte på den ekstra krevende fusjonsprosessen man sto foran, var det naturlig at hans «parhest» gjennom en årrekke, Ole Lund, ble utpekt til styreformannsvervet i oppstartingsperioden. Her har det ikke vært noen drakamp bankene imellom. Selv om mediene – og dermed kanskje også en del medarbeidere – lett sorterer verden i «vinnere» og «tapere», er virkeligheten omkring dette mye enklere: Det gjaldt å finne en løsning til beste for den nye banken, Den norske Bank. Det har aldri vært knyttet noen prestisje til dette spørsmålet. Som alle medarbeidere vil være kjent med, blir balansen mellom Bergen Bank og DnC vel ivaretatt innenfor både styret og konsernledelsen.

– I vedtaket fra de to styrene står det svart på hvitt at Bergen Bank skal være overtagende bank. Det er bevis for hvor seieren havnet.

Svar: Feil. De to styrene har kun hatt én tanke bak denne beslutningen, nemlig å velge det alternativet som gir de laveste kostnadene for den fusjonerte banken. Ved å gjøre DnC til overdragende selskap og Bergen Bank til overtagende selskap, er det faktisk millioner å spare for Den norske Bank.

– «Forretningskontor Bergen» er klar tale. Bergen tar alt.

Svar: Forretningsadressen er først og fremst et tydelig signal om at den nye banken akter å opprettholde sterke fagmiljøer i Bergen. Bankdivisjonen får sin ledelse her, mens de fire øvrige driftsdivisjonenes ledelse vil holde til i Oslo.

– Det var de økende tapene ved 2. tertial som tvang DnC til fusjon.

Svar: Feil. Tapene vil etter alt å dømme bli mindre, og vi har hatt en kraftig forbedring av driftsresultatene. En fusjon av de dimensjoner det her er tale om er et resultat av en langsiktig strategi. I norsk banknæring har behovet for større, sterkere og mer lønnsomme banker vært et stadig tilbakevendende tema de siste årene. Norske banker er for små og har for høye kostnader i forhold til de konkurrentene som vi etter hvert møter på hjemmemarkedet. I strategiarbeidet i DnC i vår ble det klart at DnC måtte utvide sitt forretningsmessige grunnlag for 1990. Det ligger en langsiktig strategi bak fra begge bankers side.

DnC var slett ikke «tvunget». Banken kunne ha drevet virksomheten videre alene uten å havne i akutte problemer. Men gradvis ville den ha blitt redusert til en konkurranseutsatt «regionbank», og en bank med dårlig lønnsomhet får utrygge arbeidsplasser.

– Den norske Bank vil få en betydelig administrativ og forretningsmessig tyngde i Oslo. Det må bety at Bergen Banks miljø i Bergen vil bli utarmet?

Svar: – Nei, på ingen måte. Det er en forutsetning at det miljø og den kompetanse som Bergen Bank gjennom årene har bygget opp i Bergen, skal bevares og videreutvikles. En av Den norske Banks sterke sider blir jo nettopp at banken får en meget sterk posisjon i det viktige markedet på Vestlandet.

Det at Den norske bank får sin forretningsadresse i Bergen, betyr også at banken får en formell forankring i byen. Bankens styremøter vil gå på omgang mellom Bergen og Oslo. Det samme vil representantskapsmøtene og de årlige generalforsamlinger.

I tillegg vil deler av konsernledergruppen ha sitt arbeidssted i Bergen. Konsernsjefen vil dele sin tid mellom Bergen og Oslo. Det vil også andre i bankens konsernledelse. Dessuten vil Bankdivisjonen, som er den desidert største administrative enhet i banken, bli ledet fra Bergen. Alt dette er forhold som klart dokumenterer at den nye bank vil ta vare på miljøet og kompetansen i Bergen. For øvrig er det et mål for Den norske Bank ikke bare å ha sterke sentra i Oslo og Bergen, også i andre områder av landet vil det naturlig nok bli enheter som ingen andre banker kan måle seg mot når det gjelder forretningsvolum og faglig dyktighet.

