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Struggling Mergers and Acquisitions and their External Relations

SAS Braathens

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“This thesis was written as a part of the Master of Science in Economics and Business Administration program – Major in International Business. Neither the institution, nor the supervisor is responsible for the theories and methods used, or the results and conclusions drawn, through the approval of this thesis.”

Abstract

Mergers and acquisitions (M&A) have become a highly popular form of corporate development. The research in the M&A field is extensive, but there is a lack of research regarding how external relations are affected when the M&As do not work out as planned, and whether competitors can win if the M&A fails. This study explores whether and how an M&A that struggles affects its external relations. The study was conducted using a case study of a well-known, struggling Norwegian M&A: SAS Braathens, and the external relations examined were the competitors, the customers, and the media.

The main finding of this paper shows that an M&A that struggles can affect its external relations negatively. To what degree the external relations will be affected, depends on the change in market structure and the market share of the M&A, how differentiated the products in the industry are, existing substitutes, and if the struggling affects the public or not. Further, this paper finds that the main reasons for SAS Braathens struggle can be traced back to poor communication and the management.

Foreword

Writing my thesis has been sometimes a tough process. Without the help from several contributors I would not have made it.

I would like to thank my supervisor, Eric Lofquist for his guidance through the entire process. He has been a great supervisor and motivator, giving me tips and ideas, and renewed my motivation and enthusiasm after every meeting.

I would like to thank the four pilots from SAS Braathens, who were willing to tell me how they perceived and experienced the integration process in SAS Braathens. Because of the confidentiality I will not mention any names, nor publish any notes from the interviews.

I would also like to thank Christine Meyer, who gave me the idea to write about SAS Braathens.

During the time I wrote my thesis, SAS Braathens changed their name to SAS Norway. Since this was done relatively late, on the 1st of June, I decided to use their old name, SAS Braathens in my thesis. Most of the interviews were conducted before the change of the name, therefore, I do not put much emphasize on the name change in the thesis.

Linda Karlsson
19th of June, 2007

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Abbreviations

DNL - Det Norske Luftfartsselskap

EU – European Union

EUROCONTROL - Organization for the Safety of Air Navigation in Europe

HR – Human Resource

IATA – International Air Transport Association

ICAO - International Civil Aviation Organization

M&A – Mergers and Acquisitions

NCA - Norwegian Competition Authorities

SAFE – South-American & Far East Air transport

SARS - Severe acute respiratory syndrome

SAS – Scandinavian Airline System

SGS – SAS Ground Service

WHO – World Health Organization

1.0 Introduction

1.1 Mergers & Acquisitions

The phenomenon of Mergers and Acquisitions (M&A) has developed over the last 30 years and it has become a highly popular form of corporate development to create diversity and growth (Cartwright & Schoenberg, 2006; Nahavandi & Malekzadeh, 1988, Pablo, 1994). In 2004, there were 30,000 acquisitions completed around the world, which equates to one transaction every 18 minutes (Cartwright & Schoenberg, 2006). Martin Sikora (2006) explains the increasing numbers of M&As with factors such as low inflation, deregulation and a rising stock market. He also argues that we are in the middle of an M&A boom, and that the signs are pointing towards an increase in 2007. The increase in M&As is resulting in more research being conducted, but even more research is needed since there is a high failure rate of M&As. Managers of acquiring firm's report that 44% of their acquisitions are not living up to the original objectives, and about 70% of all mergers and acquisitions are reported as failures (Cartwright & Schoenberg, 2006; Pablo, 1994; Peng, 2006).

With the deregulation of the aviation industry, the industry has seen more mergers between different airline companies. With the announcement in 2001 that the Scandinavian Airlines System (SAS) was to acquire the Norwegian national air carrier Braathens, the industry saw a sign of further consolidation within the European airline market, which has tended to focus on M&As on the national level (Morrocco, 2001). In the US, for example, M&As between large airlines have experienced a bad record. The main reasons for this are that labor issues, and seniority integration, cause stress (Weisenthal & Fernando, 2006).

“Most airline employees live and die by their seniority position. For instance, the most senior pilot gets his/her pick of available assignments, the second highest picks second, down the line. So how the two seniority lists are integrated is a very big issue” (Weisenthal & Fernando, 2006).

They later explain that the Airline Pilots Association has never been involved in a merger that has not ended up with them being sued by one side or the other. And in a merger, all unions go through some sort of seniority integration they must fight over.

1.2 Presentation of the problem

Due to the recent increase in M&As around the world, we thought it could be interesting to focus our own research on this timely issue. We have chosen to focus our study on the merger between SAS and Braathens in 2004, which has been one of the largest and most discussed M&As in recent years in Norway. As a direct result of significant government influence, the monopolistic situation in Norway, and other factors, the merger has gained a lot of public attention, not only from the political and legal perspectives, but also from the general public, as well. It can be discussed whether this transaction was a merger or an acquisition, however, for our purposes we will define this event as a merger. In 2001, Braathens was acquired by the SAS Group, meaning they were already a part of SAS when SAS Norway and Braathens became one company in 2004.

An M&A can create valuable synergies if it succeeds, but can also create negative publicity if it does not work out as planned. There are several strategic factors that determine if the M&A will be a success or not, two of them are the management and the organizational cultures involved (more are discussed in the theory chapter). A successful M&A can create synergies that can become an economic gain for the new firm (Berkovitch & Narayanan, 1993), but if the merging firms do not take strategic factors into consideration, the M&A can end in disaster. It can be a major challenge for the management to bring together two companies that probably differ in both management style and organizational culture. A common culture in the new firm may result in that everybody strives towards the same goal, and the firm becomes easier to manage.

There has been a lot of research conducted about M&As, ranging from why it is a popular corporate development strategy, to different factors behind success, to who wins and who loses in the respective firms if the M&A does not work out. One topic that has not received that much research concerns how external relations are affected when the M&As do not work out as planned, and whether competitors can win if the M&A fails. When an M&A struggles or fails, it might not only affect the two companies involved, it might also, in different ways, affect their external relations. For example, the customers might be unsatisfied if the struggling affects the service they are used to, and maybe the competitors can gain market shares etcetera from the struggling M&A. These issues, how the external relations can be affected and why, are something we will look at and examine in this thesis.

1.3 The Research question

Because of the general lack, and gap, in the research about the external relations in M&As, we believed this could be interesting area of focus for our study, and have decided upon the following research question:

How are external relations affected when a merger and acquisition is struggling?

- A case study of SAS Braathens

To be able to answer this question we will examine how the integration of SAS and Braathens was implemented and how the employees reacted, beginning from the day the merger became public until today, and how this reaction has affected external relations. As said before, Braathens was acquired by the SAS Group in 2001. At first they were a subsidiary with autonomy, and then in 2004 Braathens and SAS Norway merged into one company, SAS Braathens. We will concentrate our studies on the merger itself, and when the two companies started to work together as one company.

This paper will be based on a case study of SAS Braathens with particular focus on the reasons for why the M&A is struggling. By looking at the case study and relevant theories, conclusions will be drawn as to how the external relations are affected. The external relations evaluated will be the competitors with a focus on Norwegian Air Shuttle, customers and the media. The case study will be based on information from the company and interviews with pilots. The pilots' point of view was chosen because they are considered a vital resource in the organization, and it is within this group that several high profile conflicts have occurred.

1.4 Purpose of the question

There are some factors that have to be taken into consideration when choosing a research question. The question must, from a purely practical standpoint, be possible to carry out and it should be relevant (Jacobsen, 2002). The research question in this paper could be of interest for SAS Braathens itself, for academicians, and for the business world and society.

For SAS Braathens, it could be of interest for the company to understand the pilots' point of view of what has happened during the integration process, and also to gain a picture of how

the integration has progressed so far. They can also learn how the process has affected external relations, and what they need to do to improve this, and what they should think about in their further integration.

Since M&As are increasing around the world, this paper might contribute to the research concerning this phenomenon. As stated before, there is a lot of research conducted about M&As, but with the different angle of approach of this paper it might contribute to further information about how the external relations can be affected by looking at a real case.

For the business world and society, this paper can be relevant in illustrating what can go wrong in an M&A. For other companies that want to go through with an M&A, this paper can give them information about what can go wrong, and how the relations are affected. For society, especially in Norway, it is of interest since SAS Braathens is the largest airline company in the country, and they have the power to affect the Norwegian infrastructure. When a strike breaks out the whole society is affected, and this is particularly true because of the geography of Norway and the Norwegian infrastructure, with long distances between cities, and mountainous terrain that makes other means of travel difficult. For this reason, the public needs more openness about what is happening in SAS Braathens and the SAS Group, to know how they are handling the internal conflicts.

2.0 Background

2.1 The Aviation Industry

One definition of aviation is “the design, manufacture, use, or operation of aircraft - in which the term aircraft refers to any vehicle capable of flight” (GlobalAircraft.org, "History of Aviation", 2007). The first machine powered flight occurred on the 17th of December 1903, by the Wright brothers, and lasted for 12 seconds. After this event, the development of the aircraft industry has been enormous (GlobalAircraft.org, 2007). In the late 1950s, the first commercial jet aircraft took to the skies and the face of aviation was changed forever. Several organizations were established among others the International Civil Aviation Organization (ICAO), which is the main governing body for all civil aviation and the Organization for the Safety of Air Navigation in Europe (EUROCONTROL), with the purpose to maintain safety in the European air traffic management (Luftfahrt, 2007; EUROCONTROL, 2007).

The aviation industry operates in a fragile economic environment and is in permanent turmoil. During the last 16 years the industry’s combined losses adds up to \$51 billion (Sparaco, 2005). Air France Chairman/CEO Jean-Cyril Spinetta, who also was the International Air Transport Association (IATA) president for 2004-05, says that “airlines are not an endangered species, but we destroy lots of shareholder value” (Sparaco, p. 52, 2005). One explanation for the turmoil in the industry is excess capacity, resulting in that airline companies cannot charge prices that would make economic sense. Both Spinetta and Ryan air CEO Michael O’Leary say that excess capacity, and unrealistic competitive practices, such as cutthroat pricing, "will end in a bloodbath" (Sparaco, p. 52, 2005).

2.1.1 Deregulation

The aviation industry has been known for being highly regulated by national governments, mainly to protect national airlines from foreign competitors. At both domestic and international levels, there has been extensive regulation, including: regulated entry, capacity, pricing, and network structure in domestic markets, while the international market has been dominated by bilateral agreements between national governments (Peeters et al., 2001).

After the economic crisis in the 1930s’, free markets were mistrusted and associated with risk

and destructive competition (Peeters et al., 2001). But as time passed, government regulations appeared to have negative effects on the efficiency in the airline industry resulting in that consumers did not get what they needed, and had to pay inflated prices. The deregulation of the industry has shown to in general be beneficial for the society. The US market was deregulated in 1978, leading to turmoil with new entries and price competition (Salvanes et al., 2003). Another outcome of deregulation in the US was that more mergers and takeovers took place (Gong & Firth, 2006).

While deregulation in the US was introduced quite drastically, the European deregulation was approached gradually. During the time span between 1984 and 1997, various intra-European Union (EU) traffic restrictions were abolished, and in 1994, the Norwegian market was deregulated (Peeters et al., 2001; Strandenes, 2002). A main difference between the US deregulation and the European deregulation was the already existing hub-and-spoke network in Europe, since the national airlines already used the national airports as their hubs. The question in Europe was if the existing network would be replaced with a concentrated hub-and-spoke network, with main hubs such as London, Frankfurt and Paris, because of the concentration tendency in the industry (Peeters et al., 2001).

With deregulation, there also occurred some economic effects. One consequence of deregulation was the increase of competition. When the entry restrictions were removed, there was an immediate boom of new entrants, especially with companies offering cheap tickets. A later trend was the emergence of global alliances, such as Star Alliance. Big airlines started to cooperate and coordinate their services, leading to an expansion of destinations. In Europe, prices have also been affected by the deregulation in form of a decrease. The decrease in prices has, in turn, led to a higher demand and impact on the frequencies of flights. A final consequence of the deregulation, mentioned here, is the network structure. With fewer restrictions, hubs attract more transfer passengers, and with the global alliances, airlines are less dependent on one particular airport (Peeters et al., 2001).

2.1.2 Low price airlines

Since the deregulation, several low-cost airlines have been established, especially in Europe, with more than 50 low-cost carriers operating today. They have expanded rapidly, and most of them are making a profit (Sparaco, 2005).

