

The Challenge of Merging Cultures

A Case Study of Vasakronan

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Abstract

The desire to achieve synergies and gain competitive advantage has made mergers and acquisitions an increasingly common part of organizational life. However, the outcomes of mergers often differ from the expected in a negative way and difficulties in integrating the corporate cultures have been indicated to play an important role in this. The purpose of this thesis is to increase the understanding of how two organizations handle the challenge of integrating their corporate cultures in the context of a merger. To do this we have conducted an in-depth case study of the merger between the two real-estate companies Vasakronan and AP Fastigheter, a merger that was the largest real-estate transaction in Europe in 2008.

To understand what happened in the merger between Vasakronan and AP Fastigheter we identify the merger as a horizontal, friendly combination with a high level of integration, a type of merger that is often less successful than expected. Although the companies had much in common they had different levels of centralization and autonomy. To implement the merger the management applied a symbiotic change strategy, combining the best parts of both organizations to create the new company. Our findings indicate the importance of how the structure is set for the new organization. When setting the structure our findings suggest that management creates the space in which the culture can then develop in the daily interaction between people from both organizations. Looking deeper into what shapes the culture we also found the leaders to be of great importance.

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1 Introduction

“Culture is as fundamental to an organization as personality is to the individual”

(Cartwright S. & Cooper CL., 1993, p. 60)

The characteristics of each culture and the degree of cultural fit between two merging organizations are likely to have a major influence on the outcome of a merger. A merger can have many motives, such as practical, psychological, or opportunist, and many evolve around the objective to achieve synergies (Dahlgren & Witt, 1988). Despite the initial optimism, many mergers prove to be financially disappointing. Empirical studies repeatedly show that, at best, only half of all mergers and acquisitions are able to meet the initial financial expectations (British Institute of Management, 1988; Fairburn & Geroski, 1989). In spite of this the potential for greater profits and higher market have continued to increase the number of mergers and acquisitions observed during the last decades (Cartwright & Cooper, 1993).

Traditional explanations of merger failure have often been related to overinflated purchase price, managerial incompetence in achieving projected economies of scale, or that the organizations were strategically mismatched. As the shortcomings with these explanations are being recognized a significant increase in the interest of the human aspect of mergers has followed. A survey of more than 200 European chief executives found that the "ability to integrate the new company" was the most important factor for success (Booz, Allen & Hamilton Inc, 1985). However, integrating two previously separate and often very different organizations and their cultures present a major managerial challenge to those involved. It is also associated with high risks as an unsuccessful integration might result in poor morale, employee stress, increased sickness absence, high labor turnover, and lowered productivity (Teerikangas and Very, 2006). This is an important motive to why researchers have chosen to study the effect of corporate culture on mergers and they have agreed that corporate culture does affect the outcome of a merger. However, these studies have also shown us the complexity of corporate culture as the impact has varied from negative, complex to positive (Teerikangas and Very, 2006). Furthermore, in today's globalized society we tend to relate cultural problems and clashes mostly to different nationalities but the reality is that the cultural challenge in a merger can have several sources and is formed by a mix of national, industrial, organizational, functional, and professional cultures (Teerikangas & Very, 2006).

For this reason we have chosen to study the merger between AP Fastigheter and Vasakronan, two companies that, although they were similar both in terms of size, industry and nationality, experienced challenges during the integration due to their different corporate cultures.

1.1 Problem Discussion

There are several reasons to why studying mergers between organizations with regard to corporate culture is an interesting research topic and this section aims to highlight these.

- Mergers are frequent events in today's corporate world (Cartwright & Cooper, 1993; Teerikangas & Very, 2006)
- Mergers are critical events for the companies involved as well as for their employees (Buono & Bowitch, 2003)
- The actual outcomes of a merger often differs from the expected in a negative way and difficulties in integrating corporate cultures have been indicated to play an important role in this (British Institute of Management, 1988; Fairburn & Geroski, 1989)
- Large transformations, like mergers, offers a favorable context for studying corporate culture (Dahlgren & Witt, 1988)
- There is a need for more in-depth research on the cultural aspects of a merger (Teerikangas & Very, 2006)

Mergers and acquisitions have become an increasingly common reality of organizational life and thus affect the lives of millions of people every year. It is one of the most critical changes that an organization can face and it will have consequences both internally in the merged companies as well as for their environment. The frequencies of mergers are often explained by leading actors with the argument that the increased size will enhance the competitiveness and potential for survival (Porter, 2008). The increased size is also often estimated to result in improved internal efficiency through synergies (Klepppestø, 1993).

The main problem related to mergers is that the outcome often does not meet the initial expectations held by the leading actors. Previous research often points to the economic aspect and argues that mergers rarely results in a more positive financial result compared to other investments at corresponding risk level (Dahlgren & Witt, 1988). The fact that mergers are regarded as a strategic alternative with positive effects and that research at the same time shows that the financial outcomes does not live up to the expectations seems somewhat contradictory.

The paradoxical results from previous research on the impact of corporate culture on a merger, indicating both negative and positive results, supports the need for more in-depth research as argued for by Teerikangas and Very (2006) in order to build a better understanding of the cultural aspect in a merger.

1.2 Purpose

The overarching objective of this thesis is to increase the understanding of how two organizations handle the challenge of integrating their corporate cultures in the context of a merger. The purpose is to start filling the need for more in-depth research regarding the cultural aspect in a merger as described by Teerikangas and Very (2006). In order to fulfill these goals we conducted a case study of the merger and integration process between the two real-estate companies AP Fastigheter and Vasakronan.

The focus of this thesis lies on the impact that a merger or acquisition has on the people within the organizations, the psychological challenges, the culture clashes and organizational problems that might occur. These problems can show themselves as communication breakdowns, a we-they mentality, lowered commitment, drops in productivity, power struggles, and loss of key employees (Buono & Bowitch, 2003). In choosing this focus we do not mean to imply that the technical, operational, financial and strategic aspects are insignificant. They are all important for a successful combination. However, an emphasis on such concerns frequently overshadows the fact that a merger of two organizations is really a merger of individuals and groups. In fact, until the last few years, there has been little direct, substantial assessment of the human side of such large-scale organizational transformations (Buono & Bowitch, 2003).

1.3 Research Question

The research question that will guide the work of this thesis is:

What happens when two corporate cultures meet in the context of a merger?

In order to answer the research question we have formulated the following three sub questions:

- **How did managers prepare and plan for the integration?**
- **What problems occurred during the integration and why?**
- **What were the reactions to these problems?**

1.4 Disposition

This thesis initially introduced the topic of mergers being a significant organizational change, as well as the importance of corporate culture in the process. Several important arguments for why corporate culture in the context of mergers is an interesting research topic were then formulated. Based on this discussion the purpose and research question were presented.

The following section will introduce the three pillars upon which this thesis' theoretical framework rests. It will start by presenting a more detailed description of the characteristics of a merger and the specificities of corporate culture in the setting of a merger. This will be followed by a presentation of the term corporate culture along with important aspects connected to it in order to form an understanding of the term and its components. Finally, organizational change theory will be presented which will help us understand and analyze the cultural integration process

Before introducing the empirical findings of this thesis, the research method will be presented along with a discussion of its trustworthiness. The empirical section will then take the reader back to 2008 and the time of the merger. We will start by describing the two companies and the aspects that influenced their respective corporate culture before moving on to exploring how the integration was planned and executed from the manager's perspective and how this was received by the employees. Finally we will describe how the managers worked with the corporate culture during the integration. Following the empirical section you will find the analysis where our findings will be compared and contrasted with previous research presented in the theoretical framework.

Finally, the thesis main conclusion will be presented which will be followed by a discussion of the findings. To finish off some practical implications will be presented along with suggestions for further research.

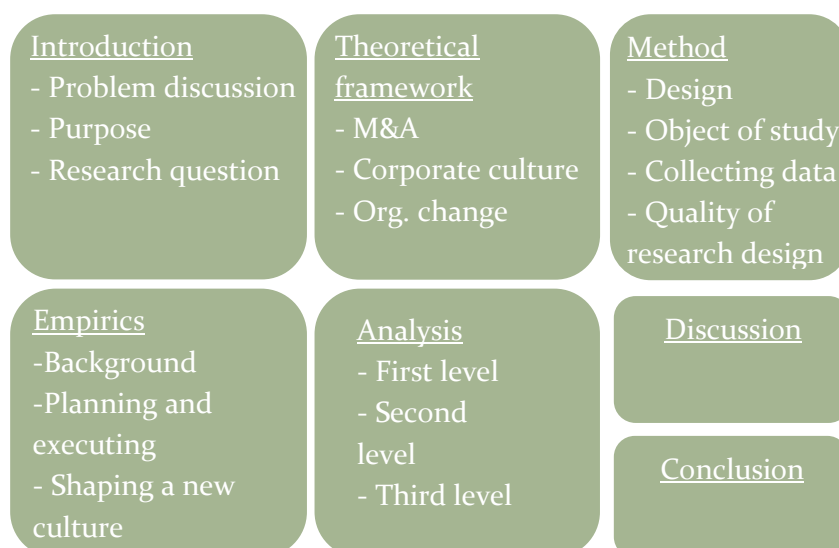


Figure 1 Structure of Thesis

2 Theoretical Framework

The theoretical framework rests upon three pillars, theories related to mergers and acquisitions, corporate culture, as well as organizational change. Within each of these areas aspects and theories related to our research question will be covered, hence when talking about mergers and acquisitions this will be done with a focus on the human side rather than the financial and technical side. The first section will look at the different types of mergers and acquisitions that are possible and what implications they may have on the process. The central theories here are the three dimensions that define a merger or acquisition as well as theories concerned with the cultural aspect of mergers and acquisitions. The second section will focus more on the cultural aspects, how to define and understand a culture and how different cultures relate to each other. This will be important in order to later understand why things happen when two cultures meet. This section's main theories are the cultural web together with the four archetypes of corporate culture. The third, and last, section focuses on the change process of integrating two cultures, looking at different approaches when it comes to managing the change (such as Theory E&O and chaos theories) as well as what usually happens when two cultures meet. These theories will then function as our theoretical framework that we will use to answer our research question, what happens when two corporate cultures meet.

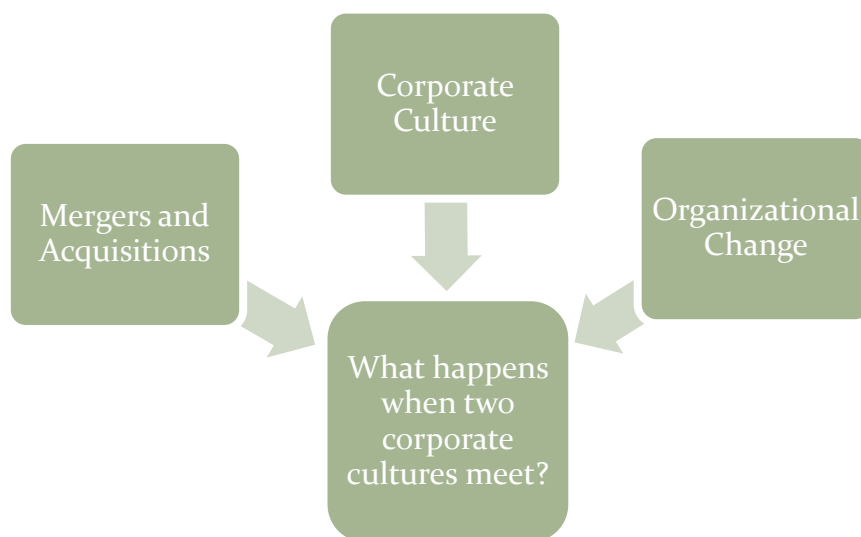


Figure 2 Theoretical Framework

2.1 Mergers and Acquisitions

The term merger is a concept that covers a wide variety of combination types. The first step towards understanding this complex phenomenon and answer our research question is therefore to define types of combinations since different mergers and acquisitions will often face different challenges. This section will also look at theory regarding the different combination types and what implications this has for the integration process. Finally this section will explore how the cultural aspects influence a merger or acquisition.

2.1.1 Defining a Merger or Acquisition

The term merger is often used interchangeably with the term acquisitions despite their differences as organizational phenomena. In practice, the term 'merger' is often used by the buying firm as a way of smoothing the change process; many mergers are therefore in fact acquisitions (Buckley and Ghauri, 2002). A study conducted in 1962 by Mace and Montgomery found that management from the acquiring firm always referred to the merger of the two organizations, even though it was implicit that it was an acquisition. Mergers are often found to involve a higher degree of interaction between the two organizations compared to acquisitions. It has also been suggested that the firm size is an important factor, with mergers tending to involve equal sized companies while in acquisitions one of the firms tend to be larger and more powerful. Another way to distinguish between the two is to look at to which extent one firm is expected to give up its independence to the other.

Mergers and acquisitions can be described by using the following three dimensions; the strategic purpose underlying the consolidation decision, the degree of friendliness versus hostility, and the desired level of integration (Buono & Bowditch, 2003).

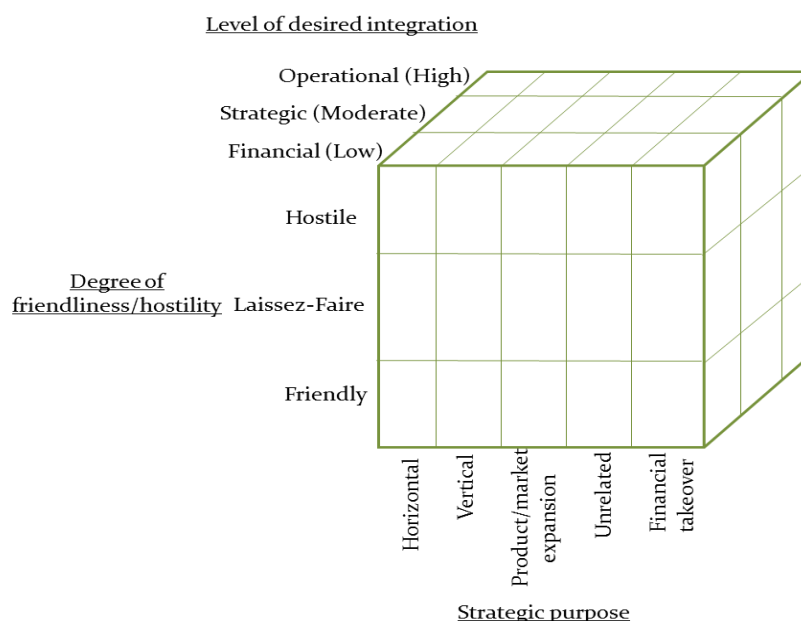


Figure 3 Possible types of combinations (Buono & Bowditch, 2003)

2.1.1.1 Strategic Purpose

The underlying strategic purpose has a considerable influence over how the organizations will be combined. One way of describing these purposes is to distinguish between horizontal, vertical, product and/or market expansion, unrelated, and financial takeover. Each type will typically involve different dynamics and synergies, as well as different challenges (Buono & Bowditch, 2003). A horizontal merger or acquisition is between two organizations that produce one or more of the same closely related products or services in the same geographical market. A vertical merger or acquisition occurs when the organizations involved had or could have had a buyer-seller relationship. When the merger or acquisition leads to expansion into related products/services or to new geographical markets it is often labeled product or market diversification. The combination of two essentially unrelated companies is often referred to as conglomerate diversification strategy that diversifies the company's risk. The last type is the financial takeover where the intention often is to liquidate the company, also called a "buy it-divest it – fix it – sell it" philosophy.