– I pressen har vi kunnet lese at Bergen Bank ikke har foretatt tilstrekkelige tapsavskrivninger, og at banken gjennom de senere år burde ha skrevet av 1,4 milliarder kroner mer i tap enn det som faktisk er gjort?

– Dette er rent oppspinn. Bergen Bank har en fortløpende vurdering av sin utlånsportefølje og foretar tapsavskrivninger helt og fullt i overensstemmelse med de retningslinjer som er utarbeidet av Kredittilsynet.

Det ble i en avis antydet at bankenes rådgivere Goldman Sachs og Morgan Grenfell skulle være kilde til disse tapsopplysningene, og at dette skulle fremgå av deres rapporter. Dette er grepet helt ut av luften, og bankenes ledelse stiller seg helt uforstående til hvordan slike spekulasjoner kan oppstå.

Appendix 8.5 Quotations

p. 209

Rent kynisk så vi at ved å fusjonere med DnC ville vi fjerne en konkurrent og samtidig få det vi fortsatt mente var godt i DnC.. Vi mente at vi kunne få til en fusjon med DnC som klart var på Bergen Banks premisser. Vi betraktet dette mer som en mulighet for Bergen Bank å overta DnC enn en fusjon med en likeverdig partner.

p. 213

Jeg kjenner til at Finansdepartementet på det tidspunktet mente at det var reell konkursfare for DnC.

p. 215

Det som gjorde at vi eventuelt følte oss svake i forhandlingene var nok DnCs økonomiske situasjon. Ikke først og fremst fordi vi trodde at den var så mye verre enn de andre bankene, men fordi det var fokusert så mye på den. Det var den eneste banken på det tidspunktet som hadde tapt store penger. Jeg har jo alltid stilt spørsmålstegn ved hvordan andre banker med omtrent samme bemanning, kvalifikasjoner og kompetanse kunne gjøre det så mye bedre.

Jeg vil vel si at vi definitivt følte at vi satt med de beste kortene på hånden, at vi var den sterke part... Det var DnC som trengte fusjonen... Sett i ettertid så satt vi vel også med en følelse av at DnC ikke ville klare seg som selvstendig bank ut året, og det tror jeg var en korrekt observasjon.

p. 221

Det er mulig at du kunne ha spart noe mer teoretisk, men hvilken motivasjon ville de som skulle jobbe i markedet, fremskaffe resultatene, betjene kundene og tatt seg av de daglige problemene hatt. Klart de er mer motiverte og har mye større sjanser til å oppnå det når det er dem selv som har lagt planene.

p. 222

Vi var vant til å få nokså dramatiske beskjeder om at nå kutter vi så og så mange prosent... Nå var det liksom mer å lete litt i hjørner og skuffer og se om det lå noen løse deler og kvitte seg med det. Men det var ikke noe sånn fundamental gjennomgang og skittentøyvask og omorganisering... Hvor ble det av det å ta ut fusjonsgevinstene. Snarere tvert i mot så det så det ut som at man var i ferd med å øke kostnader og bruke kostbare reklamekampanjer og mye sånt gimmick som vi følte var bortkastede kroner ute... Folk forventer at det skjer ting i en fusjon., og hovedhensikten er jo at man skal bli mer konkurransedyktig, les spare kostnader og betjene flere kunder per hode. Når da fint og lite eller ingenting skjedde, hva var poenget da ?

p. 224

Det er mulig at organisasjonen nedover hadde tålt en runde til. Men jeg stiller et stort spørsmålstegn om det er riktig... Jeg tror det ville vært mye vanskeligere å gjennomføre prosessen såvidt OK som det gikk hvis en hadde kjørt hardere.