The low-cost airlines are increasing the competition in an already competitive industry. In 1998, the Norwegian based low-cost airline Color Air was established. Before 1998, SAS and Braathens dominated the domestic air industry, but with the opening of the new airport, Gardermoen in Oslo, it became freer capacity in the Norwegian net. Color Air established and increased the competition in the Norwegian market. They were offering low fares with great freedom. There were no longer any restrictions on how many nights or days you had to spend away, and the prices were the same if you booked a single ticket or a return ticket. However, Color Air did not survive for a long time, after 14 months the company went into bankruptcy. As an answer to Color Air, SAS and Braathens pressed down their prices and increased their capacity, and in the end the competition about market shares became too great and Color Air crashed. Another reason for the bankruptcy was the bonus programs SAS and Braathens had. Because of the bonus programs, Color Air did not have a chance to attract the business people, which were the most frequent flyers in Norway (Strandenes, 2002). After a government intervention, the bonus programs were abandoned on the 1st of August 2002, and are not longer allowed in the domestic air traffic (Denstadli et al., 2006).

2.1.3 The 9/11

The 9/11 terrorist attacks had a great impact on the airline industry. The attacks resulted in a short-term shutdown of the industry, taking away the airline companies most important resource: the cash flow. Airlines such as Northwest Airlines and US Airways were forced into bankruptcy protection, but later managed to emerge in leaner forms (Aboulafia, 2006). Another impact of the attacks was the decline in passengers; some people did not want to fly anymore (Northwest Airlines, 2001). The US air travel market was the one suffering the most, even if the European market also was hit hard, it did not generally suffer a widespread fear of flying (Sparaco, 2005). The fear of flying was devastating for the industry, which relays on growth increase, because it lost several years of traffic growth. Five years after the event, the airline industry is still suffering, especially the US. Richard Aboulafia, (2006), an aviation analyst for Teal Group, says that to overcome the problems there has to be some restructuring and M&As to reduce the numbers of players. However, it can be tough to carry out an M&A in the airline industry, since the companies have different business practices and they have a workforce that has seniority as a way of life. An M&A often ends with shrinkage and that is not something popular (Aboulafia, 2006).

2.1.4 SARS

Another factor that has influenced the aviation industry in recent years is the outbreak of Severe Acute Respiratory Syndrome (SARS), which was first reported in Asia in February 2003. The SARS virus was unknown before the break out, and the source of infection was diffuse. The primary mode of transmission was through person-to-person, it is now shown that the infection is not airborne, it is only through close contact to an infected person, people can get infected. In March 2003, the World Health Organization (WHO) advised the SARS-affected countries with travel restrictions. Still, potential SARS-patients traveled by air internationally and spread the disease globally (Breugelmans et al., 2004).

The year of 2002 was one of the worst years in the aviation industry because of war threats, terror threats, recession, profitability problems, and restructuring in the industry. The following year, 2003 was supposed to be an up swing for the aviation industry, since the Iraq war ended (Fröberg, 2003). But the outbreak of SARS created bigger problems for the industry than the war and 9/11 did (Essenberg, 2003). The fear of being infected created a common concern about the health and a global insecurity (Fröberg, 2003). Airline companies were canceling flights to Asia and people in general became afraid of getting infected and the industry declined.

2.1.5 Oil prices

During the past couple of years, oil prices have increased significantly (See appendix 1) (Energy Information Administration, 2007). Increasing oil prices around the world are affecting the aviation industry, since fuel is the second largest expense after labor. Airline companies, which already are under pressure because of increased competition, overcapacity and lower yields, now also face higher costs because of the increase of oil prices (Kuhlman, 2005). To counteract, they have to charge higher ticket prices, reduce the cost, increase yields and improve efficiency (Concil, 2005).

The increase in oil prices may lead to higher fares and to a decrease in consumers' disposable income, resulting in that it will be relative more expensive fly. This in its turn can lead to fewer customers, a decrease in demand. But on the other hand, if the airline companies do not take any action, they will face higher costs and risk a deficit. The higher oil prices can also reduce the competitive advantage that the low cost airlines are having. In the long run, if the

prices continue to rise the demand for flying can be destroyed and several airlines will go out of business. In this worst-case scenario, it will only be the rich and the government business that will be able to fly, and the world integration will slow down (Kuhlman, 2005).

2.2 SAS Group

In the end of the 1930s, the government owned airlines from Sweden, Denmark, and Norway were having the idea of cooperation of transatlantic air service. But with the outbreak of the Second World War, the idea was abandoned. At the end of the war, Sweden wanted to buy airlines from the US, and to be able to get around the political sensitivity, a privately owned company was formed. After the end of the war, in August 1946, this privately owned company, together with the Danish and Norwegian airline companies, made reality of the old idea of cooperation, and SAS was established. On the 17th of September the same year, the inaugural flight with the new SAS plane was heading from Bromma, Sweden towards New York. The first agreement between the countries, was concerning the transatlantic routes, while the respective companies independently operated all other routes. Two years later, the European operations were merged, and in 1951 all overseas and European units were combined. In the early years, many believed that the cooperation was doomed to failure since the countries were traditional enemies, but in 1951 the consortium was finalized, and SAS established their first president, Per A. Norlin. The ownership was divided between the governments; the Danish and the Norwegian states got 2/7 shares each while the Swedish state got 3/7, mostly because of the higher capital assets. SAS was later seen as a unique example of Scandinavian cooperation (SAS Group, 2007).

During the first 14 years, SAS was only dedicated in the airlines segment, and development in that segment. Then, in 1960, the first SAS hotel was opened; SAS Royal was located in the center of Copenhagen. A year later a new subsidiary was open in Copenhagen, this time SAS Catering, who was in charge of all catering activities. In 1980, SAS opened their first hotel outside of Scandinavia in Kuwait, and business class was introduced on the routes to North America. The SAS group appointed Jan Carlzon as president in 1981. Mr. Carlzon wanted to make SAS more customer-oriented by offering more services, and his famous leadership made SAS a big player in the world market and in 1984, SAS was named the “Airline of the Year” (SAS Group, 2007).

After Jan Carlzon, Jan Stenberg was appointed president for the SAS group, in 1994. He emphasized the need to concentrate on SAS's core business, and sold off several non-airline subsidiaries. During the 1990s, SAS instead acquired other airline companies, such as Spanair, from Spain, and Widerøe, from Norway, and founded new individually branded subsidiaries, such as Air Baltic, from the Baltic countries, and Blue 1, from Finland. In 1997, SAS, Lufthansa, United Airlines, Air Canada, THAI and Varig founded Star Alliance. Today Star Alliance consists of 18 members, operating in 152 countries with 850 destinations (SAS Group, 2007).

2001 was a tough year for SAS, both the terrorist attacks, and the aircraft accident at Linate airport in Milan, were contributing factors. During 2003, SAS was trying to achieve cost reductions and greater efficiency by dividing up the company into regional bases in Sweden, Denmark and Norway. In 2004, SAS was divided into independent airlines in Scandinavia with one separate airline operating intercontinental, yet all the employees were still employed by the SAS Group. The SAS Commuter was also integrated into respective national divisions (See organizational chart in appendix 2) (SAS Group, 2007). Today, the SAS Group is the biggest listed airline company in the Nordic countries, with over 32,000 employees all over world.

2.3 Braathens

Braathens SAFE A/S was established in 1946, SAFE was short for South-American & Far East Air transport (the name was changed to only Braathens in 1997). The ship owner, Ludvig Braathens founded Braathens, with the vision to put wings on the ships. The company started out as a charter company with its first route between Oslo and Hong Kong in 1947, but saw relatively soon the need for regular flights. At this time, Det Norske Luftfartsselskap (DNL), later SAS, had a monopoly on international flights from Norway, since it was majority owned by the government. If DNL not was interested in a special route, other companies could apply for operating that route, which was what Braathens did when they, in 1949, received the concession to Hong Kong. They were allowed to fly this route until 1954, when the right passed over to SAS. When SAS established in 1951, they were given all the rights to international flights from Scandinavia. This resulting in Braathens only being allowed to conduct charter operations outside of Norway after the concession to Hong Kong expired (Tjomsland & Wilsberg, 1995).

SAS also had a monopoly on flights within Norway, but as with the international flights other companies were allowed to apply for concessions. In 1952, Braathens was given the concession for the route Oslo, Tønsberg and Stavanger. In following years, Braathens tried to get concession for other routes but failed, as SAS was given most of the routes. But in 1956, the Norwegian government decided to rationalize the concession process. Braathens received a five-year concession on the routes between Oslo and Stavanger, and Oslo and Trondheim, and the following years they were given even more routes. Because of the new concession process, Braathens and SAS could compete on a relatively friendly basis in the domestic market, trying to steal new market shares from each other, when a new route was opened (Tjomsland & Wilsberg, 1995; Olsen, 1974).

In 1961, Braathens decided to expand by opening charter flights to the Mediterranean. With a steady expansion, both domestically and internationally, Braathens had to invest in their ground service buildings at Sola, in Stavanger, and buy a new hanger in 1963 (Tjomsland & Wilsberg, 1995; Olsen, 1974).

In 1994, the Norwegian market was deregulated, anyone who wanted to, was now allowed to operate any domestic and international route in and from Norway. Four years after the deregulation, in 1998, the new national airport, Gardermoen was opened. The deregulation and Gardermoen led to increased competition in the Norwegian market, and low cost airlines, such as Color Air, were founded. With the increased competition, a price war broke out in Norway, Color Air pressed the prices down, and the established companies had to follow. After 14 months, Color Air went bankrupt, while Braathens and SAS survived, but with severe consequences for Braathens. After a failed Best & Back marketing strategy, the price war, and the decline in the aviation industry in the beginning of the 2000s, Braathens was on the edge to bankruptcy when, in the spring of 2001, it was announced that SAS was going to acquire Braathens.

2.4 SAS Braathens

In the end of the 1990s and the beginning of the 2000s, Braathens experienced major financial difficulties. Without the cooperation with SAS, Braathens would probably not have survived, if not being acquired by another airline. The Norwegian market was limited, and not big enough for two companies of approximately the same size. SAS's original plan was to

maintain Braathens as a separate entity and brand. SAS further said that if job reductions were necessary it would be through retraining and attrition. One problem SAS and Braathens faced was that the deal had to be approved by the Norwegian Competition Authorities (NCA), since the situation could be compared to a monopolistic situation. Both companies promised to, not increase any ticket prices for the next two years, unless any extraordinary circumstances occurred, and that all the destinations would be kept (Morrocco, 2001).

In the first round, the NCA blocked SAS's take-over bid for Braathens. Their concerns were that an acquisition would result in creation of a monopoly in the domestic market and that the fares would increase. SAS and Braathens argued in advanced that Braathens would go bankrupt if they were not acquired, but the NCA questioned this statement (N/A, 2001).

In October 2001, the NCA however, approved the acquisition and Braathens was integrated as an autonomy subsidiary in the SAS Group. During the first year, Braathens' airplane fleet was reduced with six planes and 25% of the employees had to leave. Since the SAS Group had a subsidiary with responsibility for all the ground services, SAS Ground Service (SGS), Braathens Ground Handling was not longer needed and was shut down. This resulted in a major reduction in Braathens employees. The legal term for when SAS acquired Braathens was activity transition, meaning that employees from both companies should be treated equally. The dismissed Braathens employees and the union referred to this without being successful towards the Group. Instead, the case went to the court, and when the verdict was announced in 2006 the former Braathens employees were the winners (SAS Group Annual report, 2001, 2002 & 2006).

In the beginning of 2004, the merger between SAS Norway and Braathens became a reality, and as a consequence of the restructuring within the SAS Group, a separate national airlines was established in each country, and one airline responsible for the intercontinental traffic. The new organization was given greater independency, and the national airlines could compete against each other to secure efficiency. On the 20th of September 2004, SAS Braathens became a legal entity. From the 31st of December, the pilots and cabin personal in SAS Norway and Braathens were integrated into SAS Braathens under the activity transition rule, and two very different cultures were to become one. The intention was to bring the best from each company into the new entity (SAS Group Annual report, 2004).

With the merger into SAS Braathens, the NCA started to evaluate their position on some routes. In 2006, SAS Braathens was imposed a fine on the route between Oslo and Haugesund, for breaking the anti-trust law, they were also given notice on a fine on the route between Oslo and Ålesund. SAS Braathens appealed the verdict, and in 2006, they were acquitted. In 2006, there was also some conflicts and strikes among the pilots and cabin personal that affected the company and its earnings (SAS Group Annual report, 2005 & 2006).

Today, SAS Braathens flies to 45 destinations, and are the market leader in the Norwegian domestic market. The company has 340 departures every day and transport about 10 million passengers every year. After the merger, SAS Braathens has opened 18 new international routes. They are operating with 58 aircrafts and have approximately 3,750 employees (SAS Group Annual report, 2006).

3.0 Methodology

In this chapter, the methodology used for writing this thesis will be presented. Which method that is being used to answer the research question is determined with the help of the formulation of the problem, the purpose, the empirical data, and the amount of time and resources available (Andersen, 1994).