2.1.1.2 Degree of Friendliness

You can also describe a merger or acquisition by looking at the degree of friendliness versus hostility involved. The atmosphere associated with the transaction will influence what types of problems and difficulties that will occur and their damage to the corporate health. This factor is a key determinant of how the people involved in the combination will react to it. Hitt & Harrison's case study (1998) gives evidence that a high level of friendliness during the integration is one of the most important factors for a successful merger. One explanation that is given for this is that friendliness in the negotiation process increases the probability of successfully combining cultures and systems of the merging firms as managers are more cooperative in these cases. As one move along the continuum from friendly towards hostile the resistance to the combinations is suggested to increase. While friendly and more collaborative approaches often are relatively well received by the acquired firm, there is still likely to be some passive resistance to organizational changes. The laissez-faire type refers to when the relationship is neither friendly nor hostile but rather neutral; this might for example be the case in a product- or market expansion strategy (Buono & Bowditch, 2003).

2.1.1.3 Desired level of Integration

The final factor is the desired level of integration between the two organizations, which can range on a continuum from total autonomy to total absorption. These integration possibilities are important to the members of the organization. If a merger or acquisition is driven by diversification, employees tend to feel confident that their firm will remain intact. In horizontal mergers, on the other hand, the perception is often that the combination was

driven by efficiencies and economies of scale (Imberman, 1985). In these situations, organizational members typically expect the loss of their company identity, changes in reporting relationships, elimination of overlapping positions, and transfer of employees to new locations. Such expectations have a significant effect on how employees will react to and view the merger or acquisition. However, the ways in which integration decisions are made, communicated, and implemented have the greatest impact on how organizational members will respond to it in the long term (Buono & Bowditch, 2003).

2.1.1.4 Combinations

While figure 3 lays out a number of combination possibilities, certain types are more likely to occur than other. Given the strategic purpose and the degree of friendliness or hostility, a general pattern of integration efforts can be observed. For example, greater integration efforts tend to be characteristic for those combinations where various operating synergies are desired, such as horizontal and vertical mergers and acquisitions (Buono & Bowditch, 2003). In friendly horizontal mergers desired operating synergies typically require a fully integrated organization. However, the dynamics creates a dilemma for the acquiring organization because of the greater difficulties often encountered when fully integrating two organizations. This results in that these types of mergers and acquisitions often are less successful than expected (Jemison 1986, Montgomery & Wilson, 1986).

2.1.2 Mergers and Culture

Many firms seem to overestimate the benefits of a merger or acquisition and the ease with which they can be made successful. Despite promising strategic, financial, and operational factors, research suggests that mergers have less than a 50 percent chance of being successful (Pritchett, 1985). Some mergers fail because of strategic, financial and economic reasons. However, because of the numerous difficulties related to merger and acquisition success, attention has begun to shift towards human resource concerns, cultural implications, and management of the integration process. Actually, many of the problems are suggested to be internally generated by the acquiring firm and by dynamics in the new organization (Yunker, 1983). However, it is important to note that success has both a qualitative and a quantitative dimension, and there are discrepancies as to what actually constitutes a successful merger or acquisition (Lubatkin and Shrieves, 1986; Pritchett, 1985). In addition, research has also found that most firms experience significant difficulties during the post-merger integration period (Buono & Bowditch, 2003).

The cultural challenge in a merger can have several sources and is formed by a mix of national, industrial, organizational, functional, and professional cultures (Teerikangas & Very, 2006).

The integration strategy chosen by the acquiring firm will affect the corporate culture and the transformation process. Haspeslagh and Jemison (1991) identified three different types of integration strategies that can be used when describing the cultural component in a merger: preservation, absorption or symbiosis. In a symbiotic change strategy, change is brought on to both organizations as shared structures and management systems are created from the best practices of both organizations. Absorption refers to acquisitions, where the acquired firm is fully merged into the buying firm's organization and culture. In both of these integration strategies, cultural clashes are likely to occur. In preservation acquisitions, where the acquired firm retains its autonomy, corporate cultural is rarely a big concern. (Buono & Bowditch, 2003)

It has been suggested that the success of an integration between two organizations is determined by the underlying development strategy used during the process (Haspeslagh & Jemison, 1987). However, it is important to note that different types of mergers and acquisitions may require different types of integration strategies (Buono & Bowditch, 2003). For the first two integration strategies, symbiosis and absorption, a cultural change process is required. This process is often labeled acculturation and can often influence the outcome of a merger. Nahavandi and Malekzadeh (1988) identified the following different modes of acculturation: integration, assimilation, separation, and deculturation. Acculturation theory assumes that the integration strategy is not only chosen by the buying firm, but also dictated by the acquired firm. If the acquired organization perceive the new buyer as attractive and do not want to preserve their own culture, they will be more willing to assimilate. The acculturation approach promoted by the acquiring firm depends both on its degree of multiculturalism as well as how similar the organizations are. A firms' preference for modes of acculturation are affected by mental schemes that are deeply rooted in the experiences of both firms' employees and therefore difficult to predict. A deal that satisfies both organizations is more likely to have a smooth process with less resistance than one that both parties enter with negative feelings. Acculturation theory also highlights the fact that cultures that are in contact will change as a result of this contact. In mergers where the aim is some degree of cultural integration at least the organizational culture of the acquired firm will change. As a result, the impact of cultural differences will depend on the cultural integration in the deal. How corporate culture is managed during the process of a merger is also important for the outcome (Buono & Bowditch, 2003).

In a merger and acquisition the organizational structures, systems, processes and cultures of one or both organizations are often changed which can lead to feelings such as stress, frustration and fear. These feelings often result in a rise in dysfunctional work-related

behaviors, such as lowered commitment and productivity, disloyalty, high employee turnover and power struggles. Each functional area within a business will have its own unique set of difficulties to deal with following a merger or acquisition (Yunker, 1983). In addition you will often find an underlying tension between members from the different organizations (Buono & Bowditch, 2003).

A desire to complete the acquisition process quickly often leads to premature solutions, less consideration of integration issues, and in general, less probability of a successful outcome (Jemison & Sitkin, 1986). Another challenge is information sharing. Most researchers argue that the creation of formal, internal communication mechanisms as early as possible in the process may limit much of the anxiety otherwise fueled by rumors (Buono, Bowditch, and Lewis, 1988; Marks, 1982). Regardless of the openness and level of communication, members of the acquired organization will usually remain suspicious and never feel fully informed (Marks, 1982). The management rarely has answers to all of the employees' questions in the beginning which can further strengthen a feeling of being kept in the dark, regardless of the amount of information given (Buono & Bowditch, 2003).

2.2 Corporate Culture

This section will focus on corporate culture, how to define and understand a culture and how different cultures relate to each other. This will be important in order to later understand why things happens when two cultures meet and people's reactions during the integration process. We will start with a short introduction of the term corporate culture and then move on to the cultural web that can be used to identify and describe a culture. Finally the four archetypes of corporate culture which are useful when relating different culture types to each other will be described.

2.2.1 Defining Corporate Culture

Corporate Culture is often referred to as the social glue in an organization. It is the corporate culture that links all the individuals together in order to create a unified organization. Symbols, values and ideologies are important parts of a corporate culture that aims to guide individual and organizational behavior and maintain order and continuity for its members (Cartwright & Cooper, 1993). Schein (1984) has defined corporate culture in the following way:

“Organizational culture is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaption and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”
(Schein, 1984)

The corporate culture affects most aspects of organizational life, from the way which people interact with each other and dress to organizational policies and strategy. The full influence of corporate culture can be observed during a merger or acquisition when two different cultures are combined into one. Two organizations that may seem highly compatible on the surface can have underlying cultural differences that can obstruct their integration (Dahlgren & Witt, 1988).

Corporate culture is a concept that can be difficult to grasp, and there are therefore different opinions as to whether culture shapes or can be used to shape a given situation (Ouchi & Wilkins, 1985). One perspective views culture as a managerial tool that can be used to shape organizations while another perspective sees culture as something that is naturally a part of the organization and is difficult to understand and change (Buono & Bowitch, 2003).

2.2.2 Describing a Corporate Culture

According to Schein (1984), the culture of an organization can be analyzed at three different levels, which he labels artifacts, espoused values and underlying assumptions. His model is frequently used in publications about corporate culture. However, for this thesis' purpose the Cultural Web (Goffin & Mitchell, 2005) and the Four archetypes of corporate culture (Harrison, 1972) are better suited as we need a framework that can help us identify the corporate culture in a more systematic approach and what happens when different cultures are combined.

2.2.2.1 The Cultural Web

The model of the cultural web builds on seven partially overlapping aspects of culture that will be further described below.

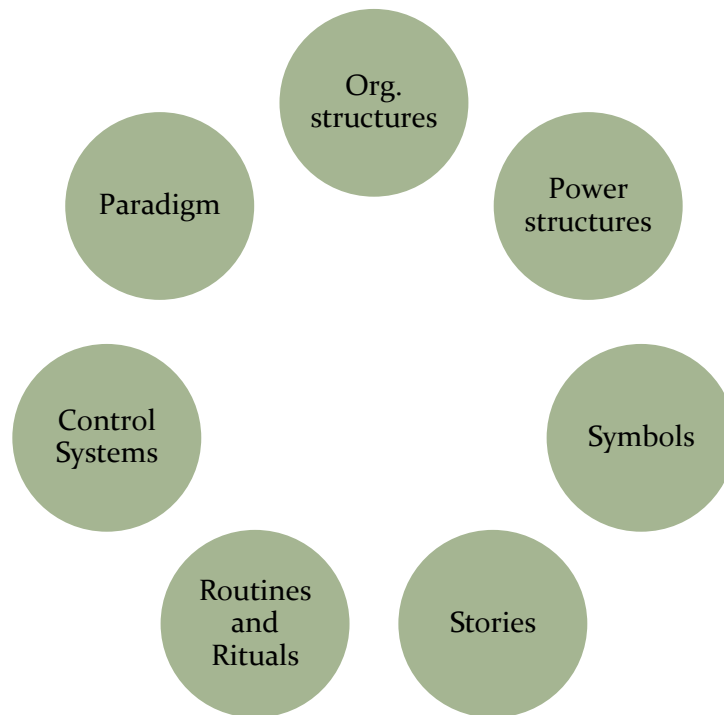


Figure 4 The Cultural Web (Goffin & Mitchell, 2005)

1. **Organizational structures.** The formal organization structure is the most tangible aspect of corporate culture. This is also the aspect of culture that is most often changed by management, often resulting in other important parts of culture being left out. This can often result in problems and for this reason organizational change needs to be viewed within the wider context of the whole web.

2. **Power structures.** These are related to the formal structures of an organization but are not always the same as the official organization chart which makes them harder to discover. For

example, even if two units are on the same level in the formal organization, one department might be more powerful than the other.

3. **Symbols.** A parallel can be drawn between organizations and tribes, as they both have symbols that are important for them and represent their cultures. Business symbols can for example be logos, the office style, company cars, titles, dress codes, as well as the language and terminology used.

4. **Stories.** Most organizations have stories that are important for the organization, which relates to their history, ambitions, and ways of doing things. These stories are often told to new recruits and visitors and act to guide individual and organizational behavior and maintain order.

5. **Routines and rituals.** Routines are the ways employees learn to process work and interact with each other. They facilitate the work and are complements to the formal processes and can often be taken for granted. Organizations also have rituals that tell employees what is valued in the organization, e.g. meetings, promotion criteria and appraisals.

6. **Control systems.** E.g. formal processes, measurement systems, and reward systems. They set the focus of attention since they tell what is valued in the organization.

7. **Paradigm.** The central paradigm consists of all the other cultural aspects mentioned above. It is the essence of how an organization “thinks” and “acts” (Goffin & Mitchell, 2005).

2.2.2.2 Four Archetypes of Corporate Culture

In his article from 1972 Roger Harrison outlines four main types of organizational culture: power, role, task/achievement, and person/support. The details of each type are explained in Figure 5 below. There are several other typologies but they are generally less able to accommodate intra-industry culture differences which is the main concern of this thesis. These four types also have strong validity and acceptance in practice (Cartwright & Cooper, 1993).

| Power | Role | Task/Achievement | Person/Support |
|--|---|---|--|
| <ul style="list-style-type: none"> • Centralization of power—swift to react • Emphasis on individual rather than group decision making • Essentially autocratic and suppressive of challenge • Tend to function on implicit rather than explicit rules • Quality of customer service often tiered to reflect the status and prestige of the customer • Individual members motivated to act by a sense of personal loyalty to the "boss" (patriarchal power) or fear of punishment (autocratic power) | <ul style="list-style-type: none"> • Bureaucratic and hierarchical • Emphasis on formal procedures, written rules and regulations concerning the way in which work is to be conducted • Role requirements and boundaries of authority clearly defined • Impersonal and highly predictable • Values fast, efficient, and standardized customer service • Individuals frequently feel that as individuals they are easily dispensable in that the role a person serves in the organization is more important than the individual/personality who occupies that role | <ul style="list-style-type: none"> • Emphasis on team commitment and a great belief in the organization's mission • The way in which work is organized is determined by the task requirements • Tend to offer their customers tailored products • Flexibility and high levels of worker autonomy • Potentially extremely satisfying and creative environments in which to work but also often exhausting | <ul style="list-style-type: none"> • Emphasis on egalitarianism • Exists and functions solely to nurture the personal growth and development of its individual members • More often found in communities or cooperative than commercial profit-making organizations |

Figure 5 Types of Corporate Culture and their characteristics (Cartwright & Cooper, 1993)

In reality there are of course variations between these archetypes and all organizations cannot be divided into these four categories. It is also important to note that there is no best culture, just different types that create different psychological environments. Some cultures evoke deeper commitment and may be perceived as more satisfying than others. For example the degree of worker autonomy has been shown to influence the level of commitment and job satisfaction.

In an acquisition or a merger where one organization is dominant the attractiveness and acceptability of its culture is dependent on if the culture is perceived as increasing or decreasing employee participation and autonomy. This means that changes which are perceived as imposing more control will encounter more resistance than those perceived to increase the employee autonomy. An acquiring organization with a role culture is therefore more likely to be accepted if the other organization has a power culture rather than a role

culture. In other words, culture similarity is not necessary to succeed in the cultural aspect of an acquisition or dominant merger. (Cartwright & Cooper, 1993)

In a merger or acquisition where the two organizations are equals the success lies upon the ability to create a coherent culture combining elements of both cultures. A successful integration is dependent upon the fact that both organizations perceive the other culture as attractive and worth preserving so you can create a win-win situation. However, the cultural distance does have a significant impact on the integration. The greater the dissimilarity between the culture types, the more problematic and longer is the integration process likely to be. This is because the greater the distance is, the further each partner will have to go in order to reach the middle ground and create a new optimal culture as illustrated in figure 6 below (Cartwright & Cooper, 1993).

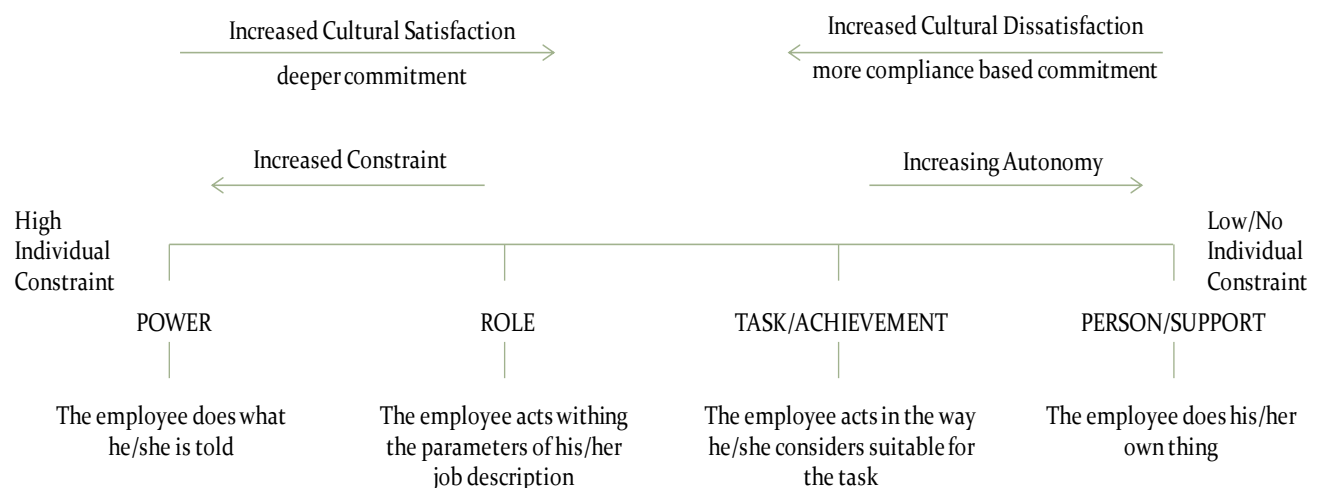


Figure 6 The relationship between cultural types (Cartwright & Cooper, 1992).