Bergen Bank hadde ikke hatt en sånn behandling som DnC fikk... Jeg synes mange var ganske hysteriske på enhver endring.

p. 225

Jeg var den gangen av oppfatningen at det var riktig å gjøre som vi gjorde. Legge sammen det vi hadde, ta en quick fix, si hvilke ting er det helt opplagt at vi må endrer, og så komme i gang. Jeg tror nesten at jeg også i dag ville gått for en sånn to-fase sak. Fordi usikkerheten er så ekstrem når du går inn i en slik sak at det er viktig å komme med noen foreløpige holdepunkter du kan henge deg på... Si at foreløpig er vi enige om at det og det er målene, og så tar vi en vurdering etter en tid.

p. 226

De samlet alle kundeansvarlige, så på listene over konsernkunder, og delte kundene mellom seg.

p. 227 and 228

Å lage de to divisjonene med de to personene var en tabbe. Man burde laget en divisjon og klart satt den ene på toppen av den andre. Eller så måtte man hatt andre folk.

p. 228

Mange av oss oppdaget veldig fort i denne fusjonsprosessen at partene kom inn med forskjellige forutsetninger. DnCs representanter i alle arbeidsgrupper var mye bedre samkjørt enn Bergen Banks folk. Bergen Bank representantene kom inn som idealister og som enkeltpersoner, mens DnC-folkene kom som en gruppe, og med et klart mål om å bevare mest mulig av det de hadde med seg fra sin gamle kultur.

De var mer med på prosessen, men vi var bedre forberedt. De hadde tenkt seg en fortsettelse som var basert på en liten forandring. At vi skulle gå inn og kjøre som før. Mens vi egentlig var mye mer forberedt på forandring.

Problemstillingen Bergen-Oslo var der hele tiden, men man besluttet at den ikke eksisterte per definisjon.

p. 229

Vi i Oslo var jo lillebror og vi fant vel en sterk allianse som vi søkte mot, helt klart... Vi var veldig flinke til å gå sammen og si at nå gjør vi felles ting med en gang... Vi hadde kniving og det var helt klart at Oslo siden holdt sammen. Det gjelder å skaffe seg sterke allianser. Klarer du det så vinner du.

p. 230

Det kan være nødvendig for i det hele tatt å få fusjonen fysisk gjennomført innenfor en fornuftig tidsramme at du går litt på akkord med effektivitetskriteriet til fordel for rettferdighetskriteriet. Da er det lettere å få aksept og få ting liksom gjennomført raskere...Derfor tror jeg at det vil være nødvendig med en prosess etter en fusjon også.

Det er klart at det kom rimelig fort frem at det ikke bare var husfred og ro internt i konsernledelsen. Både fordi det var forskjellige personligheter og vi visste jo at de hadde ulike tilnærminger til hva som ville være riktig organisering.

p. 231

Perioden som vi hadde med Kristian Rambjør og nedbemanning gjorde at vi tillitsvalgte var mye mer kritiske. Vi var ikke redd for å ta en fight med bankens ledelse som de tillitsvalgte i Bergen Bank var... Da vi fikk fusjonen sa vi at her blir det nye oppsigelser, la oss starte aggressivt. Vi la en strategi som nok var mye mer aggressiv enn hva tillitsvalgte fra Bergen Bank ønsket.

Hele banken, i hvert fall DnC delen følte at dette var en takeover fra Bergen Bank.

p. 233

Jeg synes det var en god bidragsyter til å få organisasjonen til å fungere igjen. Så selv om du ikke ble innplassert i en jobb, så fikk du et ansettelsesbrev om at du var ansatt i Den norske Bank.

Du blir innkalt mandag kveld og får beskjed om at nå fusjonere vi med Bergen Bank i morgen. For det første kom det som en bombe. For det andre synes jeg at mener man noe om et samarbeid, så burde vi tillitsvalgte vært trukket inn i prosessen mye før.

p. 235

Det organisasjonen var redd for var oppsigelser og endringer. Det ble ikke nevnt... De mistolket sitt publikum... Manglet forståelse for hvordan en organisasjon beveger seg.

Jeg er nok enig i det langt på vei at det har vært lite samsvar mellom ord og handling i mange relasjoner... Det er en enorm belastning for en organisasjonen stadig å møte negative resultater, negativ mediadekning, negative kunder... De forhåpningene man har forsøkt å skape for å motivere organisasjonen ikke har holdt.