Methodology is used to determine how much the results are reflected by the research method, or if it is a fair picture of the reality. Therefore, good knowledge about methodology theory is important to be able to distinguish which results that are affected by the methodology explanations and which are explained by substantial explanations. The method makes us go through certain steps when we are conducting research; it is like a manual that has to be followed. It can help us to systematically ask critical questions, about the choices made and the consequences of those choices (Jacobsen, 2002).

A common purpose of almost all empiric research is to collect knowledge about a problem (Jacobsen, 2002). According to James G. March (1991)¹ there are two different kinds of new knowledge. The first one is the one called genuine new knowledge, when we discover something we did not know about before. This knowledge is often revolutionary in the meaning that it challenges existing knowledge in a field. The other knowledge March talks about is when someone wants to develop and re-define already existing knowledge. This one results in a development of something we already know. It is of importance not to expect all empirical research to create new knowledge, if doing so we could get stuck and it could even lead to that we never would gain any new knowledge. Completely new knowledge is unknown to us in the beginning and cannot be planned. New knowledge will always be a result of something we did not know in the beginning of the research (Jacobsen, 2002).

All empirical data collected through research must fulfill two criteria; it must be valid and reliable (Gummesson, 1991). Validity means that we actually research what we want to research and that it is seen as relevant and can apply to not only the objects of the research but also to others (Cassell & Symon, 1994; Denzin & Lincoln, 1994). Reliability means that the research has to be reliable, it must be conducted in a trust giving way, and cannot consist of

¹ Referred to in Jacobsen, 2002

several obvious mistakes (Ghauri & Grønhaug, 2005; Ejvegård, 2003).

There are two different strategies used within methodology to get a hold of reality, deduction and induction. While the deduction strategy is going from theory to empirical research, the induction is going the opposite way, from empirical research to theory (Miller & Brewer, 2003). With the deduction strategy we mean that we, from the beginning, have certain expectations about what a problem looks like, and then we are going out to see if our expectations are true (Gummesson, 1991). In the induction strategy, the researcher is supposed to go out with a completely open mind with no expectations at all and collect all relevant data, and then sit down and analyze it. This is an open approach with the aim that nothing is going to limit the data collected. The situation just described is the ideal situation, but it is almost impossible to go out in the world without any expectations (Jacobsen, 2002). When we collected the data for this paper we tried to have an open approach as possible. This paper consists of an induction strategy with some elements of deduction. There is little theory about how the relations are affected when an M&A struggles; therefore, it is not possible to have a fully deductive approach. Even if we had some expectations about what the research would give us from before, we are trying to build up a new theory, therefore, we tried to go out open minded to be able to get all the relevant information.

Jacobsen (2002) writes about seven phases of empirical research. This methodology chapter will follow his phases to be able to develop and build up the best methodology that can be used when conducting the research for this thesis.

3.1 First phase: Development of the research question

Every research process starts with someone interested in knowing more about a certain subject. The starting point in almost every empirical research is a question. The research question must be concrete to be able to be examined, and to be conducted from a theoretic level to an operative level. This phase, designing a concrete question, is one of the most difficult and time consuming ones in the research process. Almost everyone knows what or whom he or she wants to examine, and have the big picture of the theme, but to design a clear question can be harder. And it is the question that is most important since the question will clarify the upcoming research and what and how things are going to be examined (Yin, 1994; Jacobsen, 2002).

When we have agreed upon a question, we also delimit what we are looking at. The delimitation is important as a whole to be able to conduct an empirical research. With the delimitation we decide on, not looking on some things, some things we define away (Yin, 1994). This delimitation can be done both explicit and implicit. The author makes the explicit delimitation, by telling, what he will focus on and what he will not focus on. The implicit delimitation is made unconsciously, this because of preconceptions developed during ones lifetime (Jacobsen, 2002).

The presentation of the problem can be separated by exploratory data analysis and confirmatory techniques (Ghauri & Grønhaug, 2005). In the exploratory data analysis the problem is more like an open question, where the author wants to get a deeper understanding of something that he knows little about and to achieve more clarity and knowledge (Alvesson & Sköldberg, 1994; Ghauri & Grønhaug, 2005). If the author is using the confirmatory techniques, he already has a good knowledge about the problem, and theory about the problem does already exist. The purpose of the confirmatory technique is to examine and test the already known problem (Jacobsen, 2002; Ghauri & Grønhaug, 2005). There is not much research conducted about how relationships are affected when an M&A struggles, therefore, it is hard to know exactly what kind of variables to measure. This is why this paper is of the exploratory character, instead of the confirmatory.

The presentation of the problem can also be separated by description and causation. The descriptive view is trying to describe and bring better insight in how a certain phenomenon looks (Gummesson, 1991), while the causative view is trying to explain why a phenomenon occurred and why something special happened, by using different variables (Ghauri & Grønhaug, 2005; Miller & Brewer, 2003). A descriptive problem could be to describe the environment within an organization while causative would be to explain why people resign from an organization. If using the causation method, it demands the author to follow the project under a longer time period (Jacobsen, 2002). This thesis is of the descriptive type, where the phenomenon of an M&A is described, and where we try to describe how the external relations can be affected if the M&A is struggling. Because this project runs over a relative short time period, it would be hard to make reliable conclusion if using the causation variables.

3.2 Second phase: Choice of Research design

After deciding on a research question the next step is to decide how to collect the information needed (Denzin & Lincoln, 1994). This can be classified in two dimensions: extensive versus intensive, and descriptive versus causative. Since this paper's research question is descriptive, the choice is between doing a cross section study (one situation at a given time) or a time series study (collect data over time to find a developing trend) (Ghauri & Grønhaug, 2005; Jacobsen, 2002).

This paper is going to be a case study of the integration between SAS and Braathens done by a cross section study, where the integration will be the situation examined. Case studies can be complicated to carry out, as it can be hard to identify one case and define what we are looking at, and there can be several different kinds of cases to look at (Miller & Brewer, 2003; Yin, 1994; Marschan-Piekkari & Welch, 2004). One common thing for all case studies is that they are limited in space and time (Cassell & Symon, 1994). By doing a case study of the integration in SAS Braathens, it will narrow down the object in space and time. Conducting a case study is suitable when we have an exploratory research question asking "how" or "what", when we want to get a deeper understanding of a certain situation, and are not really sure what we are looking for, when we have little or no control over the event, and also for development of new theory (Yin, 1994; Marschan-Piekkari & Welch, 2004; Cassell & Symon, 1994). By going deeper into something specific we can find new conclusions, which later on can be tried in other case studies or projects (Jacobsen, 2002). Through this case study of SAS Braathens' integration, the conclusions can maybe in the future be used to look into different M&As.

The ideal research design is both extensive and intensive, which means, using many variables, and many units. But this is hard to carry out since it is both time consuming to collect all the data, and then takes long time to analyze (Jacobsen, 2002). Therefore, this paper is intensive; we have examined the situation in-depth, with a few units. By interviewing people that all have experience one event, the integration of SAS Braathens, we have got a deeper understanding of what happened during this integration. The purpose of the intensive planning was to get us the clearest picture possible of one situation or phenomenon, to get all the nuances and details, by using as many variables as possible.

3.3 Third phase: Which data to collect

In this phase we have to decide which kind of data to collect, numbers or words, are we using the quantitative - or the qualitative method (Miller & Brewer, 2003). It is often the character of the research question that determines the choice of which method that is going to be used, if having a confirmatory question, the use of quantitative approach is more suitable, and if having an exploratory question, the qualitative approach is more suitable (Marschan-Piekkari & Welch, 2004). In the quantitative approach, you transform the information collected into quantifiable measures used when you analyze your results, while the qualitative approach is more about interpret and understand the information (Miller & Brewer, 2003; Cassell & Symon, 1994; Denzin & Lincoln, 1994). Using the quantitative method gives a narrower picture of the situation, whilst the qualitative gives a deeper understanding (Denzin & Lincoln, 1994; Jacobsen, 2002).

The research in this paper is based on the qualitative approach. The research question is of the exploratory kind and by using the qualitative approach, which is open and flexible it can help us to get a more nuance picture of the integration (Ghauri & Grønhaug, 2005; Cassell & Symon, 1994). The qualitative method also has a strong connection with the intensive research design; both are trying to identify the deepness and the nuances of the problem (Jacobsen, 2002). One negative aspect of the qualitative approach is that it is resource demanding, both in the data collection and in the analyze phase (Cassell & Symon, 1994). Doing a qualitative open research is time consuming, and since this paper has a shorter time frame, we do not have the capacity to examine many units, which is why the qualitative approach often is intensive: using few units, but several variables.

We know using few respondents can become a problem, and we can come across the generalization problem (Gummesson, 1991; Jacobsen, 2002). But by using the same amount of respondents from both sides, SAS and Braathens, we have got a balanced result. And since the main aim with the interviews was to get information about how the integration was carried out, and all the respondents was a part of the integration, we do not need many respondents. The problem is that we just have got some few peoples own nuances, thoughts and feelings.

3.4 Fourth phase: Collection of Qualitative data

There are different ways of collecting qualitative data; there is the individual open interview, the group interview, observations, and documentary sources (Andersen, 1994). When deciding which method to choose it is important to remember the validity and reliability concepts. The method chosen affects the validity, since we have to be able to study what we sought to study. The method also affects the reliability of the data, as all the methods are selective in their collection of data, and because the method can affect the outcome of the research (Gummesson, 1991; Jacobsen, 2002).

This paper is based on open individual interviews. The open interview is a good alternative when there are a few respondents and when it is important to hear what each respondent is saying and get different interpretations and nuances (Jacobsen, 2002; Denzin & Lincoln, 1994). The interviews were conducted over the phone, since the respondents live in different parts of Norway, and to make it more anonymous, and notes were taken during the whole interview. We know that it could have been easier to analyze the calls afterwards if they have been recorded, but this was not done since we did not have the equipment, and since we thought that we could take good notes during the calls without seeming rude, writing the whole time. The interviews were more or less open, with just a few structured questions to help us get started and to make sure that we got the information needed (Ghauri & Grønhaug, 2005, Yin, 1994).

Since it is hard to get all the hard facts, what happened when during the integration, the interviews were complemented with documentary sources, as annual reports. Documentary sources can be useful when it is hard to collect primary data, when we want to know how someone else interpreted the situation, when to find out what others actually said or done, and to corroborate information from other sources (Cassell & Symon, 1994; Yin, 1994). Using secondary data can be devastating, if used incorrectly. The data might have been collected for a different purpose, and used in a different way than our intention, therefore, it is important to keep in mind the reliability concept, if this data is reliable for us (Ghauri & Grønhaug, 2005; Yin, 1994).

3.5 Fifth phase: How to choose respondents and units?

It would be interesting to examine how the external relations have been affected in every M&A ever done, but that would be impossible for us to carry out. The researcher must narrow down the area to something doable, and express this in the presentation of the problem. The research will be valid for only the subjects examined and for the time period examined, since things can change (Jacobsen, 2002). For the research conducted for this paper the main unit examined is SAS Braathens' integration. SAS Braathens was chosen since it was an interesting company, which struggled in their integration, and because of accessible data and contacts.

The persons used as respondents for our interviews were more or less selected randomly among pilots in SAS Braathens. The respondents were selected by using contacts for the first interviews, and then we asked them for more people that they thought would be willing to be interviewed. We chose to talk to pilots that experienced the integration, much because they are a vital resource in SAS Braathens and because of limitation reasons. The pilots were able to give us information, not only what happened among the pilots, but also in different levels in the firm. As a result, this paper presents information about what happened during the integration from the pilots view. With respect to the confidentiality of the respondents (Ghauri & Grønhaug, 2005), they will just be referred to as pilot/employee in SAS and pilot/employee in Braathens. After we talked to four persons, two pilots from SAS and two pilots from Braathens, we got a good picture of the situation and the respondents more or less gave us the same information with some minor differences regarding their own thoughts (Jacobsen, 2002).

The secondary data selected for this research is annual reports, with written information about the integration process, and to some extent web pages and newspaper articles to make sure everything is covered. The information from the annual reports are information given to all the stakeholders in SAS Braathens and to the public, and is, therefore, first hand information and would in regard to the purpose of this paper be relevant and reliable (Cassell & Symon, 1994). The newspaper and web pages used were published for the public, and might in some degree be biased (Ghauri & Grønhaug, 2005), something we have taken into consideration. The integration of SAS and Braathens was of huge interest in Norway, since it was a big public company merging, and, therefore, it was possible to also get reliable information from

these sources.

3.6 Sixth phase: How to analyze the data

When the interviews are done there are often many papers with a lot of information. To be able to get an overview we have to facilitate and restructure the material (Marschan-Piekkari & Welch, 2004). After each interview, we sat down and thought through what was said, looked through the notes, and if it was needed we added new notes to clarify the issue. During this process the quotations was also evaluated and clarified, since the interviews were conducted in Swedish-Norwegian, and with only notes taken, we had to translate the quotations and sometimes it was hard to remember the specific words they were using. But even if we did not get every single word the respondent was saying, we got most of it, and more valuable we got the meaning of it, therefore, we felt it was more appropriate using it as a quotation than just in text.