2.2.3 Subcultures

So far organizational culture has been treated as if one culture can be applied to an entire organization. However, organizations tend to have multiple cultures. Just as societies have different groups with differing societal norms and values, organizations may also have subgroups with subcultures differing from the dominant culture (Buono & Bowditch, 2003).

2.3 Organizational Change

This section turns the focus towards the organizational change process that is required in order to integrate two cultures and will explain what happens when two cultures meet and how they become one. A short introduction will be followed by different approaches when it comes to managing the change (such as Theory E&O and chaos theories). After that we will look at what usually happens when two cultures meet by structuring the integration process into seven stages.

According to one estimate, around 70 % of all change initiatives fail (Beer & Nohria, 2000). Change is generally seen as a good thing, and people who resist it are regarded as standing in the way of progress. Early organizational change studies often focused on how to overcome this resistance and believed that people, especially old employees, hated change and resisted it just because they were creatures of habit. More recent studies have focused more on why people resist change and have highlighted the possibility that people who resist change may be driven by good knowledge of the situation rather than personal fear (Fineman, Gabriel & Sims, 2010).

2.3.1 Managing the Change

A merger or acquisition is one of the largest changes an organization can face and is often seen by people as a threat to their position, status, relationship, competence or security. This is why change is often accompanied by conflicts (Fineman, Gabriel & Sims, 2010). There are different views in theory as to how far change can be managed, if it is something that happens naturally or something that can be planned, implemented and resisted. At one extreme lies theories such as Theory E (Beer & Nohria, 2000) arguing that change can and should be controlled. On the other hand you have complexity and chaos theories (Stacey, 1992, 1995), arguing that a change process is impossible to manage. In between these extremes there are a number of other approaches. Theory O (Beer & Nohria, 2000) is one example and builds on the idea that managers build commitment and through that can shape the change process in a bottom-up way, rather than controlling it strictly top-down. This is also the line often taken by those studying cultural change in organizations (Ogbonna & Harris, 2002).

The two archetypes of change identified by Beer and Nohria (2000) are based on what the main driver for the change is and how the change should be implemented. In theory E shareholder value is the only legitimate measurement for corporate success. The change is often characterized by strong economic incentives, heavy layoffs and restructurings. In theory O the goal is to develop corporate culture and human capability through individual and organizational learning. It is a process oriented approach characterized by changing, obtaining

feedback, reflecting and making further changes. It is recommended that both strategies are used to achieve a successful change. However, the differences between the two approaches makes them hard to manage simultaneously as there are often tensions between them.

| Dimensions of Change | Theory E | Theory O |
|---------------------------|--|--|
| Goals | Maximize shareholder value, (short term focus) | Enhance economic value through developing organizational capabilities, (long-term focus) |
| Leadership | Manage change from the top down | Encourage participation from the bottom up |
| Focus | Emphasize structure and systems | Build up corporate culture: employees' behaviors and attitudes |
| Process | Plan and establish programs | Experiment and resolve |
| Reward Systems | Motivate through financial incentives | Motivate through commitment - use pay as fair exchange |
| Use of Consultants | Consultants analyze problems and shape solutions | Consultants support management in shaping their own solutions |

Table 1 Strategy E and O (Beer and Nohria, 2000)

2.3.2 The Organizational Combination Process

Research has shown that mergers and acquisitions tend to follow a fairly predictable pattern. Buono and Bowditch (2003) have identified seven phases that describes these processes. Depending on the nature of a merger or acquisition, each phase might not appear as distinct as suggested and the ambiguities and tensions associated with each stage may vary in intensity and duration. The phases are summarized in the table 2 on the next page where they are also further explained.

| | Stage | Characteristics |
|----------------|-----------------------------------|--|
| Stage 1 | Precombination | Degree of environmental uncertainty (technological, market, sociopolitical) may vary, but respective organizations are relatively stable, and members are relatively satisfied with the status quo. |
| Stage 2 | Combination planning | Increasing environmental uncertainty fuels discussion concerning merger/takeover possibilities. Fears rise that unless the firm grows, larger companies will destroy it or the organization will become less competitive or fail. The firm is still relatively stable and discussion is confined to top executive level. |
| Stage 3 | Announced combination | Environmental uncertainty continues to increase, influencing decision. The organization is still relatively stable, and while members have mixed emotions concerning the merger, expectations are raised. |
| Stage 4 | Initial combination process | Organizational instability increases and is characterized by high structural ambiguity and some cultural and role ambiguity. Although members are generally cooperative in the beginning, goodwill quickly erodes. |
| Stage 5 | Formal physical-legal combination | Organizational instability increases as structural, cultural, and role ambiguities increase. Conflict between organizational members increase. |
| Stage 6 | Combination aftermath | High organizational instability, lack of cooperation, we-they mentality. Violated expectations lead to intra- and interunit hostility. Structural ambiguity decreases but cultural and role ambiguity remains high. Dissenters leave the organization. |
| Stage 7 | Psychological combination | Organizational stability recurs as ambiguities are clarified and expectations are revised. Renewed cooperation and intra- and interunit tolerance. Time consuming process. |

Table 2 The Organizational Combination Process (Buono & Bowditch, 2003)

2.3.2.1 Precombination

Changing technological, market, and sociopolitical conditions create ambiguities that can play an important role in a merger and acquisition decision (Brenner & Shapira, 1983). The higher the degree of uncertainty is, the greater the tendency to pursue a merger or acquisition (Buono & Bowditch, 2003). Vertical mergers and acquisitions are for example often driven by a wish to reduce supplier-distributor uncertainties, horizontal mergers and acquisitions often aim to reduce competitive uncertainties, while unrelated acquisitions can reduce environmental uncertainties through diversification (Pfeffer, 1972). In this stage the organizations are relatively stable, and members are rather happy with the status quo.

2.3.2.2 Combination Planning

Environmental uncertainty increases, which fuels discussion concerning merger and acquisition possibilities. Fear rise that unless the firm grows, larger companies will destroy it or the organization will become less competitive. Although discussions are mainly confined to the top level, rumors often begin to emerge. While the accuracy of these rumors may vary they can create feeling of insecurity and resentment as well as turnover of key people. This is especially true in horizontal combinations with a high planned level of integration. It is important to have an integration strategy building on the organization's and the other company's strengths and weaknesses. This is often overlooked, especially in collaborative horizontal mergers, as one often assumes that the organizations will be compatible and the integration successful (Buono & Bowditch, 2003).

2.3.2.3 Announced Combination

At this stage employees are primarily focused on what the combination will mean for them personally. They tend to be very suspicious when it comes to any changes in the degree of centralization, standardization and integration of different functions (Evan & Klemm, 1983). Decisions about strategy and structure often have significant effects on the perceptions of job security, authority and influence, organizational status, morale and overall motivation. Although some employees will immediately feel threatened by the merger or acquisition others may interpret it as a potential opportunity. The nature and strategic purpose of the combination often have a significant influence on the perception and rumors about the combination. For example, a collaborative horizontal merger is often more stressful than a collaborative vertical combination as the threat to individual positions are greater in the former (Buono & Bowditch, 2003).

2.3.2.4 Initial Combination Process

Organizational instability increases and is characterized by high structural, cultural and role related changes. Although members are generally cooperative in the beginning, goodwill quickly erodes. As a result, seemingly rational changes may be resisted because of the perceived threat to the existing cultures and roles (Buono & Bowditch, 2003). A merger or acquisition often increases the salience of culture in people's minds and people are often unaware of the culture until it is conflicted or contrasted to a different culture (Hall, 1959). For instance when discussing issues such as which IT-system or operating procedures to use each employee group often tend to get defensive and focus on why "our way" was better. Rather than viewing these work processes as impersonal employees interpreted them as reflections of the culture (Buono & Bowditch, 2003).

2.3.2.5 Formal Physical-Legal Combination

When two organizations physically integrate, organizational instability increases as structural, cultural, and role ambiguities increase. As people share their perceptions they will often discover that what they thought were the outcomes will vary considerably among people, resulting in increased personal and organizational stress. During this stage conflict between organizational members will also increase. The loss of organizational identity, responsibilities, work routines and colleagues can be anxiety provoking and disruptive to people's lives (Buono & Bowditch, 2003).

2.3.2.6 Combination Aftermath

The formal combination is often followed by high organizational instability, lack of cooperation between the organizational members and a we-they mentality. Violated expectations concerning the combination outcome lead to intra- and interunit hostility, reinforcing this we-they orientation. Structural ambiguity decreases but cultural and role ambiguity remains high. During this time dissenters usually leave the organization. The organization also risks ending up in a "merger standstill" or "post-merger drift" with decreased productivity and effectiveness (Ivancevich, Schweiger & Power, 1987; Siehl, Ledford & Siehl, 1986; Pritchett, 1985)

2.3.2.7 Psychological Combination

The psychological combination is a time consuming process and also the final step in the integration process. Here the organizational stability recurs as questions and concerns are clarified and expectations revised. The psychological integration is reached when there is renewed cooperation and intra- and interunit tolerance, a process that can take years (Buono & Bowditch, 2003). The mourning or grief period that often follows a merger or acquisition has been compared by Levinson (1970) to the forming of a new family after for example a divorce. People, especially children, often react to these changes with a range of negative feelings. In addition to longing for and idealizing the past situation, people may also experience a sense of helplessness. Eventually, after an adjustment period, these feelings will give way to resignation and acceptance. These feelings are all a natural part of the change process and the time it takes for the employee satisfaction level to return to a precombination level will differ widely, depending on for example the type of merger and desired integration level (Buono & Bowditch, 2003).

2.4 Theoretical Framework - Summary and Application

As stated in the beginning, the theoretical framework rests upon three pillars and these will also form the structure for the analysis later on. The first section looked at different types of mergers and acquisitions and what implications they might have on the integration process. The central theories from this part that will be used in the analysis are the three dimensions that define a merger or acquisition together with theories concerned with the cultural aspect of mergers and acquisitions. The second section focused more on the cultural aspects, how to define and understand a culture and how different cultures relate to each other. This is important in order to later understand why things happen when two cultures meet. This section's main theories were the cultural web together with the four archetypes of corporate culture. The third and last section focused on the change process of integrating two cultures, addressing different approaches when it comes to managing the change, such as Theory E&O and chaos theory. It also provided us with the seven phases that an integration usually goes through.

These theories will function as our theoretical framework. The first section is necessary in order to understand what type of merger we are looking at and the specificities surrounding it. It is also important because our findings may not be transferable to other types of mergers and acquisitions and we need to be aware of this limitation. The second section is central in order to understand the cultures that are represented and why they react in a certain way. Without this understanding it is hard to comprehend and explain what happens in the integration process. With the information from the first two sections in the back of our heads we will then move on to the last section and finally answer our research question: What happens when two corporate cultures meet and how do they become one? Hence, our goal is to identify what happens when two corporate cultures meet, as well as understand why things happens and how the integration is managed.

3 Method

In this section we will elaborate on the research design chosen for the empirical study as well as the selection of our object of study. We will also discuss the process of collecting research material, including the method for the in-depth interviews that are the core of our empirical study. Finally we will discuss the validity and reliability of our research.

3.1 Research Design and Scientific Approach

By using an exploratory research purpose, our intention is to increase the understanding of how two organizations handle the challenge of integrating their corporate cultures in the context of a merger. Although the field has been subject to numerous studies the previous research has mainly had causal purposes, with a strong tendency towards exploring the relationship between corporate culture and success in a merger. However, since these studies have reached contradicting results (Teerikangas and Very, 2006) there is a need for more in-depth research.

To answer the research question we have used an abductive approach, which is a combination of the traditional inductive and deductive method (Alvesson & Sköldberg, 1994). A strictly inductive approach means that theory is generated out of research while a deductive approach means that the research is conducted with reference to hypotheses and ideas inferred from theory (Bryman and Bell, 2007). Since our purpose is to generate new understanding within this field of research we will partly use the inductive approach. By using theory to generate ideas that can be explored and tested we will also have a deductive element in our research. By starting with going through existing theories we were able to create an overview and understanding of the area that we were about to study. Yin (2003) suggests that this is always an advisable start when performing a case study, even with an exploratory purpose. Studying theory in advance may however result in predetermined ideas of what we will find and it is important to keep an unbiased mind despite this (Yin, 2003). Furthermore, we have used an empirically driven research approach in the sense that we have allowed the research question to evolve over time.

A qualitative research method is most appropriate for this thesis since the aim is to explore *what* happens when two corporate cultures meet and *how* they become one. The qualitative method has the advantage of providing more depth than a quantitative approach as it allows for better capturing the full meaning of words and also to gain an understanding for different perceptions, norms and motives that may influence what is said (Bryman and Bell, 2007).

In line with our exploratory purpose we have chosen to perform a case study since it will enable us to develop a better understanding of the nature and complexity of the subject in its natural setting (Yin, 2003). Furthermore this method is often recommended when it is difficult to distinguish the boundaries between phenomenon and context (Yin, 2003). Fisher (2007) develops this theme further by arguing that a case study can help the researchers to focus on the interrelationship between all factors, such as people, groups, policies and technology.

Multiple-case designs are generally preferred since you avoid the risk of putting all eggs in the same basket (Yin, 2003). Taken this serious critique into consideration we still decided to do a single case study for numerous reasons. Since our aim was to reach depth in our studies we wanted to go as deep as possible into the details of one case. Since we were granted very good access to the company we were able to obtain many different perspectives within the company and one may draw the parallel that we have been able to construct mini cases within the real case. Examples of this are the case of merging the finance/accounting department and the case of merging the technology division. This is described by Yin (2003) as embedded case study design. This type of embedded design can add opportunities for extensive analysis and can enhance the insights into the single case.

3.2 Selecting the Object of Study

When performing a case study the choice of object is critical. One of the aspects we considered when selecting our case was the time of the merger. The reason is that it can take several years before the effects of how the merger was handled shows and the outcomes can be established (Dahlgren & Witt, 1988). For this reason we wanted to study a merger that was carried out at least two years ago. At the same time we still wanted the case to be recent since it becomes more difficult to get reliable data the older the case is. One reason for this is that it becomes more difficult for people to remember the details of a case but it also becomes harder to get access to the right people due to staff turnover. Based on this we decided not to look at cases older than 5 years.

The second aspect was nationality. The cultural challenge in a merger can have several dimensions and is formed by a mix of national, industrial, organizational, functional, and professional cultures (Teerekangas and Very, 2006). In order to avoid difficulties related to languages, habits and other cultural differences originating from different national cultures (Hofstede, 1980) we chose to focus on organizations operating in Sweden. Finally in order to conduct a qualitative case study access to the company is very important. Therefore finding a

company that was willing to disclose all the information we needed and give us access to interview objects was also an important aspect.

With these criteria in mind we chose to study the merger between Vasakronan and AP Fastigheter in 2008. This merger is the largest real estate related transaction in Sweden until this date, and also the largest one in Europe in 2008 (Lindström & Odhnoff, 2010).

3.3 Collecting Research Material

In line with our aim to explore the human side of a merger our primary source of data has been in-depth interviews. Internal documents as well as documentation provided by a consulting firm regarding the merger were also useful to give us a starting point for the interviews and also provided us with the structural parts of the merger. Since we have performed the interviews at their premises we have also been observant to any physical artifacts that may give us additional insights.