p. 237

Vi opplevde å bli tatt ut av det kjøret vi i grunnen hadde som vi etterhvert var giret på og likte. Vi fikk en litt annen type både ledermøter i regionen og oppfølging som var på en måte militantisk. Samtidig var det ikke nok kraft synes jeg. Man var for lite strateg og for mye detaljist på visse ting og da gikk litt trykket ut av det synes vi... Bergen Bank begynte et år senere enn oss, og det bar tydelig preg ned gjennom. De var ikke så omstillingsvante og heller ikke så åpne for å ta de konfrontasjonene som måtte tas. Vi synes i hvert fall at vi satt med litt lenger erfaring, så vi synes nesten vi fikk en standstill.

p. 241

Vår vurdering mot bedre vitende,... var at en hadde tid til å gradvis tilpasse oss et nytt marked og bli kvitt overflødig fett som resultat av fusjonen.

p. 241

Jeg tror nok at den nedbemanningen vi har gjennomgått nå, den var vi nødt til å gjennomgå. Dersom man hadde tatt ut mer i første fase, så hadde man sluppet med desto mindre i annen fase, men jeg tviler på om man ville ha sluppet med noe mindre totalt.

p. 242

Jeg tror man ville ha gjennomført omtrent det samme enten om det stod i avtalen at det skulle kuttes 20 prosent, jeg tror ikke det hadde blitt veldig mye annerledes om ikke det hadde stått.

p. 245

Mot massemarkedet så satt vi på 160 steder i landet og laget regnskaper. Hadde økonomi og drift og det der. Nå har vi sentralisert enten til et sted eller til ni... Vi hadde kredittfolk som satt på 160 steder, nå sitter de på ni steder, slik at vi har snudd organisasjonen ute. Utekontorene de er rettet mot markedet, de har ingen annen funksjon.

De som hadde vært sjefer rundt omkring hadde vært kongen på haugen tidligere. De gikk fra å være lokalbanksjef, men ganske vide fullmakter. Styrte egentlig en bank som var en institusjon i lokalsamfunnet til veldig mange av dem å få veldig lite administrativt ansvar, og egentlig bli en operativ saksbehandler selv mot bedriftskunder... Å forklare at det å være bedriftsrådgiver er jo det du egentlig har hatt lyst til hele tiden, all den administrasjonen har egentlig vært noe herk, det har du alltid sagt.. Det er klart at det er en ganske sterk endring.

p. 246

DnC-erne følte seg tråkket på i fusjonsprosessen, og når en i ettertid ser at Bergen Bank hadde like mye tap som det DnC hadde, så kommer DnC-lederne frem igjen. Det kan være en overreaksjon. I litt stor for grad har DnC-lederne kunnet velge sine gamle DnC-ere som våpendragere. Det er nå flere miljøer som blir veldig sterkt dominert av ansatte fra tidligere DnC.

Den første fasen det var å velge ledere som vi trodde på. Jeg valgte bevisst folk som jeg trodde på uavhengig...

Den gang var det nok en fordel å ha en DnC tilhørighet i og med at X kom på banen og ble leder.

Du kommer aldri over at man sitter med en følelse av hvor banken egentlig ledes fra. Selv om Gade Greve var to til tre dager i Oslo, så var det bare å gå inn på hans kontor i Bergen og se hvordan skrivebordet så ut og sammenligne dette med skrivebordet i Oslo. Tilsvarende med Finn Hvistendahl som er en dag i Bergen. Du ser med en gang at dette er et skuespill.

p. 247

Lønnsomhetskriteriet i bedriften når det gjaldt organisering var helt dominerende. Det betyr jo at alle dobbeltfunksjoner mellom Oslo og Bergen måtte lukes vekk. Sentimentalitet er ingen begrunnelse for å opprettholde funksjoner som skal nedlegges.

Den siste omorganiseringen var på en måte litt mer kompromissløs. Konseptene var mye klarere. På fusjonstidspunktet var det ikke gitt at strukturen skulle se slik og slik ut.