When all the interviews were done, we read through all the answers again, and made links between the answers to get a better view of every situation. In regard to the interviews, we categorized the information to structure up the empiric chapter, while we also had the theory in mind. After this, we went through the categories and filled in the answers from the respondents. Last we went through the information from each interview again, adding some additional information and made sure we had not forgotten anything.

3.7 Seventh phase: How good are our conclusions?

It is of importance to be critical during the whole thesis process (Denzin & Lincoln, 1994). It is first when all the data is collected and the conclusions are drawn, we can see how valid and reliable our conclusions are. To find out how valid our conclusions are we can compare our examination and results with the results from other researchers and we can critical review our findings (Marschan-Piekkari & Welch, 2004).

There has not been much research about how an M&A that struggles can affect the external relations; therefore, it is difficult to compare our examination with someone else's to see if it is valid. Because of the fact that there is limited research in this field, it is hard to say if we measured this phenomenon in the correct way, if we used the right variables and if it gives a

truly picture of the reality (Cassell & Symon, 1994; Marschan-Piekkari, 2004). Therefore, it can always be discussed if we used and collected the right information. With the limited resources, information and time available we decided that the variables we chose were the best for us. By interviewing people from the inside we got their view of the situation, and then by help of theory, we drew the relevant conclusions. This research could have been more extensive, with, for example, observations and surveys among customers and competitors, but with the limited resources available this was not possible.

Even if the respondents for the research are the best suited, they might not always leave the correct information (Jacobsen, 2002). We used four phone interviews for our research, and from them we got relatively similar information. In some interviews we noticed that the person was careful in his selection of words, and wanted to give a relatively good picture, but when we compiled all the information it was relatively easy to interpret the situation. Since we could see a pattern through our respondents' answers, we think that our results could be regarded as valid.

The next thing to take into consideration is the reliability of the research. We have to evaluate and see if there are any factors that have influenced the research, and, therefore, given us the result we have (Cassell & Symon, 1994). It is hard to determine if our results are reliable. We have collected our information through interviews and without knowing the respondents it is difficult to conclude if their answers truly reflect their opinion. This research can have been influenced by the interview- and research-effect (Miller & Brewer, 2003; Jacobsen, 2002). The respondents knew that this research was conducted to find out what had gone wrong in their company, and how this might have affected their external relations. However, the answers showed that they had a very clear opinion of what had happened, and there were similarities in their answers. Since the respondents were more or less randomly chosen, it is relative reliable to conclude that they spoken their opinion and it was not something they made up during the interview.

Since all the interviews were conducted over the phone, and the respondents were at a familiar place, they might have contributed in that they all felt very comfortable to speak freely (Jacobsen, 2002). The time for the interviews was also adjusted to suit the respondents (Ghauri & Grønhaug, 2005). When we called them we made sure that they had time to talk and were not stressed. The interviews took place when the pilots were free from work, hence,

they were not thinking about their next flight and there was no opportunity that any co-worker could hear what they were saying.

It can be difficult to conclude, if a qualitative research is valid and reliable, since the research method often is influenced by the context. We mean that our conclusions are based upon deep consideration and analysis of the answers from the interviews with help of the theory. Our conclusions might not be used as a generalization of our phenomenon, but they might be helpful to understand what can happen in an M&A, and how the M&A's external relations can be affected. It is difficult to generalize our findings since we only examined one M&A, in an industry with several unique features.

4.0 Theory

4.1 Mergers and Acquisitions

Peng (2006) defines a merger as “the combination of assets, operations, and management of two firms to establish a new legal entity” (p. 377), and an acquisition as “the transfer of control of assets, operations, and management from one firm (target) to another (acquirer)” (p. 377).

M&As can be established in three different ways. These primary categories of M&As are: horizontal, vertical and conglomerates. A horizontal M&A is when two competing firms in the same industry merge and they accumulate experience by common technology. About 70% of all M&As are horizontal (Peng, 2006). The vertical M&A is deals involving one firm merging/acquiring suppliers (upstream) or buyers (downstream). Only about 10% of the M&As are vertical. The last category is conglomerates; these M&As involve transactions between firms in product-unrelated industries. Approximately 20% of all M&As are conglomerate (Lubatkin 1983; Peng, 2006). A related M&A can benefit more from the acquired firm than an unrelated M&A can, and then also gain higher returns (Singh & Montgomery, 1987; Lubatkin, 1983).

There are three main drivers for M&As; synergies, hubris and managerial motives (Berkovitch & Narayanan, 1993; Seth et al., 2000; Peng, 2006). The synergies a firm can attain by M&As are increased market share, overcome entry barriers, reduce risk, scope of economies, leverage superior managerial capabilities, access to complementary resources, learning and developing new skills, and advantage of market opening and globalization. Hubris motives can be managers, who have overconfidence in their capabilities and herd behavior, these are late movers that are eager to catch up and do everything in a short time period. The last driver for M&As is managerial motives; these are self-interest actions such as empire building guided by informal norms and cognitions, and agency problems (Lubatkin, 1983). The synergistic motives can add value to M&As, while managerial motives may actually reduce value. Hubris motives, on the other hand, imply zero correlation between target and gains (Berkovitch & Narayanan, 1993; Seth et al., 2000).

Many M&As are established to create synergies, but not many of them pay off. They lose

their revenues right after the merger because they are too focused on cost synergies and integration, and fail to create organic growth (Bekier et al., 2001; Bekier & Shelton, 2002). Even if having a good cost saving plan, fluctuations in revenue can quickly outweigh the planned costs. McKinsey and Southern Methodist University conducted research in the end of the 1990s, showing that half of the revenue loss was because of underperformance while unsettled customers and distracted staff could explain the other half. If an M&A pursues growth, instead of only focusing on cost cutting, they can generate a positive dynamic that make its objectives easier to achieve, including cost savings. A focus on growth could also motivate employees much better than a cost cutting strategy (Bekier et al., 2001).

How effective the M&A will be depends on extensive planning and careful implementation (Blake & Mouton, 1984; Jemison & Sitkin, 1986; Salter & Weinhold, 1979)². The failing rate is high within M&As, one reason to this is the lack of consideration of different factors both in the pre-acquisition phase and the post-acquisition phase (Jones & Miskell, 2007). In the pre-acquisition phase, the failures can be traced back into a synergy trap, they pay too much to the target firm because of executive hubris or managerial motives. Another pre-acquisition problem is poor screening and pre-planning and a failure of achieving strategic fit (Firstbrook, 2007). Also, in the post-acquisition phase there are some integration problems that have to be taken into consideration in M&As. Not only the strategic fit in an M&A has to be achieved but also the organizational fit, similarity in cultures, systems and structures will facilitate the procedure (Lubatkin, 1983; Uhlenbruck & De Castro, 1998; Klein, 2006; Peng, 2006). For organizations and managers with experience from previous M&As, there is a bigger chance of succeeding (Lubatkin, 1983). Also, the stakeholders' concerns in the post-acquisition can be a problem, the fear of losing the job, restructured responsibilities, and diminished power can be a contribution to a failure (Bekier & Shelton, 2002).

4.1.1 Communication in the M&A

Communication is a crucial factor in the M&A. Regardless of what factor of success is measured; communication is part of the foundation for the factor to be successful. Without communicating information, misunderstandings, insecurities and stress might occur. According to Lloyd (2006) few situations can create more stress or trauma for the employees

² Nahavandi, A & Malekzadeh, 1988

than an M&A. Furthermore, Chapman (2004) argues that maintaining a dialogue with employees is essential during M&As, and successful companies will keep these channels open long after the new company has formed. Failing in communicate the merger to employees can lead to major losses in the sales force, and with them, the customers (Bekier & Shelton, 2002).

In order to distribute and communicate information, all executives shall have one singular voice to provide direction, clarify misconceptions, and express positive energy. Furthermore, the communication must be regular and constant in order to keep the employees trust (Lloyd, 2006). A survey of over 330 European M&As conducted by London-based Acquisition and Merger Research found that of the M&As studied, 75 percent failed in establishing a communication plan (Speight & Goodman, 1998).

4.1.2 Screening and Strategic fit

According to several authors (see for example Chapman, Waight, etcetera) the screening and pre-planning phase is a crucial success factor for M&As. The more planning prior to the event the better, this since the pre-planning phase will affect all areas of the business and the success of the M&A will depend greatly on how the integration is handled (Chapman, 2004). Waight (2004) states that it is not merely the financial, economic and commercial aspects of the M&A that will affect the outcome of the pre-planning, but also the Human Resource department (HR). The role of the HR might be very different in the merging firms and it will be affected by the culture of the respective companies.

An early detailed plan over how the implementation of the M&A will be executed is of great importance. This plan shall contain elements such as organizational structure, product lines, management structure, and business process. Furthermore, an accelerating integration is central. While it is important to integrate well, it is just as important to integrate quickly (Camara & Renjen, 2004). Another author that emphasizes the importance of pre-planning in order to reach a strategic fit between the companies is Caroline Firstbrook (2007). She highlights the importance of having a clear view of what the acquired firm's role will be in their strategy. Further on she points out that even when the strategy is clear, many companies do not spend the proper amount of time to look for a company that will be the best fit for the specific strategy. The company just acquires the first company that looks like a fit with little

further research (Firstbrook, 2007). This indicates that the synergies that would have occurred do not come about, due to the lack of matching and complementary strategic capabilities between the companies. The better the strategic fit is between the two companies the easier it is to succeed (Lubatkin, 1983).

4.1.3 Organizational fit and Management

Castro and Uhlenbruck (1998) argue that, organizational fit, can be measured by the number of organizational adjustments that have to be implemented after the acquisition. Furthermore, the acquiring firm has to take into consideration how deep the integration between the companies should be, and the more integration the higher organizational fit. This implies that organizational fit should be a part of the screening process where the acquiring firm looks for potential companies to buy. Consequently, Peng (2006) defines organizational fit as similarities in culture, structure and systems. Furthermore, Peng emphasizes the importance of investigating the organizational fit before the acquisition. However, he points out that this is seldom the case. Around 80 % of the acquirers have not done proper studies on the organizational fit.

A common difficulty in acquisitions is relational problems. Being manager in one firm and then merge with another and get another role can create obstacles and the allocation of power can also be a problem. If the acquirer is much larger than the acquired firm, there can be power differential between the firms and the largest firm's managers have more influence, which can lead to that the managers from the acquired firm feels unwelcome and run over. The acquirer firm's managers can feel a pressure of implementing the new order quickly to meet performance expectation which can be seen as they have greater capabilities to enforce their preferences than the other firm's manager. It is not only the size differences that matter for the managers but also the beliefs of superiority and inferiority between the firms. From in one firm being in the core of the organization, to being reduced significance to the overall business, ends up with them losing impact, status and power relative to the managers from the other firm. All of this can lead to management problems and maybe that the resources are not used as good as they could. People can also feel that they are worth less than what they are (Pablo, 1994).

4.1.4 Knowledge Transfer

It is becoming increasingly obvious that the employees and their knowledge are an essential part of a company. In order to examine knowledge, the term has to be defined. Knowledge consists of two parts: tacit and explicit. In 1995, Nonaka and Takeuchi published their work “The Knowledge-Creating Company”, which points out that organizational knowledge is created through a continuous dialogue between “tacit” and “explicit” knowledge. According to the authors the distinction between tacit and explicit knowledge is referred to as the epistemological dimension. Explicit knowledge can be described as “codified knowledge that is transmittable in formal, systematic language. On the other hand, tacit knowledge has a personal quality, which makes it hard to formalize and communicate” (Nonaka & Takeuchi, p.14, 1995). The main difference between these two types of knowledge is that explicit knowledge can easily be shared through databases or equivalent systems among different departments and subsidiaries, while the tacit knowledge is produced in the individuals mind, and involves concrete know-how and skills, which apply to special contexts.

As mentioned and as in all organizations, the individuals in the companies play a central role especially during the M&A. One role is the knowledge transfer process, specifically in articulating and legitimizing the knowledge base and in shaping and interpreting the organizational context (Empson, 2001). Companies’ resources are often based on technologies that rest on the possession of distinctive knowledge-based assets. Transferring and exploiting knowledge effectively and efficiently in M&As are essential. Knowledge transfer is basically about sharing and creating knowledge within a company, and between its individuals, and it is achieved when the acquirer appropriates technologies and capabilities in the acquired firm and applies them to commercial ends (Gooderham & Nordhaug, 2003; Ranft & Lord, 2002). In an environment with increasing competition, knowledge and knowledge transfer is crucial for a company’s existence and survival, especially in the context of M&As which are suppose to generate synergy effects (Gooderham & Nordhaug, 2003).