We have interviewed senior executives, middle managers and employees from both companies to the extent that it has been possible. On the top executive level all managers came from the acquiring company. To capture functional differences we interviewed a larger number of people from the technology and service side of the organization as well as from the accounting and finance department. We selected these two groups primarily on the merit of their size but also because we got indications from senior executives that these functions could be interesting for us to explore due to their, from a managerial perspective, difficulties in the integration process. We have also interviewed some support functions and employees that have left the organization to get their perspective.

We started interviewing on a managerial level and gradually worked our way down through the organization. By doing this we could get recommendations of other people to speak to. The managers were happy to act as informants to us and we were able to get a good balance of perspectives. However, we did not use the managers as intermediary in the contact with employees since we wanted to emphasize that we are not interviewing on behalf of any managers as this may restrict what the interviewees are willing to share. A list of all interviewees can be found below (see table 3).







| Role | From | Unit | Role during merger | Date |
|---|------|---|-----------------------|------------|
| Senior Executives | | | | |
| CEO | AP | other | steering committee | 2012-02-15 |
| HR Manager | AP | other | team leader | 2012-02-21 |
| CFO | AP | \$\$ | team leader | 2012-03-02 |
| CTO | AP |  | integration committee | 2012-03-02 |
| CCO | AP | other | team leader | 2012-04-04 |
| Managers | | | | |
| Treasurer | VK | \$\$ | | 2012-01-31 |
| Accounting manager | AP | \$\$ | | 2012-03-09 |
| Business unit manager* | VK | other | integration committee | 2012-03-27 |
| IT systems manager | AP | other | | 2012-04-11 |
| Technology manager | AP |  | | 2012-04-12 |
| Employees | | | | |
| Business Controller | VK | \$\$ | | 2012-03-21 |
| Accounting | VK | \$\$ | | 2012-03-29 |
| Rental administration | AP | \$\$ | | 2012-04-12 |
| Technician | AP |  | | 2012-04-13 |
| Technical administrator | VK |  | | 2012-04-13 |
| Technology unit manager | AP |  | | 2012-04-25 |
| Accounting* | AP | \$\$ | | 2012-04-16 |
| Rental administration* | VK | \$\$ | | 2012-04-16 |
| Controller* | VK | \$\$ | | 2012-04-16 |
| Vice communication manager* | VK | other | | 2012-04-16 |
| <p>* Position before leaving the company</p> <p> Technology and Service</p> <p>\$\$ Finance and Accounting</p> | | | | |

Table 3 List of interviewees

3.3.1 In-Depth Interviews

In line with our exploratory purpose we have used in-depth interviews to collect our data since they are particularly well suited when there is a need to develop a deep understanding for the topic (Bryman & Bell, 2007). We have conducted semi-structured interviews to allow for a balance between letting the interviewee speak freely enough to give us the information we did not know we needed and guiding the interviewee enough to get the information we did know we needed. Furthermore, semi-structured interviews also facilitate the comparison between interviews (Keats, 2000). All interviews were conducted as face-to-face meeting at the interviewees' workplaces and lasted approximately one hour.

All interviews except for the group interview and one regular interview were recorded in order to secure that no information was lost and to facilitate the future analysis of the gathered data. The interviews were then transcribed and structured or notes were made directly after the interviews in the case where they were not recorded. The fact that the interviews were recorded allowed us to focus on moderating the interviews and asking relevant questions. It can often be challenging for the respondents to express personal experiences in a structured and clear way. Therefore it is important that the interviewers can steer the interviews, in order to go into depth within certain areas (Ghauri & Gronhaug, 2005).

To facilitate and structure the interviews we designed an interview guide (see Appendix 2), in which we included a list of questions that we wanted to cover during the interview. All interviewees were hence asked the same main questions and each interview was allocated the same amount of time in line with Gillham's (2005) framework for semi-structured interviews. We decided to use an informal and conversational style for the interviews as we felt that this would make the interviewees feel more relaxed and thus be willing to share more of their insights.

The interview questions and technique were tested over the first couple of interviews to see if some changes needed to be made, especially with regard to the questions. After the first interviews the list with questions was set for the rest of the interviews. By specifically wording the questions we can appear to be genuinely naïve about the topic and avoid the risk of asking leading questions based on preconceived ideas (Yin, 2003).

We structured the interview according to the funnel technique as described by Kylén and Vestlund (1978). The first thing we did during all our interviews was to briefly describe the purpose of our thesis and get acquainted via some small talk. Usually we did this as we went to get some coffee but otherwise we did it when we had sat down for the interview. After this we asked if we could record the interview and in almost all cases this was allowed. When we asked about the recording we could also get a sense of the level of trust that existed between us and the interviewee. In the cases where the interviewee seemed a little nervous or hesitant we kept to asking more general questions until we felt that the interviewee trusted us. The second phase evolved around getting as much information as possible by allowing for the interviewee to speak freely around open ended questions. Stimulating questions such as "that sounds interesting, tell me more" were used along with focusing questions and silence to encourage the interviewee to give as much information as possible. We then moved on to the clarification phase with the purpose to go more into detail and follow up on questions that were previously not answered or were left unclear. In this phase we started to be more demanding of the

interviewee and asked for more examples and facts. We were also able to test that our interpretation was correct by summing up previous statements and using closed-ended questions. Before ending the interview we shifted the focus to more general questions and also asked if they had anything that they would like to add. Finally we emphasized the value of the conversation and again tied it to the purpose. After thanking the interviewees for their time we asked if we could contact them if we had any further questions later. When we interviewed the managers we asked if they could refer us to more people within the organization. Things that were said after the recorder had been turned off were noted down as soon as possible after the interview.

3.4 Quality of Research Design

The quality of research can be described by testing for trustworthiness, credibility, confirmability and data dependability. For social research the tests consist of: *construct validity, internal validity, external validity and reliability*. Yin (2003) has developed several tactics for dealing with these tests when doing a case study. Each of the tests will be described more in detail below and also what measures we have taken to secure the quality of our research.

3.4.1 Construct Validity

Construct validity has to do with establishing correct operational measures for the concepts being studied. To meet this requirement a case study should firstly select the types of change that will be studied and relate them to the original research objective. Secondly, the researchers should demonstrate that the selected measures do indeed reflect the selected types of changes.

To increase the validity of our research we have used the following tactics, as suggested by Yin (2003):

Use multiple sources of evidence to encourage convergent lines of inquiry. Although our primary source of information has been in-depth interviews we have also had access to internal and external documentation of the change. We have also been observant to any physical artifacts that may give us additional insights. Furthermore, we believe that observations may provide valuable insights in a case like ours but since a change of this caliber can take several years to complete we decided to focus on a change where we could observe and analyze an outcome rather than a very limited part of the whole process. By using different perspectives to the same data set (theory triangulation) we also increase the validity of our research.

Establish a chain of evidence to account for the derivation of evidence. By transcribing the interviews and keeping a list of the questions that we have asked during each of the interviews it is easy to follow how we arrive at our empirics. Furthermore, we have used citations to empirics and theory to allow the reader to trace back any conclusions that are made.

Have key informants review draft case study report. On an overall level we have not had key informants review drafts of the case study report for several reasons. Firstly, all interviewees are of equal importance to the outcome of our study and it is not possible for practical reasons to allow them all to review the draft. Secondly, by allowing only a few to review the report in full we might alter their perception of what happened and give them incentive to change their story. As our topic has to do with perceptions rather than an absolute truth we see a risk that this may in fact compromise the accuracy rather than enhance it. Instead of having key informants review the draft we have worked hard to make sure that our interpretation of what is said has been correct by for example asking follow up question and asking for examples to illustrate something that is unclear. When we have been confronted with contradictory evidence we have returned to the interviewees and asked for them to clarify any misunderstandings.

3.4.2 Internal Validity

Internal validity is mainly relevant in explanatory or causal case studies and is concerned with whether the evidence presented justifies the claims of cause and effect (Fisher, 2003). For this reason Yin (2003) suggests that this test is not directly applicable to exploratory research. However, Lincoln and Guba (1985) suggest that researchers can improve the credibility of their findings by: using a range of research techniques, asking others to critique their research methods, constantly questioning interpretations against data, keeping research material archived and checking to make sure that interpretations were correct.

The tactics we have used have not explicitly been focused on internal validity, which is in line with our exploratory purpose (Yin, 2003). However, many of the methods suggested by Lincoln and Guba (1985) to increase credibility are touched upon in the sections covering construct validity and reliability.

3.4.3 External Validity

External validity when doing case research has to do with whether a study's findings are analytically generalizable beyond the immediate case (Yin, 2003). For single case studies Yin (2003) suggests the use of theory to build validity. Lincoln and Guba (1985) further suggest that the responsibility of judging whether findings are transferrable should be left to the reader.

The researcher's role would then be to provide a detailed enough description of the research material that the reader can judge the transferability.

Since we have done a single case study, we have placed great emphasis on using theory, as suggested by Yin (2003) to strengthen any analytical generalizations that we make. We have also described the case in great depth to allow the reader to make his or her own judgments about the transferability of our findings.

3.4.4 Reliability

Reliability has to do with to which extent a study could be repeated. The key to this when performing a case study is according to Yin (2003) to use a case study protocol and develop a case study database. By organizing and documenting the data collected we allow for others to examine the raw material and draw their own conclusions if necessary. By transcribing the recorded interviews and saving interview notes from the interviews that were not recorded we have the bulk of our data saved and stored in a digital format. All relevant internal and external documentation has also been saved.

4 The Story of Vasakronan and AP Fastigheter

At the first glance Vasakronan and AP Fastigheter was the perfect match. They were the same size both in terms of value of properties and in number of employees. They were active in the same regions and perhaps most noteworthy they had similar core values and ownership structure, Vasakronan being directly owned by the government and AP Fastigheter by the national pension fund. However, they were also each other's benchmark and main rival.

When explaining the cultural aspects of the merger between Vasakronan and AP Fastigheter the HR manager tells us a story:

"There are two children, a boy and a girl. They grow up in the same neighborhood and go to the same day care. When they get older they start the same school and one day this boy and girl fall in love. They decide to move in together and it is only at this point that you realize that this boy and girl are not so similar after all. From an outside perspective they were exactly the same but when you entered the hallway of one family the shoes were lying in piles while in the other family they were arranged neatly on the rack ... As soon as you scratch the surface you begin to see that there are many differences. It is not until you sit desk by desk in the everyday work that you realize what the real differences and similarities are." (HR Manger, 2012)

On the first of December 2008 it was time for Vasakronan and AP Fastigheter to take the plunge and move in together, and just like when couples move in together the months prior to the move had been filled with ambitious planning and nervousness.

Five months earlier on the 3rd of July, just as people were going on their summer holidays, the official announcement that AP Fastigheter was going to acquire Vasakronan was made. During the following weeks an integration steering committee was formed and key positions in the new organization were filled. The work to create a structure for the new organization that would combine the best of both AP Fastigheter and Vasakronan was now to begin. Meanwhile, people returned from their holidays and emphasis was put on maintaining business as usual. Parallel to this, teams were formed with the task of planning the details of how the new organization should work. In many places there would be redundancies and decisions had to be made in terms of what systems to use and what routines to follow in the new Vasakronan.

AP Fastigheter made it clear from day one that their goal with the integration was to combine the best parts of both companies. It started already in the first press release where they stated that they were going to take Vasakronan's name. Taking the name Vasakronan was indeed the

natural choice if you compared their brand value and it became an important symbol for both sides in the merger. The people from Vasakronan saw it as a sign that the management was going to take their promise seriously and really take the best from both companies. For AP Fastigheter this came as more of a chock, they were the buying organization, yet they had to change their name. For some employees this was very difficult. People in both companies were hopeful but nobody could be sure what role they would be given in the new organization. This was the start of the integration.

4.1.1 Disposition

The empirical section starts off with a short background to the case and is then structured in three main sections. The first “Vasakronan and AP Fastigheter” will describe the two companies by looking their historical heritage, organizational structure, leadership, symbols and systems. The second section “Planning and conducting the integration” will describe how the integration was first planned and then conducted. It will also describe some of the problems encountered during the process. The final section “Shaping a new culture” will describe how the management worked to create the new company and its corporate culture. The empirical section follows a narrative structure providing the reader with the context necessary to create an in-depth understanding.

4.2 Background

The merger did not come unexpected. Within Vasakronan most people had the understanding that the company would at some point either go public or be sold. Already when the company was founded it was with a vision to at some point go public, so the anticipation for something to happen had been a part of the every-day work for a long time. However, it was a political process and it took longer than first expected. When the time finally came the economic climate prevented Vasakronan from going public and so they started the search for a potential buyer (Business controller, 2012-03-21). When Vasakronan's main rival AP Fastigheter was announced as the buyer some were disappointed because they would have preferred to go public and some felt that out of the two Vasakronan was the better company and should have been the one to buy AP Fastigheter. However, most people were relieved that it was AP Fastigheter and not some American or French company that took over as they felt that this could have meant much bigger changes to their daily routines and corporate culture. Although people were still unsure of how they would be affected by the merger they took comfort in knowing that AP Fastigheter would be likely to handle the integration in a correct and just manner. At least there would not be a split and sell. The initial press release saying that the new company would take the best from both companies and in line with this keep the name "Vasakronan" gave further comfort to the acquired Vasakronan (Accounting 1, 2012; Technical administrator, 2012).

The acquisition was, as often is the case, motivated by the possibility of making $1+1=3$. On a strategic level the synergies were clear (CEO, 2012). Although the companies were similar in many ways each one had their own history and had found their own differential advantage. AP Fastigheter came from the financially driven Swedish national pension funds and had inherited their clear financial focus (CEO, 2012). They were considered to be better when it came to routines and structures and had a more specialized organization with for example very skilled technicians (Technical administrator, 2012). Vasakronan on the other hand had made the journey from being a government agency to becoming a commercial and customer oriented organization that excelled at brand management and customer satisfaction (Accounting 1, 2012; CEO, 2012).

4.3 Vasakronan and AP Fastigheter

Vasakronan and AP Fastigheter did indeed seem like two very similar real estate companies. However, as indicated above they had many differences in terms of historical heritage, organizational structure, leadership, symbols and systems. Below we will describe what similarities and differences that could be found between the two companies.

4.3.1 Historical Heritage

Both Vasakronan and AP Fastigheter had a background with close ownership ties to the Swedish government. However, the two companies had been founded with somewhat different purposes which influenced their focus and structure.

Vasakronan was founded from the Swedish government agency for property¹. The main task of the agency had been to manage the government's properties and to make sure that state functions, museums, and universities etc. had premises that suited their purpose. The agency was discontinued after a decision made in Parliament 1993 and the properties were split between four new companies; all owned by the government and each with its own niche. Vasakronan gradually restructured its portfolio to contain mainly commercial properties, office and retail space and focused its holdings to metropolitan areas. By the time of the merger Vasakronan owned real estate to a value of 41 billion SEK (Vasakronan, 2009).

AP Fastigheter was founded in 1998 with the mission to own and manage properties that had previously been directly owned by the Swedish national pension funds. At the time of the merger AP Fastigheter was owned in equal shares by the first, second, third and fourth national pension funds and had at the end of 2007 real estate to a value of 40 billion SEK in Stockholm, Gothenburg and Uppsala, the large majority of which was commercial properties (AP Fastigheter, 2008).

To summarize their heritage Vasakronan had always had a very customer centered purpose while AP Fastigheter had always been more pressured to deliver steady returns to the pension funds. All in all the two companies were still a lot more similar than they were different.

4.3.2 Organizational Structure

As similar as the two organizations were at first glance as different were they when you start to look closer at how they were organized. The two companies had different degrees of centralization and also different perspectives on hierarchy and management.