Så kom 23. mars 1992 hvor da ca. 1000 mennesker skiftet jobb på landsbasis. 10.000 vis av arkivskap ble kjørt og tatt bort til et sted. Dette var da en fredag og en lørdag og søndag. Da mandagen kom så var det fullt kaos rundt omkring. Kommunikasjonen virket ikke, folk visste ikke hvor de fant informasjon. Det kaoset fortsatte da i hvert fall en måneds tid, det fortsatte ut i mai... Men poenget her var full omdreining og så fikk det briste eller bære. Det betyr at det var ingen vei tilbake. Hadde du gått gradivis inn i en slik prosess, da ville du ikke ha fått endring. Nå fikk du en så dramatisk endring at folk måtte tilpasse seg.

p. 249

Mange Bergen Bankere har gått. På toppen er de fleste fra DnC og Oslo... Jeg tror DnC's ledelse var tøffere.

p. 250

Det var dette at vi i konsernledelsen følte at vi ikke fungerte som et team eller gruppe. At vi ikke samarbeidet godt. Det enkle var at så lenge vi ikke kunne greie å sende de samme signalene ut, og det var åpenlyst for Gud og Hvermann at vi ikke var noen god ledergruppe... Jeg går utfra at hver enkelt hadde sin teori på hvorfor det ikke fungerte, men at det ikke fungerte var man rimelige enige om.

Krisen har gått direkte på bankens eksistens. I forhold til det så har betydningen om du tidligere var ansatt i den ene eller andre banken veldig liten betydning.

Når fusjonen kom så ble det nok veldig mye fremstilt som at det var nødvendig for DnC. Det var jo veldig sårt for dem i DnC. Når tapene veltet på så er det ikke noen tvil om at tapene da i stor grad kom fra Bergen Bank. Da hadde jo de fra DnC et desperat behov for å fortelle at det er bare faseforskyvning.

Det ble jo laget lister internt her i banken som beskrev hvilken bank tapene kom fra. Det var ikke fordi de hadde bruk for dem, men fordi å synliggjøre at her er ikke Bergen Bank bedre enn DnC eller DnC bedre enn Bergen Bank... Det kan sies at det ikke skal fokuseres på. Men jeg vet jo at det er blitt fokusert på det, Det er nesten sånn skadefryd at her har vi endelig noe på dere.

p. 251

Krisen har gjort noe med vår selvfølelse. Den har gjort at vi er flinkere til å holde på vår egen plass, vi altså de ansatte, enn vi er å dele med andre. Vi merker det på mobilitet, evnen til å spisse albuene når det virkelig trengs, vi merker det på utrolig misunnelse for hva andre får... Sånn sett har den dyrket frem mer individualisme enn kollektivisme.

Hvis vi tenker fra DnC, har DnB redusert bemanningen med flere tusen. Vi har hatt en kostnadsreduksjon vi kan være stolte av, og vi har en inntektsside før tap som er til å leve med. Hva er det da som er bankens problem ? Jo, det er de enorme tapene, og det klarer vi ikke å rette opp ved at vi skal ta noen hoder til. Jeg synes det er galt at vi skal ha dette oppsigelsesspøkelse vandrende i korridorene lenger enn vi har hatt. Det skaper så mye utrygghet, vi blir umotiverte og aggressive. Og så glemmer vi kundene.

Her var det et spørsmål om å overleve for alle sammen og det var en vilje til å gjøre endringer som du aldri hadde fått i en normal situasjon. Du må huske at vi i løpet av få år har nedbemannet med 40 prosent. Det skal noe til å få til i en normalsituasjon hvor du ikke har noen overbyggende krise.

Sikringsfondet var en ytre fiende som man følte at man kunne kjempe mot. Hermansen var den store stygge ulven. Jeg vet at ledelsen brukte bevisst også den faktoren mot oss. Det her er ikke noe å diskutere for det har Sikringsfondet sagt.

p. 252

Du fikk konstellasjoner hvor det var lokal bankansatte og lokale næringslivsinteresser som fant hverandre og sendte brev. Rettere sagt kom brevene fra de lokale næringslivsinteressene, men det så ut som de var inspirert fra vel informerte kilder mange av dem.

For det første fordi det var nytt. For det andre fordi at dette vil jo berøre enkeltmennesker til de grader. Man forskjøv maktforhold og det ble behov for andre typer ledere med andre sterke sider enn de som var blitt dyrket før... En god del ledere, i hvert fall de som ikke ble skapt jobb for å si det stygt, de forsvant jo ut. Dette var for sterk kost... Det var for fjernt i forhold til hvordan de hadde forestilt seg verden også når de så på det konkurentene gjorde...