4.1.5 Stakeholders and customers

Above we examined one aspect of the employees in an M&A. The employees are one of the many different stakeholder groups that are affected by the M&A. During the integration process the stakeholders’ concerns are something that should be taken into consideration. The first priority of most firms is the task issues, such as a common financial reporting, and those

issues do not pay that much attention to the issues regarding people in an M&A. This can result in low morale and high turnover among for example, the companies' best talents (Bekier & Shelton, 2002; Peng, 2006).

In the M&A there are stakeholders at all levels who are concerned about the outcome of the M&A, from investors and management to employees and customers. The investors are most interested in their investment and reflect about the benefits, returns and revenues they can or cannot get. For the top management it is the difficulties to attain synergies, internal conflicts and unrealistic euphoria, which is likely to take up most of their concern. The middle management might worry about different issues such as job security, the expectations put on them in the M&A process and at the same time managing their regular job. The scale and scope of their tasks might overwhelm them. The front-line employees might be concerned about information to the customers, when the lay-off begins and who is setting the priorities and objectives (Peng, 2006).

The last stakeholder group discussed here is the customers. Customers are an important factor for an M&A to succeed. As talked about before, many M&As do not pay off, and one reason for that are unsettled customers (Bekier et al., 2001). Therefore, it is of importance for an M&A to take their customers into consideration. Some customers might not be concerned about the M&A, while some might feel troubled about service quality dips and whether different factors still concerns the company (Peng, 2006). After the merger the companies are often concerned about cost cutting and integration and tend to forget the day-to-day business, resulting in nervous customers to flee. If a big customer does not get the attention he thinks he needs, he might choose a different company. To overcome these problems the managers should spend, as much time winning the customers, as they do persuading analyst and investors, and the merging firms should also create an appropriate brand identity for their customers (Bekier & Shelton, 2002; Basu, 2006). As soon as the deal is done the company should focus on their customer base before there will be too much turmoil, they can always go back later and cut costs. Once a customer is gone it is very hard to win them back again. One way of keeping the customer base is by keeping the sales force. The sales force is often the contact the customers have with the company, they are the key messengers to communicate the merger's benefits. By having a good communication throughout the company during the merger and especially win over the sales force, a big step to maintain the customer base is accomplished (Bekier & Shelton, 2002).

4.2 Acculturation

A big challenge in M&As are the culture clash that can occur when two different cultures integrates. Culture can be defined in many different ways, one of the most common is Hofstede's definition of culture:

“a system of values, beliefs, expectations and goals shared by members of a group that distinguished them from others” (Hofstede, 2001).

Hofstede (2003) also argue that this is a product of collective programming of the mind, that culture is something that is created in interaction with others. O'Reilly et al (1991) writes that organizational culture have a great impact on individuals commitment, productivity and satisfaction within an organization, since individuals tend to seek to groups that have similar values to their own, and avoid groups with dissimilar values. Organizational cultures are unwilling to change, incrementally adaptive, and constantly in flux. This is because cultures are socially constructed realities where we experience changes depending how we perceive culture (Meyerson & Martin, 1987).

A culture clash can affect the M&A in several levels. It can be shown by lower commitment and cooperation among employees, a higher turnover among acquired employees, a decline in the performance of the acquired firm and a reduced shareholder value at the acquiring firm (Larsson & Lubatkin, 2001). To overcome the cultural clash and succeed, the M&A must achieve acculturation, which is a major post-acquisition challenge to acquiring firms. A survey done by Booz and Hamilton Inc. (1985)³, showed that the integration of organizational cultures is more important than financial or strategic factors for the success of the M&A. Larsson and Lubatkin (2001) discuss the importance of acculturation in their article and define it as:

“Acculturation in mergers and acquisitions is the outcome of a cooperative process whereby the beliefs, assumptions and values of two previously independent work forces form a jointly determined culture” (Larsson & Lubatkin, p. 1574, 2001).

In their article (2001) they refer to a study by Cartwright and Cooper (1993). Their results

³ Referenced in Cartwright & Cooper, 1993

suggest that acculturation is predetermined by cultural differences between the companies and therefore, is outside the control of the company. Larsson and Lubatkin however, present a different view of the problems with acculturation. Their research concluded that in order to achieve acculturation there are mainly one thing the acquiring company have to consider, and that is how to involve the employees in social activities. They also concluded that achieving acculturation is of equal importance, even if it is a cross-border mergers or a merger between two firms from the same country.

There are different socializations mechanisms that can be used to achieve acculturation depending on the acquiring firms aim, and the relatedness between the two firms (Nahavandi & Malekzadeh, 1988). If the buyer's aim is to manage and control the new company, then they are more likely to meet higher resistance, and therefore, have to apply other methods to achieve acculturation. Then the socialization process has to include senior management involvement, transition teams and some employee's rotation. But if the acquired firm is to be a highly independent part of the new organization then the author's conclusions are that introduction programs, cross visits, and celebrations can help to create acculturation (Larsson & Lubatkin, 2001).

4.2.1 Cultural change

Meyerson and Martin (1987) discuss culture from three different paradigms and how cultural change can be viewed from these. The first paradigm focuses on consistency, consensus, and leadership. The culture can be seen as an umbrella, a dominant culture, and it emphasize integration and homogeneity. Cultural changes according to this paradigm are often controlled by top management and shared throughout the organization. The second paradigm is characterized by differentiation and diversity, where the culture is influenced by both external and internal factors. This paradigm emphasizes inconsistencies and subculture differentiation. In this paradigm the cultural changes are diffuse and unintentional, and the changes are explicitly linked to other sources and types of change. In the last paradigm ambiguity is accepted, and is an inevitable part of organizational life, while it is often denied or channeling in the other two paradigms. In this third paradigm incompatible interpretations are simultaneously entertained, and paradoxes are accepted. Individuals agree in some viewpoints while disagree about others and are ignorant of or indifferent to some. Cultural change according to the last paradigm is that any change between individuals, among patterns of

connections and interpretations is cultural change, and there must be individual adjustment to environmental fluctuations (Meyerson & Martin, 1987).

These three paradigms have very different implications to manage cultural change. The first one is more hopeful that organization wide cultural changes will be successfully initiated and controlled by those in leadership positions. The second paradigm is more constricted and means that changes have both intentional and unintentional localized impact, but that organization wide control will be unlikely. Paradigm three says that all cultural members, not only the leaders, are changed by the cultures they live in, and that they all are inevitably and constantly changed. The cultural control is determined by a person's choice or paradigmatic viewpoints (Meyerson & Martin, 1987).

Another author that discussed culture and cultural change is Schein (1968, 1985). He describes cultural change as a three-stage process, where the acknowledgment of ambiguity is a temporary, but necessary, stage in the change process. First there is the unfreezing stage, when individuals and organizations acknowledge the ambiguity and the unknown, and disconfirmed evidence is recognized. In this stage a psychological safety is created. In the second stage, changes occur, new behaviors and their meanings are learned. In the final stage, the refreezing stage, the ambiguity is denied again, and the new ways of behaving becomes internalized. In this change process there is an assumption that leaders can and do affect the cultural changes in an organization (Schein, 1968, 1985).

4.3 Porters Five Forces

Porter's Five Forces (1980) is used to evaluate the factors within an industry, which affect a company's ability to provide its customers with the appropriate output and to yield a substantial profit. The framework divides the factors, which determine the profitability of the industry into five forces, with the internal rivalry as the central one. The other four forces, namely the threat of the new entrants, buyer and supplier power as well as the threat of substitutes affect the internal rivalry thus explaining the central position of the latter. This model will be used to analyze the industry and as a base to evaluate the external relations. The power of the suppliers and the threat of new entrants will not be discussed since it will not contribute to answer the research question.

4.3.1 Rivalry among competitors

An industry with high rivalry can be characterized by frequent price wars, proliferation of new products, intense advertising campaigns and high-cost competitive actions and reactions. In order to analyze the competition between the players within this industry, there are three factors to be considered. These are the structure of the market, the level of demand and various exit barriers.

The structure of the market depends on the number of competitors and the similarities in size, influence, and product offering among the rivals. If an industry is concentrated, there are also fewer players, and the competitors will probably restrain their rivalry since they can recognize their mutual interdependence. If the rivals have similar size, influence and product offering it can increase the rivalry in the industry, this since it is hard to differentiate their products. This is especially the case in the airline industry, where several companies go into bankruptcy. If an industry instead is having a dominant player, this player can set the prices and punish the firms that diverge too much from the prices.

The level of demand can depend on high-price, low frequency purchases. In a industry with low-price and more frequently bought goods, the consumers do not spend too much time planning their purchases and often stick to the well known brands. While in the high-price industry the consumers take more time to find good deals, and do not always rely on the reputation of a firm. The level of demand can also lead to over-capacity. For example in the airline industry, if a new company enters a route already served by other companies it can result in over-capacity and lead to price-cutting. Also a slow growth industry or decline can affect the rivalry. When facing a lower demand the firms can become more desperate and unleash competitive actions not used before.

At last, various exit barriers can also affect the rivalry among competitors. If the cost to exit is too high, the firms might decide to stay in the industry and operate at a loss. Different exit barriers can be specialized assets and investments such as machines, which cannot be sold off easily. Another exit barrier can be the feelings and emotions of an executive failure, which can be high. Before admitting a failure, the executives might try everything to manage to survive in the industry, before taking the firm out of the industry.

4.3.2 Customer power

The customers' power refers to the customers' possibility to influence the prices in the industry or increase the costs for the producers by demanding better product quality or service. Therefore, powerful customers can become a threat and possibly end up reducing overall profits. The size of the customer base, the numbers of customers, the switching costs and the products importance for the customers are factors that will determine how powerful the customers in the industry are.

If the customer base is small, the buyers will have a stronger bargaining power. The customers can in these situations play the suppliers against each other by demanding lower price and quality improvement. How high the switching costs for the buyers are can also determine the power they hold. In an industry with standard, undifferentiated products the customer power can be strong. The cost of switching supplier is not that high when dealing with commodity products and therefore, the customers' power increase. On the other hand, if a product is of great importance for the customer, their bargaining power decrease and the suppliers power increase. Another factor that might influence the power the buyer has, is the world economy. If being in a recession, the buyers cannot spend as much money as before, resulting in an increase in their power and a decrease in prices.

4.2.5 Threat of substitutes

If substitutes exist in an industry, this creates limitations when it comes to price and profit. The elements that indicate the power of substitute products are price and/or service in the substitute market against competition, switching costs, product differentiation and competitive conditions in the substitute market.

If a substitute has a lower price, better service and/or superior quality and function than the existing products, it can quickly take customers away from the focal industry. However, if the substitutes are inferior they will not be a major threat against the already existing products. The switching costs and product differentiation can also affect the power of substitutes. In an undifferentiated product category with low switching cost, the threat of substitutes is much greater than when the switching costs are too high. If an existing product and the substitute are as easy to access, the switching costs decrease and the power of the substitute increase. An example of when switching costs can be too high is in the transoceanic transportation. It is

hard to find a substitute for the airlines operating these routes, resulting in a greater power for the existing companies.

4.4 M&As in the aviation industry

Some of the most important reasons for M&As in the airline industry are to increase market power, overcome entry barriers, and enhance the operating efficiency. A merger in the industry can change the market structure, especially if two big players merge, affecting all participants, including the rivals. To prevent the creation of monopolies in the US, if a firm through a merger gets excessive market power, the Airlines Deregulation Act of 1978 exist. This act tries to foster market competition and economic efficiency (Gong & Firth, 2006).

In the airline industry, horizontal M&As are most common. These M&As occur to reduce competition or increase the market coverage by getting a complementary market. When an M&A occurs, the rival's reactions will depend on the market share the new competitor creates relative to the one the two merging firms had before, the reactions are negatively related to the change in market share. These evidence found, may justify the industry's opposition to mergers, since it may hurt the competitors, and the regulatory concerns that merger will create a collusive market may be dampened (Gong & Firth, 2006).

Kim and Singal (1993) looked at all the airline mergers that took place in the US during the years 1985-1988. During these years the department of transportation governed the airline industry and they allowed all the mergers that were waiting for approval. The evidence from this research showed an increase in the fares, the merging firms raised their prices resulting in that also the competitors raised their fares. Further on it also shows, for the total sample, that efficiency gains are dominated by increase in market power.

4.4.1 Air France – KLM Group

One famous merger in the European airline industry is the one between Air France and KLM. In 2004, the implementation of the Air France and KLM merger took place. Air France and KLM were both big players in the European airline industry and after the merger they had the highest annual revenue of the world's airlines (Sparaco, 2005). They have rationalized their network to some of their destinations, on a loss-making route they both were operating before,

they closed down the route for one of the companies to make the route more profitable. Air France still has a three-class operation while KLM only have a two-class operation, by having it like this the companies have a bigger product differentiation and can attract a wider spectrum of customers (Buyck, 2005). They are trying to further streamline their fleet, as it is today, they have many different types of aircrafts, which they will reduce to create an overall fleet with greater operating efficiency (Sparaco, 2005).