¹ Byggnadsstyrelsen in Swedish

4.3.2.1 Degree of Centralization

Before the merger the two organizations were governed with different levels of centralization. AP Fastigheter was a clear cut specialist organization with centralized power and support functions while Vasakronan on the other hand had a geographically divided organization with much power resting with the regional managers who were equipped with their own support staff (AP Fastigheter, 2008b). For detailed organizational charts see appendix 1, figure 9 & 10.

The way the two organizations were structured influenced the day to day work. The decentralized structure of Vasakronan fostered a generalist approach with much focus on drive and own initiative. Since it was difficult to monitor all regions the regional managers were measured on what bottom line results they could deliver and were quite free in how they accomplished it. At AP Fastigheter much focus was put on creating scalable solutions. Specialist competence was rewarded and emphasis was put on following routines and not taking to many risks (HR, 2012).

4.3.2.2 Hierarchy and Management

These differences in centralization along with the leader's role in the organization influenced the perceived level of hierarchy in the two organizations. Vasakronan's employees perceived their organization to be very flat as they used few managerial levels in the decision making. From their perspective this ensured that decisions were made in a timely manner and that information was always flowing freely in the organization. People felt strongly that they were always close to decision makers, even the CEO, and felt that they could truly influence the organization (Business controller, 2012). *"There are many more managerial layers here (at AP Fastigheter) then at Vasakronan. Before I could take my closest manager and go straight to the Vice President if I wanted a decision on something, it would take ten minutes and then it would be done. Now it can take months or even a year before anything happens"* (Accounting 1, 2012).

AP Fastigheter was in general perceived to be more hierarchic, although some of AP Fastigheter's former employees would argue that it was the other way around. AP Fastigheter had a more management centered culture and emphasized the managers' role and that different decisions should be taken at different managerial levels (Business Controller, 2012). The difference in management culture was especially clear when you looked at the mid-level managers. In general AP Fastigheter had more focus on delegating responsibility to middle management while at Vasakronan it was common that employees would go directly to the CEO if they needed a decision to be made. *"People really liked that the CEO of Vasakronan was always out there talking to them about all matters, but for the mid-level managers it was difficult to act in their management role"* (CCO, 2012).

When speaking about managers and hierarchy it is natural to also discuss more informal leadership and how responsibilities were shared in the organizations. Through the story told by the HR manager, who originated from AP Fastigheter, we understood that Vasakronan was perceived to be quite an unorganized workplace. At AP Fastigheter responsibilities were clearly delegated and people were held accountable for their delegated tasks (HR, 2012). The disadvantage of this was that things which were not delegated would often not be done spontaneously. At Vasakronan, with its many generalists, they had adopted a different approach where people took shared responsibility for everything. *“At AP Fastigheter you cleaned your own room very well but the bathroom was sometimes forgotten. At Vasakronan, on the other hand, everybody would have tidied the bathroom as they went along, and it would not have been made a big deal”* (Business controller, 2012).

4.3.2.3 The Case of the Technology and Service Department

AP Fastigheter and Vasakronan had very similar properties but they had some significant differences in how they organized the work around them. On a general level AP Fastigheter had divided the work so that the cost side of the business was separated from the income side. The Technology and Service unit handled maintenance and service issues while the Property Management unit took care of negotiating contracts and finding customers. To organize themselves they worked in cross functional teams, where the members had different areas of expertise and could be tied to several properties. At Vasakronan people were organized around the properties rather than around their specialty. The property managers played a very central role and were given full responsibility for the income side of the business as well as the cost side. He or she would also be responsible for managing the technology and service tied to the property.

The two companies had further organized their technicians in different unions. At Vasakronan the technicians were seen as white collar workers and belonged to that union while at AP Fastigheter they were regarded as blue collar and were tied to the building maintenance workers union. Although there were no big differences in the different unions' terms the latter was regarded as less prestigious. The technicians of Vasakronan also had a somewhat higher salary than those of AP Fastigheter. (Technology manager, 2012)

A tradition closely connected to the Technology and Service department that differed between the two companies was the morning coffee. AP Fastigheter had as a part of a health initiative introduced breakfast at the office every morning. This event where the employees met was very important for some of them. Vasakronan on the other hand did not have this tradition at all.

4.3.3 Leadership

The managers were described as greatly influential for the culture by most of the people that were interviewed. Above we have touched upon the role of the middle managers and the perceived hierarchy within the companies. In this section we will move on to elaborate on how the CEO's, with their distinctly different leadership styles, were described to influence the corporate culture.

The CEO of the new organization had been with AP Fastigheter for less than a year when the integration was launched. However, his predecessors had been with their respective organizations for a long time and they were seen as personifications of their respective organization (Rental administrator, 2012; Accountant 2, 2012). The CEO of Vasakronan was described as a typical pathos manager because of his great emotional capabilities and strong personality (CCO, 2012). He was described as very charismatic and was often seen talking to the employees, both at the headquarters and out in the other regions. *"The CEO of Vasakronan was the type of leader that went around and talked to everyone. He knew everybody's name. He even knew the dog's name and where you had your summer cottage" (CCO, 2012).* Accounting 1, (2012) further explains that working for the CEO of Vasakronan was like being part of a family, or at least a family owned business. The CEO of Vasakronan liked to keep a high profile internally as well as externally. Some employees at AP Fastigheter considered Vasakronan to be a bunch of big talkers who were too focused on image and appearance but there were also those at AP Fastigheter who acknowledged Vasakronan's communication strategy as something positive. The CCO at AP Fastigheter explains how he perceived their communication strategy *"At Vasakronan you worked hard to build the brand. Everyone should know who Vasakronan is and if we act like a big company we will be perceived as a big company. We should act like we are a public company and we will get a whole different effect" (CCO, 2012).*

If the former CEO of Vasakronan was a typical pathos manager the former CEO of AP Fastigheter was much more of a logos manager, emphasizing accuracy, logic and orderliness (CCO, 2012). Similar to Vasakronan's CEO the CEO of AP Fastigheter was much liked and well respected by his employees and was described as a strong front figure for the organization and a man with great natural authority (Accounting 2, 2012). He was not the type of leader that would walk around in the corridors asking the employees about their work and he spent little time out in the regions. To communicate internally he used quite formal "letters from the CEO" and focus was often put on financial returns. Emphasis was also put on doing the right things in a correct way, minimizing mistakes. He would not say anything to the public before being 100% sure of all the facts and numbers (CCO, 2012). If Vasakronan were perceived to be a

bit too focused on their brand AP Fastigheter was perceived to be too careful and a bit boring by their rival.

Finally, the current CEO was described as a typical ethos manager who strived for his actions to always be morally right and for him to be perceived as credible (CCO, 2012). The employees from both organizations perceive the current CEO to be very business oriented but also a less visible figure and some miss their former CEOs. Some employees feel that he hides amongst the top managers and only comes down when he is needed for delivery of bad news. *“We had not seen the CEO for a year and a half before he gathered us to tell us we have to make cuts. I have only seen the CEO two or three times during these past years”* (Accounting 1, 2012).

4.3.4 Symbols

We have already touched upon the historic and structural differences as well as the differences in leadership style between the companies. In this section we will elaborate on some of the other things that were described as symbols for culture within AP Fastigheter and Vasakronan.

4.3.4.1 Office

One of the biggest differences between the offices of Vasakronan and AP Fastigheter was that AP Fastigheter had already started to move towards more open planned offices while Vasakronan had kept closed offices. This was generally not thought of as a big deal but some of the older employees from Vasakronan found it very difficult to adapt. *“To move to these giant premises with all these people, you get no integrity. At Vasakronan you could have your own pot plants and make your office a bit cozy. It was more comfortable... Now, when the phone rings you have to leave your desk and search for a free room to take the call. It is very frustrating”* (Accounting 1, 2012). Small things like plants, the color on the walls, curtains or not and how the desks were faced caused some debate when the two organizations moved in together. (Accounting manager, 2012)

There were also some differences in terms of where the offices were located. Before the merger Vasakronan had been located in nice and central offices while AP Fastigheter had had a more low key location. Overall the cost focus was more apparent at AP Fastigheter's offices. *“To generalize AP Fastigheter was more of a hostel and Vasakronan was more like a five star hotel”* (CEO, 2012).

4.3.4.2 Brand Image

Through effective marketing campaigns in TV Vasakronan had managed to build one of Sweden's best recognized brands (CCO, 2012). With commercials featuring the royal philharmonic, Swedish tennis legend Björn Borg together with John McEnroe and famous

actor Michael Persbrandt they had made their way into the hearts of the Swedish people. AP Fastigheter on the other hand rarely used commercials to build awareness for their brand and when they did they had real technicians as protagonists (Technician, 2012). The contrast in this area could not have been clearer. Vasakronan kept a very high profile while AP Fastigheter worked more in the quiet.

4.3.5 Systems

Both Vasakronan and AP Fastigheter relied heavily on different systems to manage their daily operations. However, they did not always use the same ones. In the merger this caused difficulties as you had to select one system or the other. It was not possible to take the best parts of two systems and combine these. Accounting fortunately used the same system so in their case it was easy but for example the IT systems and rental administration systems were very different. AP Fastigheter had developed their systems over time and made gradual improvements while Vasakronan had recently made a large investment in a new system that would solve everything at once. Both companies had invested much money in their systems and on paper Vasakronan may have had a better system but AP Fastigheter also had a good system and they had the advantage that their system was already well anchored in the organization while Vasakronan's system was brand new (IT systems manager, 2012).

Some of the former Vasakronan employees also mention the rental administration system as significant. Again they had a system which was quite modern and well adapted to managing commercial buildings and clients while AP Fastigheter had a system that was made for managing non-commercial buildings which had been modified to fit AP Fastigheter's commercial properties.

4.3.5.1 The IT issue

Selecting which IT system to use was an especially sensitive question and the HR manager made the following comparison: *"Selecting an IT platform is like giving birth to a baby and saying no to one of the platforms is like rejecting one's own child, believe it or not... So, although we already knew which platform we were going to select we had to bring in an expert from Holland to evaluate the two platforms and tell us that the one we had selected was the best one"* (HR, 2012). Selecting which system to keep was a big decision that involved many people. Although the managers knew that they were going to keep AP Fastigheter's platform they could not just say so as people would not accept it unless the decision could be proved to be impartial.

When selecting AP Fastigheter's IT system it was an especially hard strike against the IT department of Vasakronan, who had worked very hard to develop their new system and the IT

systems manager (2012) described the merger of the IT departments as a collision between two different religions. However the choice of IT system affected people throughout the organization as the employees of Vasakronan were not familiar with AP Fastigheter's systems. *"Those from Vasakronan did not understand anything while those from AP Fastigheter knew everything. People felt that their tools had been taken from them"* (Business Unit Manager, 2012).

4.3.5.2 Incentive system

At Vasakronan there was a culture where extra efforts were rewarded and acknowledged while at AP Fastigheter you were expected to go that extra mile without any monetary compensation or special recognition. Vasakronan often used competitions or nominations to clarify goals and to make people go that extra mile (CTO, 2012). At AP Fastigheter some were motivated merely by the fact that what they contributed to the greater good of many people. *"We have to deliver or else there will be very little porridge and coffee for the pensioners"* (Technician, 2012).

On a general level Vasakronan had somewhat higher salaries and the technicians were also granted a sum each month to be on call in case of emergency. In reality they were rarely called in and the sum was seen more like a nice bonus on top of the normal salary (Technical administrator, 2012).

4.4 Planning and Conducting the Integration

In this section we will describe how the integration was organized and planned. We will elaborate on how the goal to take the best from each company and speed became key ingredients in the integration. Following this we will describe how the integration efforts were separated from the daily operations and the motto that managers needed to be "cold in the analysis but warm in the delivery" that came to guide the integration. Finally we will take a closer look at how the integration differed between different units.

4.4.1 Taking the Best from Both Companies

From the CEO's perspective (2012) the full integration of the two companies was as logical as the initial idea to purchase Vasakronan. The CEO was well aware of the challenges that this merger of equals represented in terms of integrating the two companies and finding a common corporate culture and he approached the issue by developing a strategy that was based on taking the best parts of both companies to create a company that would be new for both parties.

"Normally, in a merger you have a larger company that buys a smaller company. In these cases it is natural that the purchasing company's culture remains intact. It is natural that the purchasing

company has a greater saying in things and thus becomes dominant in shaping the new organization. But when you are in a situation like this where the companies are equal in terms of size and number of employees you have to make an effort to take care of and keep the things that are good in the purchased company. Taking this approach we said that we were going to take the best from both companies and create a new company.” (CEO, 2012-02-15)

4.4.2 Speed as a Success Factor

The thing that everyone mentions when they talk about the integration is how quickly the two companies were integrated. At the turn of the year, only six months after the initial announcement everything about the new organization had been formally set, from procedures to positions, and the organizations moved in together. A basic timeline for the time between the first official announcement and the formal integration can be found below in figure 7.

The reason for this strategy was to reduce the time of uncertainty for people, to let people know as soon as possible what would happen to them and their place in the new organization. *“We thought that it would be better to keep up the pace instead of trying to do everything perfect and allow the integration to take two or three times longer... we would work on the details later” (CTO, 2012).* To reduce the amount of gossip and speculations prior to announcements the management made a habit of making decisions and communicating these a few days ahead of schedule (CEO, 2012).

To manage this tight timeframe the CEO took help from a top tier consulting firm, who could assist with both necessary extra resources and also strategic advice. During the summer holidays the CEO and the integration steering group, consisting of the chairman of the board, two board members, the CEO and a member of the consulting firm, crafted a plan for how the integration should be executed. Tollgates were set at tight deadlines starting with securing key management positions and drawing up an outline for the new organization, see figure 7 (AP Fastigheter, 2008a). The consultants contributed to the success of the merger by constantly pushing the managers forward. *“They were constantly pushing us to keep moving forward and we could use their models for how to manage the integration, It was all very structured and square but I think this was good” (CFO, 2012).* However, it was not a strategy completely without negative trade-offs. The business unit manager (2012) explains *“If there had been more time we could have spent more energy on building the best possible teams with the best equipped individuals”*.

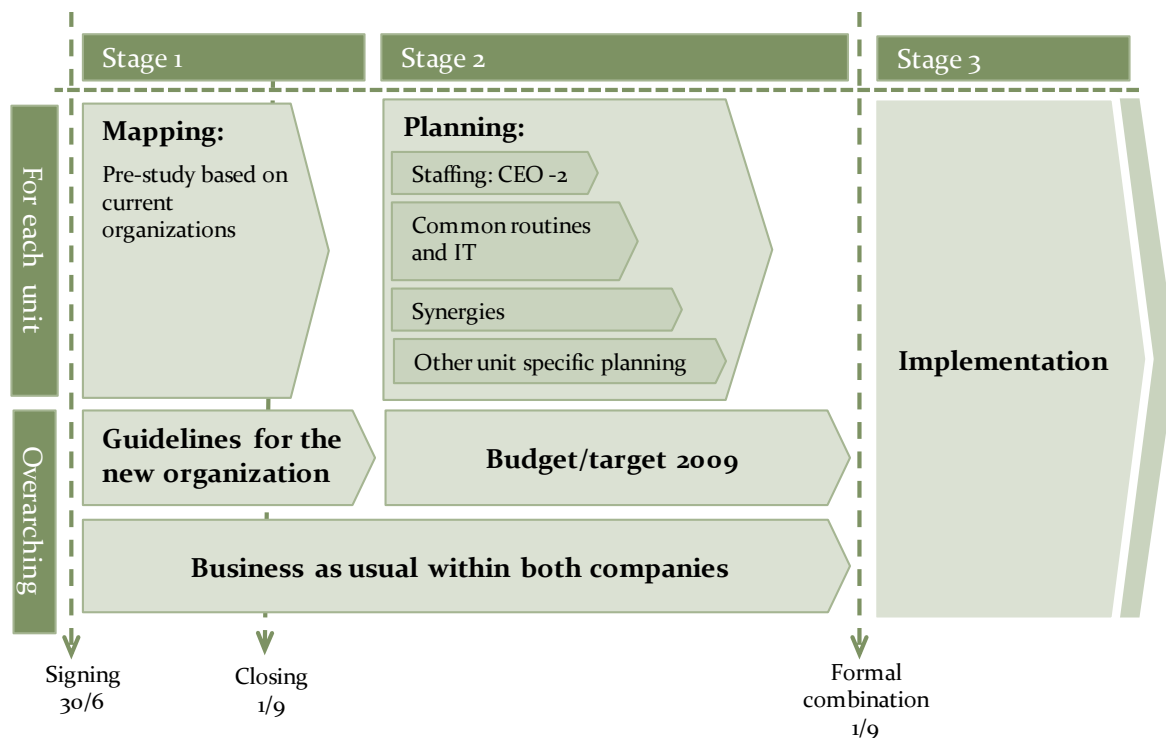


Figure 7 Timeline integration (AP Fastigheter, 2008a)

4.4.3 Integration Efforts Separated from Operations

To make sure that the ambitious time plan for the integration was kept enough resources had to be devoted to work with the integration. At the same time the company did not want to lose momentum in their daily operations. For this reason they separated the work with the integration completely from the daily operations, where everything was supposed to be business as usual until the new organization was ready to be launched. The overall responsibility for the integration was taken by the previously mentioned integration steering group. Below them was the integration committee with the responsibility to manage the daily integration work, including the coordination of the planning teams. The integration committee was made up with three members from AP Fastigheter and two from Vasakronan, thus balancing the interests of both organizations. Answering to the integration committee were fourteen different planning teams and an additional four support processes, each responsible for their own specific area. An illustration of the organization for the integration effort can be found below in figure 8 (AP Fastigheter, 2008a).