Nå må det bli ro slik at det er mulig å gjøre en skikkelig jobb overfor dem vi lever av, nemlig kundene... Folk virker slitne. Nå orker vi ikke mer snart. Kreftene brukes for mye internt og i altfor liten grad mot kundene. Det går ikke an å holde på slik. Vi har mer eller mindre omorganisert i ett siden 1987. Nå er grensen nådd for de fleste av oss. La oss få ro slik at organisasjonen og rutinene får virke til beste for kundene og oss.

p. 253

Jeg tror det ville være feil å ikke gå gjennom oppsigelser slik situasjonen var for oss økonomisk. Jeg tror det er umulig å oppnå de besparelsene uten det. Men jeg tror også at det ville være vanskelig overfor omverden å få aksept for ikke å gjøre det.

p. 253 and 254

Grunnen til at du må gå ut med sånt og måtte ha tillit det, det var fordi du måtte ha et instrument for å få flyttet folk inn i andre jobber. Bank er så formelt orientert at det å flytte folk inn i en annen jobb, da må du nesten gjennom ansettelsesutvalg hver gang. Skal da en 3-500 personer skifte jobb i løpet av en helg, så nytter ikke det. Da må du ha oppsigelser som går ut. Folk får oppsigelser, og så får de tilbud om en annen jobb.

p. 254

Hvis man mener at de nedbemanninger man skal gjøre, de fusjonsgevinster man skal ta ut, at man kan dem ut uten oppsigelser, så er det det aller beste. Da får du de tillitsvalgte med deg, og de tillitsvalgte får garantien at her blir det ikke noen oppsigelser. Da er de veldig fleksible og står på og er med på veldig mye. Men hvis du i utgangspunktet sier at vi kan ikke utelukke muligheten for oppsigelser, eller kanskje tvert i mot, at med de omstillinger vi står overfor så vil oppsigelser være nødvendig. Da får du de tillitsvalgte mot deg, og da er du på to partier med en gang. Det er en mye tøffere situasjon å håndtere.

Gruppene som jobber med de enkelte strategiske forretningsområdene var nok ganske lukkete. Det var et begrenset antall deltagere i hver gruppe, så resten av organisasjonen ble jo holdt litt mer sånn i uvisse av hva det var nå disse jobbet med...

Man fikk ikke tid til å bearbeide ens egne meninger før beslutningen var tatt og løpet gikk. Da måtte du ut og fighte for et budskap som skal ut i organisasjonen før du egentlig kanskje helt har fått gjort deg ferdig med din egen prosess. Kanskje det er et problem når ting går veldig fort på den måten. Det skapte nok frustrasjoner for mange av oss underveis.

Vi skulle forme et budskap som vi dels skulle tro på selv og som vi med innlevelse skulle fortelle til et ekstremt skeptisk og delvis uvitende forsamling ute.

p. 255

Jeg har nok følt i denne prosessen at beslutningene egentlig er tatt på forhånd, og jeg har kalt det skinndemokrati det som har foregått ute i organisasjonen. Det tror jeg er uheldig. Skal du få igjennom ting, så er du også avhengig av at det blir forankret i organisasjonen. Vi har fått lov til å uttale oss, men det vi har kommet med har blitt tatt lite til etterretning... Spesielt de ute sier at dette har konsulentene bestemt på forhånd, så det er bortkastet tid og krefter å delta.

I Personkundedivisjonen var det mange problemer i den videre prosessen. Det viktigste problemet jeg så det var et imageproblem. Både innad i banken hadde vi dårlig image for at vi hadde lav kompetanse. Men folk hadde jo et selvbilde som var negativt. De så seg selv som disse nær sagt lavstatusarbeiderne i bank.

p. 256

Når det er en uttalt målsetting at du skal bygge en sterk kultur i en enhet, så er ikke det noe som virker integrerende med resten av organisasjonen.

Det var mindre Bergen Bank-DnC enn det var den ene divisjonen. Man ble mer seg selv nok som divisjon og kjempet som divisjoner snarere enn DnC og Bergen Bank.