The top management knew that it would be hard to implement the merger to make it a success. Therefore, they decided to take it careful and slow and not go into all sorts of implementation too fast. They wanted to avoid producing negative sentiments among the employees. During the integration they tried to avoid competition between the teams and instead concentrate on selling tickets, to avoid conflicts. Everybody was striving for the same goal. One of the hurdles to overcome in the integration was the opinion among the Dutch stakeholders that the merger was a bad thing and that KLM probably would disappear after the merger and the business would be moved. This did not happened since Amsterdam airport had a big sheer volume of KLM's operations. The perception disappeared when the companies proved that this could work out and that they were able to grow (Buyck, 2005).

Before the merger, Air France and KLM agreed upon how big the potential in synergies could be. The new company managed to capitalize each other's complementary strengths much faster than everyone expected and already after six months they had to raise their estimations. The synergies were achieved much faster than anticipated (Buyck, 2005; Sparaco, 2005).

4.5 Formal institutions

In Norway, the NCA is the body that governs the competition law. For an M&A to be established the two companies have to notify the authorities for approval. The authority advocate free competition and tries to prevent monopolistic situations (NCA, 2007). To be approved there are certain criteria that have to be fulfilled, among others, if two firms want to merge they have to make sure that they will not limit or control the market, fix purchasing and selling prices or abuse a dominant position. An M&A is not allowed to create or strengthen a significant restriction of competition. There can be a looser interpretation of these rules if there is a well functioned Nordic or European market or if the Norwegian customers will not get too affected (The competition act of 2004).

4.5.1 M&A and Monopolistic situations

An early definition of monopoly is Mund's (1933) definition: "the antithesis of competition – a state of affairs in which rival producers lack either the freedom, willingness or capability, due to want of access to a necessary resource or to an insufficiency of market demand, to compete" (Mund, 1933, p 100)⁴.

An M&A can create a monopolistic situation, when substantially lessen the competition or when they try to create a monopoly (Brown, 1998). If an M&A creates a monopolistic situation, both the competitors and the customers will be affected. The competitors might not be able to compete on the same terms as the dominant player and may face a hard time surviving. The M&A can also with help of their market power decide to out compete their rivals or even acquire them. A set back for the companies in a monopolistic situation can be that their reputation and image among their customers have been hurt, because of their tactic to reach their position and their behavior (Collett, 1999). The customers can also be affected by the situation, since they might face higher prices and restricted selection (Steinberg, 1995).

⁴ Referred to in Salerno, 2004

5.0 The Integration of SAS Braathens

5.1 The Process

In 2001 Braathens was acquired by the SAS Group as an autonomy subsidiary. A couple of years later as a consequence of the SAS Group's reorganization into separate national divisions, in 2004 SAS Norway and Braathens merged into one company (SAS Group Annual Report, 2004).

5.1.1 Communication

From the beginning of the integration there has been a lack of communication from the management to the employees in SAS Braathens. Most of the employees got the information about the integration the same way as the rest of the society, through media. It was in the newspaper that the pilots found out that they now were going to work together with the pilots from the other company. One pilot remembers that the grapevine was a common channel of information.

“You often hear a rumor what is going to happen through the grapevine first. The grapevine is the most common information channel, we do not hear it from the management.”

Both sides have experienced a lack in the information flow about what the plans were and how the integration was going to be executed. One SAS pilot got the impression that the management did not know what to do, they just acquired Braathens and then waited to see what happened, “it felt very amateurish”. The communication and the information given is something that has been bad through out the whole integration process. For the employees it has been frustrated not knowing what is happening and if they could keep their jobs and it have created an uncertainty among the pilots. The employees have been trying to do the best of the situation, but if they had received more information from the management, if they had been more open, the integration might have had looked different. SAS has always been bad in inform their employees; it has often been through the newspaper they find out about something. But the situation is improving, and now they are actually given some information before its public.

5.1.2 Reactions

The news that the SAS Group was going to acquire Braathens came as a surprise to many. Braathens employees saw it in the beginning as something positive since the company was on its way to bankruptcy. And because they were bought up before they went bankrupt they still had some legal rights. Some of the SAS employees on the other hand did not share the same positive thoughts. For them it would have been better to wait for Braathens to go bankrupt and then acquire Braathens. The SAS employees did not understand why SAS acquired Braathens, because they had just dismissed SAS employees and now they got more people from Braathens. They did not see any advantages, except that they got some nice coworkers and that Braathens money went into the common funds, otherwise only an increased competition. Braathens was seen upon as an underdog by SAS. If Norwegian law had not protected Braathens⁵, SAS Braathens would not have existed in the same form as today. SAS wanted to acquire Braathens routes and aircrafts, they did not care that much about the personal, they just came along. And if SAS had not acquired Braathens probably some other company would have done it, and they would have got much worse conditions and lower salary.

However, some SAS pilots did not care that much, as long as they had their salary and Braathens did not make the conditions worse for them. One SAS pilot was of the opinion:

“Same salary, for same work, based on the seniority” (SAS pilot, 2007).

From the beginning Braathens was supposed to operate as an independent division within the SAS Groups. When it later was announced that SAS Norway and Braathens were to become SAS Braathens, some pilots from Braathens saw it as a merger while the SAS employees saw it as an acquiring. The Braathens employees' quite fast changed their opinion, and what was supposed to be a merger became an acquiring. The positivism in Braathens was dampened and from have been “Braathens” they were now “SAS”, in the beginning the work still moved on as before but during the integration it changed some. The Braathens pilot felt that they had nothing to say in the process, but most of them still saw it as something positive. It was better to still be alive than not longer exist.

⁵ SAS' acquiring of Braathens was an activity transition, meaning that employees from both companies should be treated equal

The new situation that occurred was tough and frustrated for the pilots. It created insecurity, not knowing what was going to happen and the employees were afraid of losing their jobs. There was also a fear that the whole company would go bankrupt. This fear does no longer exist, since both the management and the group have gone out and denied those rumors. The Braathens employees did not feel welcome in SAS's unions. But all the pilots emphasize that the insecurity, frustration and disagreements do not affect the every day work. Everyone behaves very professionally and leaves the rest to the unions to solve.

5.1.3 Two became one

From the beginning the merger went wrong. When the two firms merged together the strategy was to take the best from each company, to create a "best practice". This did not happen, instead, according to some pilots it was the "SAS practice" that applied. Since SAS was government ruled and a top-down organization it was lengthier and heavier ran, than Braathens. SAS Braathens should have had taken more of Braathens practices and had a flatter organization, but ended up with a large administration with several decision levels. Still today the operational is perceived as a slow process.

SAS and Braathens had different types of aircrafts. In the beginning this created operational difficulties, for example crew was put on planes they could not operate. This resulted in delays or cancellations and created negativity among the employees. The crew was also referred to, as ex Braathens and ex SAS, only to know their background, but this did not have a positive effect, it did not facilitate the integration and was an obstacle when they were trying to create a common culture.

5.1.4 Shrinking the organization

When SAS acquired Braathens they had to shrink the organization and it was the employees from Braathens that had to take the fall. The Braathens pilot lost several of their coworkers. Especially the personal in Braathens Ground Handling, was bad treated. The department was shut down resulting in major dismissals. But their dismissal was not entitled and the fight between the former employees and SAS about who was right and wrong went all the way up to court. This matter did create uncertainty among employees and got publicity in the media. In 2006 the verdict was announced and the former Braathens employees were the winners.

For the ex-Braathens employees in SAS Braathens this was a victory since it showed that they could not be treated differently than the SAS employees and their former coworkers had gained redressed.

The technical division was also eliminated, today there is only a handful employees left. The group from Braathens that survived the shrinking best was the pilots and crews. Also the administration was affected. One pilot from Braathens feels that Braathens was slaughtered in the integration.

5.2 Culture Clash

Even if it was two companies from the same nation, the organizational culture in the companies was still very different. It was a culture clash when the two firms merged, it was we and they, and still are in some situations.

One Braathens pilot believes that one reason behind the culture clash was the fact that the leadership style in the companies differed a lot. “The SAS leadership was aggressive and speculative, and they did not care about teamwork, while the leaders in Braathens put out the rules and then teamwork applied” (Braathens pilot, 2007). The SAS-attitude also created some problems. Braathens was of the opinion that SAS perceived themselves as a little better than the rest (confirmed by a SAS pilot) and felt that the SAS employees were looking down on them and that they were worth less. And while Braathens was a down-to-earth company, SAS was government owned and farsighted.

If you as a Braathens pilot did not know any SAS pilot from before it could be hard to get integrated in the company. The cabin crew from SAS also experienced a tough integration and some of them quit because they did not want to be a part of the new company. But with the time the problems have decreased. The culture clash is no longer that obvious. There are still some differences, but now crew from both companies is working together and pilots from SAS and Braathens are flying together in the same cockpit. The SAS-attitude is also gone, now all the employees are seen as equal. SAS Braathens has been able to create a common organizational culture and the pilots have a common sight on the future. One problem though is that some pilots do not enjoy working in SAS Braathens as much as they did before. They can read on different places that the company has to work with their cultural differences,

which creates frustration since as mentioned above there are hardly any differences anymore.

Table 5.1 Opinions of Braathens and SAS

	Braathens	SAS
Braathens employees	Popular Open Flexible Careful Efficient	Arrogant and reserved Sulky Squared Superior Inefficient
SAS employees	Unprofessional Reliable National Less competence Characterized by ad hoc solutions Spendthrift	Professional Modern and stylish International High competence Reliable and clear regulations Profit thinking

(Nygård, 2006)

5.3 The Seniority list

A major problem in SAS Braathens that creates disagreements and a bad atmosphere among the pilots is the seniority list. During the integration there were co-pilots in SAS that had worked for the company for 18 years while there were captains in Braathens that worked for only 7 years. The SAS co-pilots thought this was an unfair situation, they had much more experience than the captains from Braathens and still they were under them in seniority. To solve the immediate problem, the management considered the problem when they decided who was flying with whom, and an "older" co-pilot did not have to fly with a "younger" captain. This system works well and the cooperation difficulties are fading away but there is still some resistance and some employees do not say hello to each other. The management is trying to improve the situation and more co-pilots are becoming captains now, but it takes time and creates frustration.

As a pilot in SAS Norway you are also considered a pilot in the SAS Group and have the

possibility to become captains also in Sweden or Denmark. Pilots from Braathens, however, are only considered as pilots in SAS Braathens and can only become captains in Norway. One reason why Braathens pilots are not integrated fully into the SAS Group is because being a captain in the SAS Group also brings along the possibility to fly long distance routes, which is considered to be attractive. The competition about these prestige's routes would increase if Braathens pilots also were allowed to fly these, something pilots from SAS might want to avoid. A Braathens pilot means that they might never be fully integrated into the SAS Group because of this, and goes on that he does not care that much about flying the long distance routes, if he was, he would from the beginning have started in a different company.

5.4 Politics lies behind

It was a political choice from SAS's side to acquire Braathens. One pilot suspects that the decision was taken on the highest level in Norway, by a politician or even by the Prime Minister himself. And afterwards SAS was requested to acquire Braathens. There are still questions about who acquired whom and who made the decisions, but those questions will probably never get an answer because of all politic involved and the fear of media.

Some of the pilots argue that it is the political game that is the reason to why the integration was not successful. Behind this lie the problems with Linjeflyg and Commuter, when a new company becomes a part of the SAS Group they have had to pay for it by sacrifice seniority years. In 1992 Linjeflyg was integrated in Sweden. During the integration the pilots from Linjeflyg was degraded with five years on the seniority list, it was first in 1997 they received the offer about fully group seniority. The same happened to the pilots in SAS Commuter when they were integrated, they also lost some of their seniority years and was not allowed fully group seniority from the beginning.

So far the ex-Braathens pilots have not been degraded five years, but this is a major problem in the process. The degradation is not a spoken wish but the agenda for the struggling among the unions. The SAS Braathens management is aware of the problem, but they are afraid of interfering with the unions' responsibility. They are scared that a new "Go Harry"⁶ will take place if they interfere.

⁶ "Go Harry" is explained under subheading 5.6 Conflicts

5.4.1 Management

The management has been very passive during the internal conflicts. They have managed to integrate themselves, but they have not dared to grab the problems among the employees in fear of creating bigger problems, which has resulted in that the employees have had to take care of themselves. They have also not been as open as the employees would have wanted them to be. One pilot's comment about the management:

“They are listening to what we are saying, but from that to action...”

The integration process has been quite slow. In the beginning of 2007, a pilot took the initiative to try to solve some of the problems that exist in SAS Braathens, meaning this is the way to go. Thanks to this there will be common conditions for the pilots from the 1st of June. The management was afraid that the initiative came too early, something the pilot smiles at. His personal opinion is that this is something that should have happened long time ago and it should not have been a pilot taking the initiative. The management should have had sit down with the employees, not only ex SK and ex BU⁷, and been open and discussed what was going to happen and how they together could solve the problems. But the management has only had a customer and revenues focus and not an employee focus at all. One SAS pilot even says that the dream of the former CEO of SAS was to dismiss all the employees and just have the administration left so that there would be no complaints.