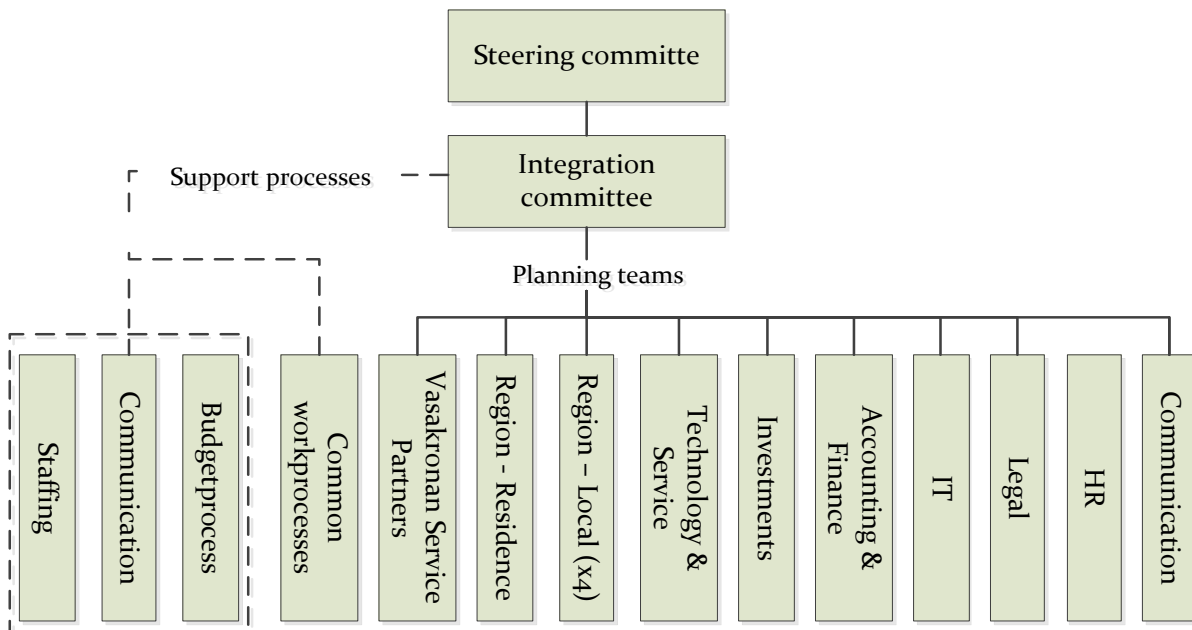


Figure 8 Organization of the integration (AP Fastigheter, 2008a)

4.4.4 Cold in the Analysis, Warm in the Implementation

To be cold in the analysis but warm in how you executed the decisions became a motto amongst the managers during the integration (CCO, 2012). A lot of focus was put on the opportunity to draw up the optimal structure and best processes for the new organization. However, to this you had to separate the emotions from the analysis. To sit down with a blank piece of paper and think of the situation objectively and not worry about who would keep their job or not.

Along with speed many of the interviewed also mention the fact that the CEO was fairly new to the company as an important factor in the merger. Having started in January 2008, he had not yet been labeled as belonging to the AP Fastigheter culture, which meant that he could be perceived to be reasonably objective when evaluating different alternatives against each other (HR, 2012). The CEO agrees with this and further explains that he thinks it would have been impossible to do a good analysis of the strengths and weaknesses of the two companies if he had been influenced by strong personal ties to either of the organizations. And even if the analysis had indeed been possible it would not have been perceived as credible (CEO, 2012). However, the managers were equally concerned about executing the decisions in a good way. The people who lost their jobs got nice severance packages and the managers were trained especially in how to handle the discussions regarding redundancies (CCO, 2012).

4.4.5 The Integration in Different Departments and Regions

Already in the early stages of the integration it became clear that each department would handle the transition differently. The rental departments started to collaborate almost immediately after the announcement without any formal directive. *“The people who work with marketing, sales and rentals generally have a high social competence and are often driven by change. With these groups you don’t need a starting meeting. They have already gone out for a beer together, even before the deal was official, and look forward to having more properties and colleagues to work with”* (CEO, 2012).

On the other end are the people who have more administrative tasks, for example those working with invoices and accounting. They are dependent on stability and order for their tasks and when there is a change in processes or systems everything becomes a mess. Before it gets better it has to get worse. A lot of people complained about it being better before and struggled to see the point in changing (CEO, 2012).

In many cases it was not even possible to continue working with two parallel systems while in others you could continue for quite a while, such as in the accounting department. For these departments the integration along with its challenges naturally came later. For the technicians on the other hand the shock came from day one, *“you have a new area and the three of you will be working over there starting on Monday”* (CTO, 2012)

For those who worked with accounting the change came, as mentioned, quite late but also abrupt after they had closed their books for 2008. Before that people were too busy managing the day to day work and since it was decided that the books should be closed separately for the two companies little integration was necessary. When it was finally time to integrate the employees were allowed to decide for themselves where they wanted to sit which resulted in that people kept to their former colleagues and were reluctant to let go of their old way of working. The group had a hard time integrating and on top of everything the auditors had criticized their previous work. The employees on the other hand were quite happy with how things were and did not want to address the real problems. Many of the arguments that came up during the integration were around the most trivial things such as how to arrange the tables and what time to have the coffee break. To solve the problems they changed the manager for the team (Accounting manager, 2012).

4.5 Shaping a New Culture

In this section we will further describe how the management worked to shape the culture for the new company. Many of the employees and managers state that almost no specific actions were taken to try and create a certain type of culture. And at first glance this is how it seems, the managers talked very little about culture and values during the integration but sometimes actions speak louder than words. When setting the structure for the new organization the managers were able to influence the culture a great deal.

4.5.1 Opportunity to Set New Standards

The CEO mentions that some active choices were made early on to steer the new company towards a specific type of culture. When combining the two companies he wanted to preserve the cost consciousness that existed within AP Fastigheter but also the business mindedness of Vasakronan. He explains that the merger gave them the opportunity to make changes in the corporate culture and that people are more open to changes when everything is already changing, when everything is just moving along year after year it is much more difficult.

To make sure that people felt empowered in the new structure the CEO tried to emphasize that many decisions and responsibilities should still be located out in the regions even though many things would also be centralized to save costs. *“Everything that has to do with the customer and the business should be located far out in the organization while we should draw advantage of being a big company by locating support functions such as accounting and finance centrally” (CEO, 2012).*

The new Vasakronan was twice as big as either Vasakronan or AP Fastigheter but within a couple of years they had an accounting and finance department that was smaller than it had been in either of the two companies alone. *“It is perhaps the most efficient accounting and financial department of the whole industry, since it is completely centralized” (CEO, 2012).*

The CEO suggests that the choice of office was an important symbol in the change. In Stockholm the headquarters moved in to new premises, and they were careful not to move to the exclusive end of town as they felt that this would signal the wrong things. At this point they wanted to emphasize that they were a low key, cost focused organization. It would have sent the wrong signals if we would have made people redundant and then moved to expensive offices. He explains that once you start doing things in a certain way it is difficult to go back. *“You have to think about what organization you want to be in the future from day one. It is always easy to spend more money later but it is almost impossible to go in the other direction”*

(CEO, 2012). Now, four years after the integration they have made the decision to move into more central premises.

4.5.2 Staffing

One of the things that influenced how the culture developed within the set frames of the organization was how the people were mixed.

The staffing process was done so that the CEO started by picking his executive team. After this the executive managers picked their team of mid-level managers who then picked their employees. Throughout the staffing process it was made a point to try and have an equal mix between people from both companies, with the only exception being the executive management level. One example of this was when the technology unit managers in Stockholm were decided. At the time of the merger AP Fastigheter had six good candidates and the new organization would need eight managers. Instead of taking the six from AP Fastigheter and simply add two from Vasakronan the technology manager selected four from each organization (Technology manager, 2012). The fact that managers were not able to select freely whom to have in their group but was required to pick a mix of people from both organizations was often questioned by AP Fastigheter's managers (CFO, 2012).

For the technology and service unit there was no obvious need to mix the teams, people could have kept working with their old buildings in their old teams. For the purchasing or rental department it was obvious that the teams from both companies needed to join forces as quickly as possible. It was discovered that the integration and implementation of new routines and processes progressed much quicker in the cases where you had someone to integrate with. (CTO, 2012)

Another evidence of the importance of mixing staff from both companies can be found in the region Öresund. In this region only Vasakronan had been active so the employees there felt no real urgency to change. Even when they tried to implement the new process and routines it was more difficult since they did not have anyone who could show them their new ways of working (Business controller, 2012). *"Uppsala and Gothenburg were the regions that integrated the quickest and one reason for this could be that those regional offices were reasonably small in size. You learn each other's names by the coffee machine and soon develop a common language. In Stockholm it was much more difficult because of the number of people involved and Öresund faced their own challenges since they did not have any new colleagues to mix with and had to drive the change themselves"* (Business controller, 2012).

In the integration the size of the groups determined a lot of how quickly the integration went; the smaller the group was, the faster the integration went. For accounting and finance this was a big challenge. *"There were so many new people. You did not know who anyone was. When standing by the coffee machine you did not even say hello"* (Accounting 2, 2012). In almost all work related activities the managers could force the members from both organizations to mix. However, when it came to activities such as ski trips and lunches it was far more difficult. For a long time people stuck to their old friends and colleagues and it was not until they started to get new people in to the organization that this pattern was truly broken (Business unit manager, 2012).

4.5.3 Communication

Communication was described to be the single most important factor in order to anchor the new corporate culture (CEO, 2012). The initial phase, during fall 2008, was very turbulent with a high level of uncertainty and people having to leave their jobs. (HR, 2012) To reduce anxiety and give the employees something to hold on to the management developed a communication strategy with two key elements. The first part of the strategy was to always be transparent and give notice as soon as a decision had been made. After some time people started to realize that there was little point searching for hidden information as it would be communicated as soon as there was anything to say (CCO, 2012). They also used the intranet as an interface to keep an open dialogue with all employees. The second part was about making decisions and communicating this a few days ahead of schedule. This made people feel that things were progressing quickly and helped to reduce the amount of gossip and speculations that often escalates the days before a big decision is announced. In addition to the two key elements of the communication strategy they also made sure that they had something positive to say for every meeting (CEO, 2012).

The CEO mentions that in the beginning the employees were only focused on what would happen to them and their role within the organization. They needed to feel safe before they opened up to take in visions for the future. In the second stage they painted a picture of the future tried to and make people understand how to move from A to B. It was not a quick fix but rather a long journey where the leaders within the organization needed to be persistent and enduring with lots of communication.

In the informal communication between employees they often talked about AP Fastigheter's or Vasakronan's way of doing things (Rental administration, 2012). Although the labeling was most likely used to simplify which way was meant this caused a we-they mentality between the

groups. The managers tried to reduce this type of labeling and emphasize that there was only one company now (Technology manager, 2012).

The new culture was not only shaped by the informal communication that occurred between employees from both organizations. It was also shaped more deliberately when managers engaged in dialogue with the employees. By phrasing themselves carefully, even following a script in some situations, the managers could influence the culture. For example they were advised to use the word transparency often in dialogues with the employees to reduce the perceived hierarchy in the organization (HR, 2012). Similarly the managers always referred to the integration as a merger rather than an acquisition to make both companies feel as though they were equal (Technology unit manager, 2012).

To emphasize that it was one company all items with logos on them such as cars, clothes and carpets were changed quickly so that it would be clearly communicated both internally and externally that everyone worked for the same company.

4.5.4 Get Used to It or Quit

In retrospect it is clear that, although it had been communicated that the new company would be a mix of both Vasakronan and AP Fastigheter, most new structures and systems were extensions of AP Fastigheter's old ones. The new Vasakronan was made even more of a specialist organization than AP Fastigheter had previously been with an even greater focus on efficiency.

Many struggled to understand their role in the new organization and for many people, especially those from Vasakronan, the merger meant a big change in their day to day routines. During the months following the first announcement they had developed a plan and those who wanted to work in the organization could either accept it or they could leave. *"This was one way to work with culture – to be clear with how we should work. In the beginning you try it out and after a while some people realize that it was not for them"* (HR, 2012). Many of those who resisted the change left by their own will and some were made redundant (IT systems manager, 2012). When all the people who had resisted the change were gone people could settle in and truly commit to the new organization. *"It is not until all of those who are negative have left that you can start to build something new. You get a good working atmosphere again"* (Technician, 2012).

5 Analysis

By using the theoretical framework we will now analyze the empirical findings in order to increase the understanding of the challenge of integrating corporate cultures and answer our research question, what happens when two corporate cultures meet and how do they become one. The analysis will be structured in three levels. The first will look at the conditions for the integration of AP Fastigheter and Vasakronan, identifying the challenges and creating a platform in order to better understand what happened later on in the process. The second level will go one step deeper and focus more on the cultural aspects, looking at each respective culture, how these were formed and what implications the different cultures have on the integration process. The third and last level will turn the focus towards the actual process of integrating the two cultures and will explain what happened when the two cultures met and how they became one.

5.1 First Level – How Did the Challenge Look From the Outside?

As illustrated by theory the challenges associated with combining two companies may depend on a number of different factors such as degree of friendliness, level of integration and strategic purpose. In order to understand what happens when two companies meet and how they become one we must begin by asking what type combination it is that we are in fact looking at. This section aims to examine the pre-existing conditions for the integration of AP Fastigheter and Vasakronan, thus creating a platform to better understand what happened later on in the process.

By now you might wonder if the combination between AP Fastigheter and Vasakronan was indeed a merger or an acquisition. This might seem like a straightforward and easy question but the answer is rather complex. From an accounting perspective it is clear that AP Fastigheter acquired Vasakronan, and thus it should be regarded as an acquisition. However, looking at how mergers are defined in theory they involve a high degree of integration and the two organizations are often equal in size, just as in the case of AP Fastigheter and Vasakronan. This together with the fact that they emphasized that they wanted to create a new company by adopting the best things from each organization argues for that the combination was in fact a merger. As mentioned in the theoretical framework the term merger is often used as a way of smoothing out the change process. This was also something that we found during our

empirical study. The majority of interviewees used the term merger² when referring to the combination, especially in the beginning of the interviews. As one employee expressed *"We always talked about the merger, not that one company had bought the other. We rarely spoke about that. Everyone talked like this, on all levels and regardless of background. The top management always spoke about the merger and the integration"* (Technology unit manager, 2012). However we also met an employee who, when asked to tell us about his/her background, started with *"I was acquired, I worked in old Vasakronan"* (Business Controller, 2012). This shows that even though the two companies was said to be equals and they always talked about a merger, there was still an imbalance between the two and that the employees perceived this differently. What is most important is not if we label the combination as an acquisition or a merger, more interesting for our findings is rather the ambiguity and that there is not always a clear distinction between the two.