Vi fikk nye allianser og fiender. Nå må vi stå sammen og sørge for at de ikke får de og de kundene.

p. 256 and 257

Jeg synes det hadde begynt å fungere, men så fikk vi den nye omorganiseringen. Nå er alle usikre på nytt igjen. Hvem som har kommandoen i dag er jeg ganske usikker på, i hvert fall nedover i organisasjonen... Den gamle organisasjonen er det ingen som forholder seg til, for de vet at det skal skje noe nytt.

p. 258

Internt på driftssiden i valutaseksjonen i Oslo har det vært mange nedbemanninger. Det har vært veldig mye fokus på de grønne eller de blå. Hvem er det som har mistet jobben. Der har nok fusjonstema ligget igjen.

Det at vi fikk SFO-prosessen, selv om den kom fort og raskt og uventet på noen, det tror jeg i ettertid har gjort at murene er blitt borte eller blitt revet ned. Det er noe nytt og felles som vi hver for oss ikke hadde før.

Vi var så heldige at det kom en storm over landet som felte begge husene, så vi fikk anledning til å bygge et nytt hus. Det var forferdelig kaldt så lenge du ikke hadde tak over hodet.

p. XXXII

Det stod i referatet at det var besluttet. Dermed så opplevde du kanskje konsernledelsen som mer samstemt.

Hvis du spør tre år etter hvem som har ansvar for beslutninger, så er det alle eller ingen.

p. XXXIII

Gade Greve valgte jo et mønster som gikk veldig klart på at divisjonslederne er administrerende direktører i egen enhet... En del... mente nok at man svekket konsernet på den måten, ved at en hadde for lite konsernkontroll og styring... Vi delegerte veldig mye uten å ha oppfølgings- og kontrollsystemer, og uten kanskje også å forvisse oss m at kompetansen var til stede hos de delegerte.

Ute på kontornettet så var policyen at Bergen Banks kontorsjefer på en måte var administrerende direktører. Min overordnete som var leder for samtlige Bergen Banks kontor, og det var ca. 40. Det er klart at det er veldig stort kontrollspenn, og medførte at mulighetene til å ha veldig tett kontakt med hver enkelt var nokså begrenset.

p. XXXVI

Man ville til de grader bryte med kulturen. Man ville ta ned bilder av gamle styreformenn fra veggene. Vi har et flott møterom som er fra forrige århundre hvor styremøtene ble holdt. Det skulle rives. Det kan virke som detaljer, men det var veldig sterke signaler.

p. XXXVII

I 1988 fikk DnC et kulturskille som dessverre ikke gikk gjennom hele organisasjonen. Før var DnC veldig stabsstyrt. Det Kristian forsøkte å gjøre var å få det mer linjestyrt... Det var vel endel som så at det her likte de veldig godt, men så var det vel endel, miljøet i Oslo kanskje, sentralt, som følte at man kanskje ble fratatt endel... Jeg tror det var veldig akseptert i distriktsbankene, men ikke i stabsapparatet sentralt.

Etter denne Heckersaken i oktober 1987, så virket det som det ble mye mer sentralisert... Det utviklet seg en sterkere lojalitet i forholdet mellom bankens toppledelse og den lokale ledelse. Det var mer styring, og de lokale ledere var mer eksekutører.

p. XXXVIII

Hans holdning er at krise igrunnen er sunt. Får vi ikke noen krise utenfra, så skaper vi en krise av og til... for omstillingens skyld... Hans filosofi er at er du i en vanskelig periode, så bare skap mer kaos. X sier at la oss ta alt sammen samtidig. Det er utrolig hva vi greier.

Appendix Chapter 9

Table A9.1 Development in key macro-economic figures in the period 1989-1994[1]

	1989	1990	1991	1992	1993	1994
Gross domestic product Mainland Norway	- 2,2	1,1	-0,6	2,1	2,1	3,9
Private final consumption expenditure	- 2,8	2,8	0,0	1,8	2,3	4,4
Gross fixed capital formation Mainland Norway	- 16,5	- 8,3	- 5,8	2,1	-4,5	6,2
Bankruptcy proceedings	4536	3814	4926	5749	5158	3634

[1] All numbers expect bankruptcy proceeding in percentage change in volume from proceeding year