Some of the problems in the integration are due to the management. Their strategic choice with no openness and communication has not been successful. The political choice to merge SAS and Braathens was a surprise to many and would have required more information. One opinion is that the management has tried to play SAS and Braathens against each other, and as long as everyone behaves professional the management can continue.

During the spring of 2007, all the employees in the group have participated in a survey, called puls, regarding the management, the process, and the integration etcetera. This can be an indication that the management wants to improve and therefore, need feedback about what has been done wrong. Now it is just for the pilots to wait and see if they are responding to the feedback. There has however, already been a set back with the survey. The survey showed

⁷ The unions within SAS and Braathens

that there is dissatisfaction with the management, and one from the management meant that the survey was just acting as a protest against them. This action only provokes the employees again. There should be a common focus among the management and the employees; it should not be them and us.

5.5 The Unions

The unions played a major role in the integration. It was not easy to merge two competitors, and especially not since they both had strong unions on their side. Since SAS Norway was a part of the SAS Group, they had unions both national and together with Sweden and Denmark, and they also created an internally union within SAS during the integration. In the merger Braathens went out the Norwegian Airline union, but they kept the same conditions. The condition between SAS and Braathens was not identical there where some differences, but according to Braathens employees it worked fine. However, one SAS pilot pointed on those differences, different working hours, salaries and pensions, as one reason to the negative atmosphere. SAS had higher salaries than Braathens but during the integration Braathens' increased some (not to the same level) and they had better pension. These differences should have been taken care of before the integration to facilitate.

A big difference is that Braathens employees do not count as an equal part in the SAS Group. They do not belong to the common union within the group. This mean that they are not allowed flying long distance since an own division within the SAS GROUP operates those routes, and they cannot either transfer or fly for SAS Sweden and SAS Denmark.

Union wise, the integration is not yet finished. There are still some differences between the sides, some issues will require more time before they get solved. Sometimes the discussions about the disagreements can be resembled as kinder garden mentality. The unions have also used media to talk crap about the other side. One pilot means this is not the way it should be, media should not be involved the disagreements should be handled internally. Because of the differences, the new employees that joined the company after the integration can decide by themselves which union they want to belong to. The dream of one SAS pilot is to get one common union for the pilots and one common for the cabin crew. This would facilitate the integration and would give the employees more energy to concentrate on their work and work against the negative view of SAS Braathens, instead of discussing and being irritate on the

disagreements. But the situation is complex, since everyone has different opinions.

5.6 Conflicts

Several conflicts have occurred during the process many of them because of disagreements among the employees in SAS Braathens. Some conflicts could have been avoided by solving the status level before the integration or at least as fast as possible, but the management was probably afraid of a bigger conflict if they tried. The SAS Group tried to solve their status problems by restructuring to national divisions. But this backfired through a big action called “Go Harry”. “Go Harry” was a common action among the pilots in the SAS Group for them to get what they wanted since they did not want to work in only national companies. Ex Braathens pilots were not involved in this action since they were not considered as pilots within the group. Pure legal this action was not a strike it was a disease. The pilots’ text messaged each other with the expression “Go Harry” to inform that they should call in sick. The action created an internal conflict in SAS Braathens. The Braathens pilots were opposed to the strike and they kept on working and tried to make the best of the situation, the company still had customers to serve.

Even if there have been internal conflicts in SAS Braathens, ex Braathens’ have never used an illegal action to demonstrate. Instead of striking they have paid lawyers etcetera and followed the Norwegian law to get their rights through, as in the case with the former ground service employees.

5.7 Present situation

The political problems with the integration are not yet solved. But from the 1st of June the conditions for the pilots through the unions will be harmonized, no matter if they are ex Braathens or ex SAS. This means that they for example will get the same salary and working hours. However, the settlement between the unions does not include the seniority list because of the complex situation in SAS Group’s history with Linjeflyg and SAS Commuter. As the situation is today with the list Braathens pilots may not become a captain until they are close to retirement, but some feels rather that than have to start all over in a different company, even if it might not be too happy when a SAS pilot gets promoted earlier. Up to today, there has not yet been a situation where a co-pilot from Braathens should have checked out to

become a captain. But if anyone gets stopped when this situation comes it can become a new internal conflict. The other problem with the seniority list is the discussion about long distance routes. The pilots from Braathens mean that giving them the same possibilities to become a captain and have a clause about the long distance routes can solve the problems. And they can maybe over time earn to fly these attractive routes. The problems with the seniority list will be solved sooner or later, but it has to be in cooperation with Sweden and Denmark because of the long distance routes.

There are still some problems and disagreements among the employees and sometimes you can get treated as air, but this does not affect the every day work and the management is working on that everyone at least is saying hey to each other. One pilot says:

“When we are flying from A to B there is no bad atmosphere. We do not discuss the problems with people from SAS only with Braathens’. We are very professional in our work and do not see how we can solve the problems in cockpits, we leave that to the unions for them to work it out.”

Today there are also much less conflicts than in the beginning. Everybody is positive and they feel that they have a good starting point. One Braathens pilot has an assumption that if they cannot solve the political problems they cannot expand. They will in the future stagnate in Norway and will not follow the expansion as going on in the market. A fear is that the management does not dare or is not able to solve this because they are afraid that everything will crash. One positive thing in this matter is that SAS Sweden now is trying to clean up the problems with Linjeflyg, and if they succeed it can facilitate the integration process in SAS Braathens. Many of the pilots in SAS Braathens are optimists and hopes that everything will work out.

A SAS pilot says that everything is working much better today than for one year ago, the atmosphere is much different. One proof was when he in the end of April was together with a Braathens crew and received the news that from the 1st of June the name of the company would no longer be SAS Braathens, but SAS Norway. He was surprised that the Braathens crew did not have a bad reaction, they just seemed to accept it without any discussion. One reason could be that the time has played its role, everyone has accepted their place and are now satisfied with the situation, the company is earning money and the customers are

increasing. The pilot further on emphasizes that it is probably not because of the management they are where they are today. The management has been unprofessional and not being open at all, and therefore, most likely not contributed that much.

5.8 Media

SAS Braathens integration has not received the highest credit in the media. Problems with operational difficulties and internal conflicts have resulted in delays and cancellations, and media has not been late to report about that. Before the integration Braathens was perceived as a team and received good publicity among the public, while SAS did not have the team feeling and employees tipped off the media when something happened, resulting in a more negative image in the media. During the integration there were hopes that some of the positivism from Braathens would help SAS, but that has not been the case.

Media has often given a negative angle of the integration, often a too negative view. The pilots think that this can have to do with the SAS monopoly. SAS Braathens has always struggled with media, something that has been very frustrated for the employees. They have been trying to strike back but it is not shown in the media the way they wanted to. In the last six months the picture of SAS Braathens in media has improved some, but still everything is not reported correctly and do not give a fair view of the reality. This creates irritation within the organization, but is likely something they have to live with, because of the company's size and background.

6.0 Analysis

The merger between SAS and Braathens can be classified as a related horizontal merger. It is said, that these kind of mergers are the most likely to be successful. SAS Braathens has been able to create different synergies from the merger, such as coordinated traffic systems and resource utilization (SAS Group Annual report, 2004). But even with this favorable starting point, SAS Braathens has not managed to be as successful as, for example, Air France-KLM.

6.1 Why does SAS Braathens struggle?

From the beginning, SAS Braathens has struggled and has not been perceived as a successful merger. It all started with poor communication when the merger took place. The employees learned about the merger at the same time as the public, through the media. Throughout the merger, there has been poor communication from the management to the employees, and it is only now that the pilots can see an improvement and actually get information before the rest of the society. The lack of information has created insecurity among the employees in that they have not known what is going to happen, not even if they would be allowed to keep their jobs.

It is hard to say how much screening and pre-planning the SAS Group conducted before acquiring Braathens. If Braathens had not been on its road to bankruptcy, this M&A might never have happened. Some of the pilots believe that the decision for SAS to acquire Braathens came from a higher level, someone high up in the government. If this is true, this might also explain the poor information that was communicated to the employees, when the M&A took place. From the beginning, the plan was that Braathens was going to operate as an autonomous subsidiary, and continue with their old operations. But when the SAS Group, in 2004, decided to divide the company into national entities, the objectives changed. Without giving any information about what the merger was going to look like, this came as a surprise to the employees. No one knew what was going to happen, except that they now were considered as one company. There were no guidelines for how to integrate the two companies, at least not any that the employees knew about.

SAS and Braathens were two different companies. While SAS was government-ruled, and a

top-down organization, Braathens was flatter, and a down-to-earth organization. The thought was to create a best practice, by taking the best from each organization. This failed, and instead it was the SAS practice that applied. One piece of evidence demonstrating the lack of organizational and strategic fit is the problem the company experienced with their aircraft. SAS and Braathens operated with two different types of airplanes. This was not taken into consideration when the pilots started to fly together, they were signed up on planes they were not authorized to fly, which led to delays and cancellations. This created more stress and negativity among the employees, in an already stressful situation.

The unions are another factor that affected the integration. With different unions and many opinions, it is hard to agree on common conditions. Some problems, such as different salaries and pensions, should have been taken care of before the M&A to avoid some disagreements. This shows a lack in the pre-planning and organizational fit. During the first years of the integration there were different conditions depending upon which company the employees belonged to. According to some, this worked well anyway, but it created frustration. Many of these problems were taken care of when the pilots working conditions became harmonized.

Some of the pilots took the initiative for the common conditions in the beginning of 2007. This is something that should have been taken care of much earlier to facilitate the process. Camara and Renjen (2004) talk about how important it is to integrate quickly, something SAS Braathens ignored. It would also have been better if it were the management that had taken the initiative for the common conditions. Many of the employees have been frustrated with the management. The pilots think there has been too little communication from the management, and that the leadership really has not seemed to care. Some pilots even describe the merger as amateurish.

The integration of SAS and Braathens might be a result of managerial motives, the government, and management wanting a bigger “empire”. The management was able to integrate themselves, but failed to integrate the employees. Because of all the politics and former problems with Linjeflyg and SAS Commuter, the management has not dared to, or been willing to, solve the problems within SAS Braathens. The process has been closed with a poor dialog and an unsuccessful strategy.

In an M&A, it is of importance to take the employees into consideration. The management in

SAS Braathens has only had a customer and revenue focus, and not an employee focus. It has been “them”, the management, and “they”, the employees. If the management had taken more considerations into the employees, some of the internal conflicts might have been avoided.

One major problem during the integration was the seniority list. This has created disagreements and negativity among the pilots. Instead of the management trying to solve the problems concerning seniority before the integration, or even in the beginning, they have ignored it, which has resulted in internal conflicts. The seniority list has been a problem before in SAS, when they acquired Linjeflyg and SAS Commuter, but that was in the past and those problems have been solved. You should think that SAS learned by experience, that the seniority list would create a problem, and would have had this as one of the first priorities to solve. The management tried to facilitate the problems to some extent by not scheduling senior SAS co-pilots with younger Braathens captains, and now more co-pilots are becoming captains. The management might have been afraid of addressing these problems since they would have to interfere with the unions’ work, and maybe create a major conflict. On the other hand, by letting these problems remain, it has created a hostile atmosphere in the company, and no one knows what will happen if an ex-Braathens co-pilot will not be able to check out to become a captain when that day arrives.

6.2 Two cultures become one

Organizational culture has a great impact on individuals’ commitment, productivity and satisfaction within an organization. Achieving acculturation is a major post-acquisition challenge. If a company fails in achieving acculturation it can be shown by, for example high turnovers and cooperation difficulties among the employees. Larsson and Lubatkin (2001), believe that acculturation can only be reached by social activities, which include the management’s involvement. As discussed above, SAS Braathens’ management was not very involved in the day-to-day business, and they did not arrange any social activities.

SAS and Braathens had different organizational cultures. While SAS employees were used to a top-down and aggressive and speculative leadership, Braathens’ put more emphasize on teamwork. When Braathens was integrated in SAS, they were looked down upon, and they were not worth as much as their SAS counterparts. SAS employees perceived themselves as better than the rest, and the employees from Braathens did not feel welcome. In the beginning,

it was often “we” against “them”, and this still exists in some situations. But as time has passed, the culture differences are no longer that obvious.