The three dimensions from the theoretical framework (strategic purpose, friendliness and integration level) provide another starting point for our analysis. The strategic purpose for the combination of AP Fastigheter and Vasakronan is best described as horizontal since the two organizations offers closely related services in the same geographical market. Looking at the degree of friendliness versus hostility involved it becomes clear that AP Fastigheter used a friendly and more collaborative approach, emphasizing that they would combine the best practices from each company to create a new one. The employees at Vasakronan also had a relatively positive attitude towards AP Fastigheter since they perceived them as a more attractive alternative compared to foreign bidders. This friendly approach is often well received by the other organization but typically passive resistance also exists, which corresponds well with the case of AP Fastigheter and Vasakronan. Finally a high desired level of integration between the two organizations was observed. As often seen in horizontal mergers with a high level of integration this caused uncertainty and stress among some of the employees because they feared the loss of company identity, loss of jobs, change in reporting relationships, and having to transfer to a new location.

5.1.1 First Level Conclusion

It can thereby be concluded that the marriage between AP Fastigheter and Vasakronan was a horizontal, friendly combination with a high desired level of integration. This type of combination strategy is supported by previous findings in the literature as friendly, horizontal mergers typically require a fully integrated organization. Taking a look at what implications this type of combination can have on the integration of the two cultures it is found that this

² Sammanslagningen in Swedish

should create a dilemma for AP Fastigheter because of the greater difficulties often encountered when fully integrating two organizations. The integration of the two companies officially aimed to take the best practices of both organizations and create shared structures and systems, thereby applying a symbiotic change strategy. According to theory AP Fastigheter and Vasakronan should have encountered cultural clashes as a consequence of this symbiotic change strategy. Further, the type of combination described above is often less successful than expected. However, in the case of AP Fastigheter and Vasakronan they essentially met the initial expectations but did also encounter difficulties along the way. In order to fully understand and explain this outcome and the obstacles they overcame along the way we need to go deeper, starting with looking further into the corporate culture.

5.2 Second Level – Stepping Inside the Corporate Culture

As stated in the beginning the cultural challenge in a merger can have several sources and is formed by a mix of national, industrial, and organizational cultures. In the case of AP Fastigheter and Vasakronan the two organizations originated from and operated in the same country (Sweden). In addition they were both active within the same industry (real-estate). In other words, in this case there are no national or industrial cultural differences and the cultural differences and their implications can thus be entirely attributed to the corporate culture. This section aims to decipher the two corporate cultures at AP Fastigheter and Vasakronan in order to understand why the problems that will be analyzed in the third level occurred. Only by understanding the corporate cultures will we be able to understand the underlying factors that created or contributed to the difficulties associated with integrating the two. The second level analysis will be structured around the Cultural web (Goffin & Mitchell, 2005) and the Four Archetypes explained in the theoretical framework.

At first glance the two organizations might appear very similar but when taking a closer look several differences in terms of corporate culture were identified. As the CEO expressed *“The two companies had very different cultures. The business model and the strategies were similar but the cultures were very different”*. It was not only the top management that were aware of these differences, employees further down in the organization also expressed similar observations *“We worked with the same types of properties, the foundation was the same, but we had different work methods and systems resulting in that when looking at a general level it might seem easy but when you start digging deeper you found differences”* (Technology unit manager, 2012). Just like the story told by the HR-Manager about the two children that fall in love and move in together, the marriage between AP Fastigheter and Vasakronan was not a problem

free process where all units reacted in the same way according to all expectations. *“When you scratch the surface you will find differences even though everything seems alike. You do not know until you sit desk by desk and work together that you realize what is similar and what is different”* (HR manager, 2012).

5.2.1 The Cultural Web

We will now take a closer look at the corporate cultures by using the cultural web to illustrate and further examine these differences between the culture at AP Fastigheter and former Vasakronan. It should be noted that we found several subcultures within the companies and that the cultures described below are generalizations that might not apply to all divisions within the companies but rather are representative for the overall corporate culture.

5.2.1.1 Organizational and Power Structures

When analyzing the two organizational structures it becomes clear that the two companies had somewhat different compositions. AP Fastigheter had a more centralized organization with a clear hierarchic structure while Vasakronan had a more decentralized and free structure. Vasakronan also had a more geographic oriented organization with each geographic region acting almost like a subsidiary while AP Fastigheter had more of a functional structure. These two approaches to their organizational structures also resulted in further differences. Through its geographic division Vasakronan had developed into more of a generalist organization where managers had the right to make decisions over several different functions. This type of organization also encouraged the employees to be more independent and to take own initiatives. At Vasakronan the employees felt that they took a greater responsibility for the overall performance, something that probably originates from being part of a more generalist organization. AP Fastigheter on the other had a more focused approach and cherished knowledge within your specific area. Thus their employees had more of a specialist character with emphasis on orderliness and following routines. These two different approaches were especially evident when looking at how the two companies managed their properties.

The empirical study also point towards the fact that AP Fastigheter was experienced as a more hierarchical organization with more managerial levels compared to Vasakronan. While Vasakronan was generally perceived as flatter and more transparent, with less emphasis on the manager's role and shorter decision making compared to AP Fastigheter. The decision making was also somewhat different between the two. At AP Fastigheter the process was more formal and much more emphasis was put on the middle managers while at Vasakronan the decision making was not as procedural and more informal; employees could sometimes go directly to the CEO and he was willing to make decisions on many levels in the organization.

In addition to the formal organizational structures the two organizations also put different emphasis on the units within the companies. At AP Fastigheter the financial focus was very important and thus given more power compared to Vasakronan who emphasized the importance of customer satisfaction and brand recognition and thereby had a strong marketing department.

5.2.1.2 Symbols

A symbol that was mentioned by practically all of the interviewees was the leaders (CEO's) of the organizations. Both organizations had had two strong leaders for a long time and their personalities and way of managing the companies had a great impact on the culture. The CEOs influenced the culture both directly through being a symbol for the organization but also indirectly as their leadership style trickled down in the organization so that leaders further down adopted a similar style. At AP Fastigheter the previous CEO that had been on the post from the start was often mentioned as very important for the culture within the company and many saw him as a very important symbol. His logos leadership style had a very large impact on the corporate culture and played an important role in creating the culture at AP Fastigheter. He was to a large extent part of shaping a culture that encouraged the employees to be cautious. However, as a result of this they were often afraid to make mistakes. The leader for Vasakronan on the other hand with his pathos leadership style and paternal leadership was very appreciated among the employees and he created the feeling that the organization was one big family. The emphasis on relationships was probably one of the reasons why customer satisfaction was Vasakronan's main concern and their leader's enthusiasm when it came to internal and external appearances is likely to have resulted in the company's strong brand. The employees at Vasakronan were also often described as a bit more outgoing and "business minded" and having a larger autonomy than at AP Fastigheter, something that corresponds well with the leader they were following. The current CEO had not even been at AP Fastigheter for a year when the merger was announced. He was at the time therefore not perceived as a strong representative or leader for any of the cultures that would be merged.

Another symbol for the two companies is the external communication they used. When looking at the commercials that the companies aired they were much in line with the image of the companies described above, Vasakronan using famous celebrities while AP Fastigheter asked one of their technicians to participate. Further the office spaces differed slightly with AP Fastigheter having a more open planning and Vasakronan to a larger extend had small rooms, which supports the proposition that AP Fastigheter were a bit more cost-conscious.

5.2.1.3 Stories

The history behind and the reason why these two organizations exist are somewhat different and this can also explain some of the differences observed between their cultures. Since AP Fastigheter's raison d'être is to deliver return to the pension funds they are very financially driven. This is reflected in their aspiration to have steady earnings and that they are less inclined to take on risk. Vasakronan, as a spin-off from the Swedish government agency for property, was much more customer focused and had the ambition to go public and therefore had to be much more visible and act like a listed company. So even though they had similar owners: big, stable and with a long term focus and that wanted them to manage their properties in-house, the history behind the companies resulted in relatively different cultures.

5.2.1.4 Routines, Rituals and Control Systems

Looking at the routines and systems it is clear that AP Fastigheter had more structure, routine descriptions and check-lists. Within the technical area they were also a bit more developed compared to Vasakronan. One of the most important differences was the IT-system where AP Fastigheter's system was built from an information perspective while Vasakronan's was based on processes and applications (CCO, 2012). These systems had a great influence over the everyday work life for the employees and were described as *"two different religions that had to face and understand each other"* (IT-system manager, 2012).

One important role of the rituals and control systems is that they indicate what type of employees are valued and wanted by the organization. There is a link between the type of strategies, and operationalization of these, and the culture and type of employees that could be found within the organizations. The employees from AP Fastigheter were described as more risk averse, the culture encouraged you to avoid standing out and being in the spotlight and to not make mistakes. This can be contrasted with the culture at Vasakronan where attention was always viewed as something positive and they had a bit more attitude towards their environment. In AP Fastigheter they encouraged and rewarded employees who followed and adapted to the structures while Vasakronan tended to value more unique and outgoing personalities. This is of course also linked to the different degree of centralization of the organizations.

One ritual that was found to be important for the employees working with the properties was breakfast. AP Fastigheter had as a part of a health initiative introduced breakfast at the office every morning. This event where the employees met was very important for some of them. Vasakronan on the other hand did not have this tradition at all.

5.2.1.5 Paradigm

Since the central paradigm consists of all the other cultural aspects mentioned above it is a summary of the cultures of respective organization. One of the most important differences is the degree of centralization. This has shaped much of the organization and had a great impact on the cultures. The degree of centralization formed the base upon which the organizational structure and specialist/generalist focus was built upon together with the degree of hierarchy and autonomy. Another very important culture determinant in this case was the two former leaders of the organizations. Their leadership style and personalities have shaped a big part of the cultures that were observed. Below you find a table which summarizes the major differences identified in the sections above, synthesizing the corporate culture at AP Fastigheter and Vasakronan.

| AP Fastigheter | Vasakronan |
|---|------------------------------------|
| Centralized | Decentralized |
| Functional structure | Geographical structure |
| Specialists | Generalists |
| More hierarchical | Less hierarchical |
| Formal decision making | Less formal decision making |
| Less autonomy | More autonomy |
| Financial focus | Customer focus |
| Logos leadership | Pathos leadership |
| Orderliness, structure, fear of making mistakes | Emotional, outgoing, relationships |

Table 5 Cultural differences

5.2.1.6 Archetypes

If we relate the findings listed in the table above to the four archetypes of culture described in the theoretical framework we can see that the corporate culture at AP Fastigheter is best described as a role culture while Vasakronan had more of a task/achievement culture. These findings have implications on what we should expect when these two cultures meet. As the buying company had a role culture and the acquired organization had a task/achievement culture the combination is assumed to result in decreased autonomy and employee participation which should lead to increased resistance towards the combination. However, the cultural distance between the two organizations is not very large which opens up for a possibility to overcome this threat of resistance. According to the theory you can overcome

this resistance by treating the two organizations as equals and the combination will then depend on creating a coherent culture perceived as attractive by both parties. By treating them as equals the result will rather depend on the cultural distance between the two organizations and how you reach the middle ground in creating a new corporate culture.

5.2.2 Second Level Conclusion

The cultural web gave us more in depth knowledge of the two companies' differences in terms of culture and we found that the most significant differences were related to the organizational structure and leadership style. AP Fastigheter had a more centralized structure with a perceived higher level of hierarchy while Vasakronan had a geographic division and a high level of autonomy. The CEO of Vasakronan was a typical pathos leader who created a family like atmosphere at the office while the former CEO of AP Fastigheter's logos leadership style placed focus on numbers and accuracy. Looking at the archetypes it can now be concluded that the integration between Vasakronan and AP Fastigheter was likely to meet resistance since the integration would result in a lowered level of autonomy for Vasakronan. However, theory also points to the possibility of overcoming this resistance by treating the companies as equals and combining the best from both to create a new coherent culture that both companies can accept. This will be the focus of the next level of analysis – The change process.

5.3 Third level – The Change Process

The findings from the first level of analysis showed that AP Fastigheter and Vasakronan would encounter cultural clashes during the integration process and also probably be less successful than expected. The second level of analysis established that the combination would meet resistance since it was expected to lead to decreased autonomy. It also pointed towards the possibility of overcoming this resistance by treating the two organizations as equals, focusing on bridging the cultural distance. As described AP Fastigheter indeed chose the strategy to communicate the combination as taking the best from two worlds, adopting a symbiotic change strategy, and thereby took on the challenge of integrating the two companies by reaching a middle ground.

This section of the analysis will look at the actual change process in order to understand what problems that occurred during the integration and how they were handled. In order to do this we will use Buono & Bowditch's (2003) framework of the organizational combination process described in the theoretical framework. We will also relate the process to the theories concerned with managing the change (E&O and Chaos theory) in order to identify the overall strategy.

5.3.1 Managing the Change

According to previous research Theory O is the change strategy most associated with cultural changes in organizations. Looking at the case of AP Fastigheter and Vasakronan we can see that they had a very clear and well planned strategy for the first phase of the integration with milestones and a structure for how and when everything should be done. The process was very much driven from the top management and down with the support from the integration committee. A large consulting firm also helped them to set up the structure and plan the integration. The tight schedule was partly designed in order to avoid too much discussions and opinions from the employees. During the fall of 2008, this first phase of the integration was highly controlled with a clear plan emphasizing structure and systems. Therefore the first phase had more influence from Theory E than one might expect after studying the literature. It is also interesting to note that after the structure and work processes were set the integration process shifted and became more like the ones described in complexity and chaos theories with less active management. Once a division with its people and processes were set they were left to manage themselves. This laissez-faire style sometimes turned out very well while in other cases conflicts and culture clashes created problems that had to be solved, sometimes by firing people from the group. The approach to the integration was to, as expressed by the CEO, *“we start by doing it the easy way, if we need to make it complicated we will do that later”* (CCO, 2012). In these cases the problems might have become larger than they would have if they had made it *“complicated”* from the start. It is possible that these conflicts could have been prevented by being more proactive and addressing also the “soft” aspects of the integration such as the corporate culture. On the other hand it is impossible to say that other problems would not have occurred if they had chosen a slower process with more involvement and influences from Theory O. In fact, it is very likely that this approach would have entailed other types of challenges. By using a Theory E oriented approach in the integration the managers were able to set the frames for the new organization in which the new culture could then start to form without the direct interference from management.

The CEO naturally became the leader of the integration and the change process. Being a rather new leader he had an advantage when creating the new organization and its culture. As he was not strongly connected to either of the cultures he was able to gain the trust of both sides and they trusted that he would try to be objective. This was an important enabler in the integration process.

5.3.2 The Organizational Combination Process

This section will now look at the stages in the integration process, analyzing and highlighting the most interesting aspects.

5.3.2.1 Combination Planning

During the spring of 2008 discussions about the combination were confined to the top level of each company. Among the employees at old Vasakronan, some speculated around potential buyers and a few feared that a foreign investor would buy the company but in general it was business as usual. The employees at Vasakronan seemed surprisingly calm and did not worry too much about the upcoming sale of their company. The history of Vasakronan is most likely a large explanatory factor to this. As the company was founded with the intention to at some point either go public or be sold, the employees knew that this could happen and were therefore probably more prepared than in most of the cases previously studied by the literature.