Meyerson and Martin’s (1987) third paradigm might explain the culture change in SAS Braathens. This paradigm tells us, that any change between individuals, among patterns of connections, and interpretations is cultural change, and there must be individual adjustment to environmental fluctuations. According to this, there has been a cultural change in SAS Braathens, the SAS employees do not longer perceive themselves as better than the Braathens employees, and it is no longer “we” against “them”, but instead everyone is equal. Further on, this paradigm says that it is not only the leaders that can change the culture, but all the culture members can affect it. In the SAS Braathens case, it seems that it is thanks to the employees that the company now has a relatively common culture. By flying and working together, they have learned to accept each other. They have now reached the final step, the refreezing step, in Schein’s (1968, 1985) three-step model, where the new ways and behavior have become internalized, and they are working together, towards a common vision of the future.

6.3 External relations

An M&A that struggles can affect the external relations in different ways. In order to analyze how SAS Braathens relations has been affected we will analyze the industry with help of Porter’s five forces, and other relevant theory.

6.3.1 Competitors

The industry within which SAS Braathens operates in is very complex, has many players, and several alliances exist. SAS Braathens is a national air carrier that operates within Norway and on some routes to the rest of Scandinavia. This means that the main competition they face is within Norway, with Norwegian Air Shuttle as their major competitor. For SAS Braathens, the success of the Norwegian airline industry is important.

Even if the airline industry is characterized by hard competition, the competition within Norway is not as significant. With only two different companies operating most of the routes and even with a SAS Braathens monopoly on some routes, the company could have had a greater power to determine the price in the market, but thanks to the NCA and regulations, the

prices are kept relatively stable. The competitors of SAS Braathens cover the same basic needs among the consumers. SAS Braathens though, does have some routes in Norway that are operated by them only, but on the other hand, Norwegian Air Shuttle has several international routes that are not operated by SAS Braathens, some of them might be covered by SAS International.

Exit barriers in the airline industry can be said to be high. The airline companies have invested a lot in their airplanes and equipment, and even if they are able to sell them off, it might not be cost effective. Some air carriers even operate at a loss because of the fierce competition that exists (much because of the deregulation and low-cost companies), the exit barriers, and other issues, such as 9/11 and climbing fuel prices. If the companies do not manage to turn around, but keep on operating at a loss they will sooner or later go bankrupt or being acquired by another company, as in the Braathens case. Even if the power of the rivalry among competitors is relative strong, it might be possible for SAS Braathens to gain more market share by focusing on their integration. If they manage to solve their internal problems, the cancellations and strikes might decrease, and their brand might be valued more by the customers. Braathens has been a popular brand and company in Norway for many years, and if SAS Braathens finds a way to take advantage of this they might gain more trust.

The relative homogeneousness of the products makes competition fierce. It is within the Norwegian market that SAS Braathens faces their highest level of competition. The homogeneousness of the companies operating in this market increases the competition on prices and of customers. A growing market (SAS Braathens, 2007; Norwegian Air Shuttle, 2007) should lower the rivalry as companies can expand without having to conquer market shares. The increase of demand over the past last couple of years indicates positive macroeconomic conditions and a growing interest in travel. However, with the growing demand, the companies are expanding their fleets resulting in over-capacity and the rivalry is increasing. The excess capacity and competitive environment might lead to, as O'Leary and Spinetta, said a bloodbath (Sparaco, 2005), resulting in several bankruptcies.

An M&A in an industry can change the market structure, especially if two big players merge, affecting all participants including the rivals. The competitors' reactions will depend on the market power the new firm creates relative to the one the two merging firms had before. Before the SAS Group acquired Braathens, SAS and Braathens were the biggest players in

Norway. Since Braathens already belonged to SAS before the merger in 2004, the market power SAS Braathens gained after the merger was not much greater than before. Norwegian Air Shuttle was not established until 2002, that is to say after that the SAS Group acquired Braathens (Norwegian Air Shuttle, 2007). Norwegian Air Shuttle's head of information says that the merger between SAS and Braathens has not had a significant affect on them. During the strikes they have had an increase in passengers but afterwards it has been back to normal again (Ellingsen, 2007). Norwegian Air Shuttle is the biggest low-cost airline company within the Nordic countries, and they are trying to become more efficient by introducing high technology check-in machines (Norwegian Air Shuttle, 2007). In appendix 3, there are numbers showing the market share between SAS Braathens and Norwegian Air Shuttle on routes to/from Oslo in 2005.

6.3.2 Customers

The infrastructure, the purchasing power and the size of Norway, with large distances from north to south, represents a favorable market for the airline industry. The customers that the companies attract are more or less the whole Norwegian population, from business people to regular people.

The power of the customers depends on which part of Norway the customers are from. In the south of Norway the customers have moderate to high power, since they can use other means of transport, as cars, buses and trains, to move within the southern region. In the north, however, the power is relative low. There are not many alternatives for the people in the north to go to the south except flying, due to the large distances.

In the airline industry, the power of the customers can be said to be low. Taking the plane versus for example the car, can add value for the customers by reducing the time of travel. It can also produce cost savings, especially with regard to the low-cost airline companies. However, the customers' power can increase as the threats of substitutes are increasing, especially on domestic and short-distance routes. The high-speed trains have become more and more common and have started to compete with the airline companies about the customers (Sparaco, 2005). In Norway, there are no high-speed trains, but an investigation showed that the train is the most environmentally friendly mean of transport (Andersen, 2006). This might increase the importance of trains as a means of transport and the customers'

power, regarding the increased attention the environment and climate change has received in the last years (European Commission, 2007).

Even if the customers are many and the actors in the airline industry are few (at least in Norway), the power of the customers can be strong, because the airline industry offers similar, undifferentiated products. For SAS Braathens, this means that if the customers are unsatisfied with the company they can easily change to another company, in this case to Norwegian Air Shuttle. One reason that some M&As do not pay off is unsettled customers (Bekier et al., 2001). Once a customer is gone it is hard to win him back. A good communication to the employees, throughout the M&A, is vital, since it is the sale force that is the key messengers to the customer. The poor information in SAS Braathens merger and some service quality dips, might have contributed to the unsatisfied customers. Many customers have been unsatisfied with SAS Braathens, and have said that they will never fly with them again, but most of them are still coming back (SAS pilot, 2007).

It has become more popular to fly, and the number of passengers that fly in Norway is increasing (SAS Braathens, 2007; Norwegian Air Shuttle, 2007, see also appendix 4). However, the customers do not have a great selection of companies to choose between. SAS Braathens has created a monopolistic situation on some routes, for example on the route between Oslo-Haugesund, when they in 2004, out competed Coast Air (NCA, 2007). This, of course, affected the competition, but the customers were also affected. People like it when they have a choice and not only one option, therefore, the market power of SAS Braathens has created negative reactions and worsen the image of the company.

6.3.3 Media

Media can be another factor that can affect the stakeholders in an M&A. People tend to believe what they read in the newspaper, without being critical. The media in Norway has a tendency to publish negative articles about SAS Braathens (SAS pilot, 2007). Both the fact that SAS Braathens is partly owned by the government and their monopolistic position might contribute to the negativity around the company. The people working in media are also customers in the airline industry and as said above, restricted selection affect the customers negatively. Media is also often fast to report negative news. When a big, well known

company, as SAS Braathens struggles, the public often also gets affected. Problems with operational difficulties and internal conflicts have resulted in delays and cancellations, and media has not been late to report about that. Another factor, which might have contributed to the negativity from the media towards SAS Braathens, was when SAS employees used tip off media whenever something happened.

For the employees, who already struggled with their situation, it cannot have been encouraging for them to read all the negative things that have been written about their employer in the newspapers. Another set back can have been that the customers have got too influenced by the media and what has been said about SAS Braathens, that they choose not to fly with them.

7.0 Conclusions and Discussion

Even if SAS Braathens had the basic conditions to succeed in that they were related companies, and they managed to create some synergies, they failed in doing so. In many aspects it seems that the merger was not well planned, but rushed into without any clear guidelines. There has been a lack of information throughout the whole integration process, which has created insecurity and frustration among the employees. By not telling their employees about the merger, but letting them read about it in the newspaper that SAS and Braathens were going to merge, exemplifies the poor information.

The biggest problems in SAS Braathens have been the management and the politics. The management has not had an open dialog with their employees and it seems that they have not really cared about the integration among the employees. All the problems with the internal politics, regarding the seniority list, and the problems the SAS Group has had before with Linjeflyg and SAS Commuter, should have been solved during the first phase of the integration to facilitate the rest of the process. As it is now, the employees have felt frustration and anger.

It was two very different companies that merged, with two vastly different organization cultures. Even if culture has not been the big issue for the unsuccessful integration, it has played a role. With no communication and no help to integrate the cultures, it has been more or less up to the employees to take care of themselves. This has, of course, created a bad atmosphere, since people like to have it the way they are used to. If there had been more openness during the merger and the integration, the outcome might have looked different. With a clear plan of how the integration should have been conducted, and help, such as social activities, to integrate the employees, many of the internal conflicts could have been avoided and the external relations might have looked different.

In an industry such as the airline industry, there is fierce competition. SAS Braathens, struggle does not seem to have affected the relation to Norwegian Air Shuttle. Since Norwegian Air Shuttle was established after the SAS Group's acquisition of Braathens, the market structure has not changed with the merger. The direct affect SAS Braathens has had on Norwegian Air Shuttle is that Norwegian Air Shuttle has increased their customer base during strikes, but when the strikes were solved, they lost most of them again.

From our findings, it is hard to draw conclusion on how an M&A that struggles affect their competitors. Logically, the competitors would gain if the focal firm was struggling. In SAS Braathens case, the company has received negative publicity, which the competitors could take advantage of. This might be hard in Norway though, because of the way the industry looks, and with few competitors. In another country, in the international air industry, or in another industry the results might have looked different, with a greater affect on the competitors.

The customers have been negatively affected by the SAS Braathens merger. The internal struggles have led to internal conflicts, strikes, delays, and cancellations. For customers who have booked a flight ticket, and then, when arriving at the airport finds out that the flight has been delayed/cancelled, get frustrated. Several customers have said that they will never fly with SAS Braathens again, but most of them do. This can be explained by the restricted selection of companies the customers have to choose between, the infrastructure of Norway with large distances, and the lack of satisfactory substitutes. Even if the customers in Southern Norway have substitutes to choose between, the time they save by using the airplane is substantial.

An M&A that struggles will most likely affect their relationship to the customers, if the struggling affects them. In industries with undifferentiated products, the customer can easily change supplier if they are not satisfied with the service and quality. In the airline industry, the customers are affected by delays and cancellations, and with the fierce competition that exists in this industry, the customers can relatively easily change company (not in Norway).

The relationship to the media might also be affected. In the SAS Braathens case, the media has had a negative view on the merger. Whenever something goes wrong, the media is relatively quick to report. It is hard to determine exactly how much of the negative publicity that has to do directly with the merger, and how much depends on SAS's earlier relationship to the media, and the fact that SAS Braathens is government-owned, and can be seen as a monopoly in some situations. Because of this, we cannot draw certain conclusions that an M&A that struggles always will affect the media negatively, however, it is likely, especially if it is a big company and the struggling affects the public.

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Appendix 1

Date	U.S. Aviation Gasoline Retail Sales by All R&G (Cents per Gallon)
1976	
1977	
1978	51,6
1979	68,9
1980	108,4
1981	130,3
1982	131,2
1983	125,5
1984	123,4
1985	120,1
1986	101,1
1987	90,7
1988	89,1
1989	99,5
1990	112
1991	104,7
1992	102,7
1993	99
1994	95,7
1995	100,5
1996	111,6
1997	112,8
1998	97,5
1999	105,9
2000	130,6
2001	132,3
2002	128,8
2003	149,3
2004	181,9
2005	223,1
2006	268,2

Last Updated 04/10/2007 - = No Data Reported; -- = Not Applicable; NA = Not Available; W = Withheld to avoid disclosure of individual company data.

(Energy Information Administration, 2007)

Appendix 2

The SAS Group's business areas



(SAS Group, 2007)

Appendix 3

Frequency and traffic on main routes to/from Oslo by airline in 2005

Destination	Antall frekvenser primo mars 2006			Trafikk 2005 1000 pax	Norwegians andel av:	
	Norwegian	SAS Braathens	Total		Frekvens 06	Trafikk 05
Totalt	33	106	139	7335	24	24

(Denstadli et al., 2006)

Appendix 4

441	Passasjerer ved norske flyplasser, etter rutetype og destinasjon								
	I alt			Ruteflyging			Charterflyging		
	I alt	Innenlands trafikk	Utenlands trafikk	I alt	Innenlands trafikk	Utenlands trafikk	I alt	Innenlands trafikk	Utenlands trafikk
2003	30 109 335	20 931 797	9 177 538	28 277 426	20 844 498	7 432 928	1 831 909	87 299	1 744 610
2004	31 104 742	21 415 220	9 689 522	29 256 803	21 312 401	7 944 402	1 847 939	102 819	1 745 120
2005	34 803 987	22 989 577	11 814 410	32 647 942	22 849 063	9 798 879	2 156 045	140 514	2 015 531

(Statistics Norway, 2006)