5.3.2.2 Announced Combination

As described the reactions from the two organizations in connection to the announcement were mixed, even though they were mainly positive. At this stage many of the employee's main concern was how they personally would be affected by the combination. From old Vasakronan, many employees expressed concerns regarding the difference in centralization and feared that they would lose their autonomy. On the higher managerial levels there was also a fear of losing one's job since there were now two people on most positions. The main initial objection from the employees from AP Fastigheter was the change of their company name to Vasakronan. This objection is likely to originate from the fact that many of the employees identified themselves with and through the company and its values and the name was an important symbol for this. Even though the decision to change name to Vasakronan met some objections it has also been one of the major enablers in the integration process. Many of the interviewees mentioned this as an important way to demonstrate that the top management was serious when they said they were going to take the best from each company and create a new one. It also made the employees from Vasakronan feel more welcome and initially gave them a more positive attitude that they would need when facing all the changes lying ahead of them. This action somewhat leveled out the power differences between the organizations and made them more equal.

5.3.2.3 Initial Combination Process

During the fall of 2008 all of the preparations were made for the physical-legal combination that would occur in December. This process started a number of reactions among the

employees whom had so far been rather passive. As the integration committee and the managers for each division worked to establish how the new company would function, be designed and staffed, it became evident that there were many differences between the companies. One of the biggest differences was the degree of centralization and something had to be changed in order to merge the two companies. Many employees from Vasakronan were suspicious to this change that would mean a more centralized model. This can partly be explained by the fact that this meant a loss of autonomy for the employees from old Vasakronan and as discussed in the second level of analysis this causes resistance. As a consequence of their top down staffing strategy the first positions to be announced were those directly under the CEO, i.e. the executive management group. That means that the first employees that were given a place in the new organization were essentially only from AP Fastigheter. This made the employees at Vasakronan feel more insecure again, tilting the power relations back to the initial starting point. However when the next level was announced the employees were split 50/50 according to background from the two merging companies and this trend would then continue down in the new organization.

During this stage there was a strong we-they mentality and many employees sometimes took the different decisions and changes very personally. For instance when discussing which IT-system or operating procedures to use each employee group often got defensive and focused on why “their way” was better. The strong we-they mentality was further reinforced by the fact that all work procedures and systems had to be evaluated due to the symbiotic change strategy adopted. In order to describe them and discuss them it was natural to call them by the name of the company where they had been used. Many of the employees had worked with building up these systems and for them they also had a deeper meaning and were important reflections of the culture, how things were done. As a result, some seemingly rational changes were initially resisted because of the perceived threat to the existing cultures and roles.

5.3.2.4 Formal Physical-Legal Combination

In December 2008 it was time for the physical-legal combination. At first everyone was very polite and friendly towards their new colleagues. However after a while when people got tired they started comparing and questioning some of the decisions in the integration which fueled a we-they mentality. When the employees met the differences came to the surface and some culture clashes were inevitable. Another problem experienced by some of the employees was the difficulties due to the increased size of the company. When you get too many new co-workers at the same time it gets overwhelming. At some point you stop saying hello to everyone, just like when you enter a cocktail party with a lot of guests. We can see that when

the two organizations met the organizational instability increased which lead to conflict between organizational members. Many of the employees experienced the loss of organizational identity, responsibilities, work routines and colleagues to be very troublesome.

An interesting observation during this period of the integration is that the different divisions were at very different stages in the integration process. When one division moved in and started working together on their own initiative almost immediately after the announced combination, other continued to operate as separate units for several months and maintained a we-them mentality for years. One of the underlying reasons for this is of course the nature of the work tasks, as in the case of the rental administration that could not keep competing for the same clients and the accounting departments that had to work separately until the end of the fiscal year. Another important factor seems to be the physical integration, divisions that moved in to shared premises where the employees met and interacted seems to have had a quicker and less complicated integration. A similar finding was made among the groups where all employees came from one of the merging organizations. These groups did not have the sense of urgency and there was nothing as concrete that could drive the change as in other groups where they had to change in order just to manage their daily business.

An important symbol of the physical-legal integration was that all the cars, clothes, carpets etc. were replaced with new ones with Vasakronan's logo on them. This was a clear mark that the two former organizations no longer existed and from this point on there would only be one company. For some employees from AP Fastigheter this caused a slight identity crisis as the symbols that they had worked behind and associated with the culture disappeared.

5.3.2.5 Combination Aftermath

After the physical-legal combination the real hard work began. The formal combination was in theory complete and now everyone had to start to process what had really happened during the rapid integration. The structural ambiguities had been cleared and left were the questions regarding the roles and the culture. The first stage of the integration went very smooth and quick but when it came down to the details of the every-day work the employees started feeling that maybe it was better the way things used to be and the we-they mentality resurfaced in some divisions.

At this point the employees who did not conform to the new organization chose to leave. A large percentage of these worked within the Technology and Service unit and came from old Vasakronan. The reason behind this drop is most likely the large change and loss of autonomy that the unit went through and many of the employees felt that they could not see themselves

working in the new organization and hence chose to leave. In addition to the technicians there were also some managers who were asked to leave their positions as they had not succeeded in integrating their divisions. In relation to this it is interesting to note that for the first part of the integration the management had a clear strategy and structure. However, for the combination aftermath they had a more laissez-faire attitude and the task to resolve the role and cultural ambiguities was left much too each division to figure out themselves.

In relation to the cultural and role ambiguity that many experienced came the longing for the old organizations with their cultures. Since the leaders were a great part of these cultures and had influenced them during a long time many also missed them as one often does with familiar things in turbulent times. This concern was especially expressed among the employees from old Vasakronan, who had to go through the largest change and also had a leader who acted much as a father figure. The employees from both organizations often felt that a lot was taken from the other company in creating the new organization. In reality the new organization was inspired by both Vasakronan and AP Fastigheter but also had things that were entirely new. However it is clear that the greater part of the new organization was inspired by AP Fastigheter.

5.3.2.6 Psychological Combination

When asked during the interviews how long it took before the employees and managers felt that the combination was complete and it felt as if they were one company we received very different answers. This can be explained by the fact that subcultures existed within the company and the fact that the divisions had very varying conditions for the integration, some did not have anyone to integrate with, some were large and some were small, some benefitted from the combination while other's work was made more complex, etc. Some divisions experienced a lot of problems and culture clashes in the beginning while others had a very smooth integration and then encountered problems further ahead. Essentially all interviewees felt that Vasakronan today is one company and that a we-they mentality no longer exist. The hiring of new employees was described as important to get rid of the we-they mentality that existed after the merger, one reason for this can be found in Shein's (1984) definition of culture. By teaching the new employees about the corporate culture at the company the old employees were at the same time giving the new corporate culture the validation it needed. One third of the company now consists of new employees, and people have started to forget who and what came from which organization. Even though the strategy was to finish the integration fast, the development of a new culture takes time as it is a learning process. For

some it took a very long time, several years before the employees felt that they share the same beliefs, values and assumptions and are ready to say that they were all part of the same culture.

5.3.3 Third Level Conclusion

Summarizing the integration of AP Fastigheter and Vasakronan we can see that the integration process consists of two parts, the first one being the organizational more structural part and the second being the cultural part. They had a very clear and planned strategy for the first phase of the integration but after the structure and work processes were set the integration process shifted and became less actively managed. This strategy sometimes turned out really well while in other cases conflicts and culture clashes created problems that had to be solved, sometimes by firing people from the group. The approach to the integration was to “*do it the easy way*” (CCO, 2012) but maybe some of the conflicts could have been prevented by being more proactive during this stage. However, it is also important to note that the first part of the integration was equally important for shaping the new culture as setting the structure for the organization also created a space in which the new corporate culture could grow.

Before the announced combination the employees at Vasakronan seemed surprisingly comfortable with the upcoming sale of their company and the history of Vasakronan is most likely a large explanatory factor to this. At the announcement there were mixed feelings and even though the decision to change name to Vasakronan met some objections it has also been one of the major enablers in the integration process. It was an important symbolic act that demonstrated that AP Fastigheter were serious about their symbiotic change strategy. Many employees from Vasakronan were skeptical towards a more centralized structure which can be explained by the loss of autonomy that is associated with this move. However, when the employees realized that the alternative to AP Fastigheter had been a foreign company they started to see AP Fastigheter in a more positive light. After announcing the name of the company the next important announcement was the people that would form the executive management team. Essentially all of them came from AP Fastigheter and the employees from Vasakronan felt discouraged. This would even out as you move further down in the organization but at the time it was an important signal. As the two organizations moved in together the organizational instability increased which lead to conflict between organizational members. Many of the employees experienced the loss of organizational identity, responsibilities, work routines and colleagues to be very troublesome. During the integration there was a strong we-they mentality and many employees sometimes took the different decisions and changes very personally. For them the different practical decisions also had a deeper meaning and were important reflections of the culture. An interesting observation

during this period of the integration is that the different divisions were at very different stages in the integration process. The physical integration seems to play an important part in this. Having new colleagues to integrate with and to share premises with these seems to be important success factors. After physically integrating the companies the hard work began with integrating them psychologically. At this point the employees who did not conform to the new organization chose to leave. The majority of these came from Vasakronan and worked within the Technology and Service unit. The main reason for leaving was most likely the loss of autonomy and the new organizational structure with the work tasks that followed. Some managers who were asked to leave their positions as they had not succeeded in integrating their divisions.

We have seen that some divisions experienced a lot of problems and culture clashes in the beginning while others had a very smooth integration and then encountered problems further ahead. Essentially all interviewees felt that Vasakronan today is one company and that the we-they mentality is gone. Even though the strategy was to finish the integration fast, the second part of it took time. For some it took a very long time, even several years, before the employees felt that they share the same beliefs, values and assumptions and were ready to say that they are all part of the same culture.

6 Conclusion

We have now applied our theoretical framework to the case of Vasakronan and AP Fastigheter in order to answer our research question, what happens when two corporate cultures meet and how do they become one.

To answer the research question we structured the analysis in three levels. The first level focused on identifying the conditions for the integration and how these may influence the outcome of the integration, thus creating a platform to better understand what happened when the two corporate cultures met and how they became one. From an accounting perspective the combination between AP Fastigheter and Vasakronan was an acquisition, suggesting that the buying firm's culture would be preserved. However, the high degree of integration between the two companies and equality in size along with the fact that management applied a symbiotic change strategy, indicated that the combination was in fact a merger and that the new company's culture would be a mix of both previous ones. The integration between AP Fastigheter and Vasakronan was identified as a horizontal, friendly combination with a high desired level of integration. This finding indicates that the integration should typically be less successful than expected due to cultural clashes and difficulties to integrate the two companies.

To fully understand what happened in the integration between AP Fastigheter and Vasakronan we then looked deeper into the companies' respective corporate cultures in the second level of our analysis. The companies shared the same national and industrial culture but had some significant differences in terms of corporate culture especially with regards to organizational structure and leadership style. AP Fastigheter had a more centralized structure with a perceived higher level of hierarchy while Vasakronan had a geographic division and a high level of autonomy. The CEO of Vasakronan was a typical pathos leader who created a family like atmosphere at the office while the former CEO of AP Fastigheter's logos leadership style placed focus on numbers and accuracy. The differences in structure and leaders were also mirrored in the employee's behavior and clearly created different cultures within the organizations. Relating this information to the cultural archetypes it could be concluded that AP Fastigheter had a role oriented culture while Vasakronan had more of a task/achievement culture. These findings suggested that the integration was likely to meet resistance since it would result in a lowered level of autonomy for the employees at Vasakronan. However, theory also points to the possibility of overcoming this resistance by treating the companies as equals and combining the best from both to create a new coherent culture that both companies can accept.

The first two levels of analysis provided us with the necessary understanding of what can be expected to happen in the integration between AP Fastigheter and Vasakronan based on the type of combination and differences in corporate culture. Thus providing us with insights into what can be expected to happen when two corporate cultures meet and how the challenge of integrating the companies can be overcome.

The third level of analysis placed the focus on the actual change process. We analyzed what happened when the two corporate cultures met and how they became one. Before the announced combination the employees at Vasakronan seemed surprisingly comfortable with the upcoming sale of their company and the history of Vasakronan is most likely a large explanatory factor to this. At the announcement there was mixed feelings and even though the decision to change name to Vasakronan met some objections it has also been one of the major enablers in the integration process. It was an important symbolic act that demonstrated that AP Fastigheter were serious about their symbiotic change strategy. Many employees from Vasakronan were skeptical towards a more centralized structure which can be explained by the loss of autonomy that is associated with this move. However, when the employees realized that the alternative to AP Fastigheter would have been a foreign company they started to see AP Fastigheter in a more positive light. After announcing the name of the company the next important announcement was the people that would form the executive management team. Essentially all of them came from AP Fastigheter and the employees from Vasakronan felt discouraged. This would even out as you move further down in the organization but at the time it was an important signal. As the two organizations moved in together the organizational instability increased which led to conflict between organizational members. Many of the employees experienced the loss of organizational identity, responsibilities, work routines and colleagues to be very troublesome. During the integration there was a strong we-they mentality and many employees sometimes took the different decisions and changes very personally. For them the different practical decisions also had a deeper meaning and were important reflections of the culture. An interesting observation during this period of the integration is that the different divisions were at very different stages in the integration process. The physical integration seems to play an important part in this. Having new colleagues to integrate with and to share premises with them seems to be important success factors. After physically integrating the companies the hard work began with integrating them psychologically. At this point the employees who did not conform to the new organization chose to leave. The majority of these came from Vasakronan and worked within the Technology and Service unit. The main reason for leaving was most likely the loss of autonomy

and the new organizational structure with the work tasks that followed. Some managers were also asked to leave their positions as they had not succeeded in integrating their divisions.

Summarizing the integration of AP Fatsigheter and Vasakronan we can see that the integration process consisted of two parts, the first one being the organizational more structural part and the second being the cultural part. By setting the structure, systems and processes for the new organization the management could indirectly shape how they wanted the corporate culture to form. When the structure had been set they allowed the new corporate culture to develop much on its own. This strategy generally turned out well. However, there were cases where conflicts and culture clashes created problems that had to be solved, sometimes by firing people from the group. The approach to the integration was that it was better to put things in place quickly than to do it perfectly. It is possible that some conflicts could have been avoided if the management had worked more proactively. We also learned that the fact that the CEO was relatively new to both organizations worked as an important enabler in the integration process as he was able to gain the trust of both organizations.

We have seen that some divisions experienced a lot of problems and culture clashes in the beginning while others had a very smooth integration and then encountered problems further ahead. Essentially all interviewees felt that Vasakronan today is one company and that the we-they mentality is gone. Even though the strategy was to finish the integration fast, the second part of it took time. For some it took a very long time, even several years, before the employees felt that they share the same beliefs, values and assumptions and was ready to say that they are all part of the same culture.

7 Discussion

This section will discuss some of the findings from the case along with the generalizability of our results. Finally we will also point towards some suggestions for future research.

When looking at change theory it is suggested that managers should strive for a balance between top down leadership and bottom up participation. The cultural dimension is often given as a reason for why mergers fail and theory suggests that a desire to complete the acquisition process quickly often renders less probability of a successful outcome. However, when looking at the case of AP Fastigheter and Vasakronan we found that the managers applied almost the opposite strategy stating that it was much more important to get the new structures, systems and processes in place quickly than to do everything perfectly. Their strategy was to reduce the time of uncertainty for the employees and managers but also the level of gossip and speculations, which could cause problems. Another aspect of this strategy was that it was easier for people to accept different solutions suggested by management when everything was moving at a high speed.

One may think that the employees would be unhappy having been rushed through an integration like this. Our findings suggest the contrary; almost without exception have managers and employees stated speed as the most important success factor for the integration. Although it was tough to keep up business as usual and also deal with the integration people appreciated that once the new organization was in place they knew their place and could get on with their daily work without constant discussions about one company's way being better than the other's. Focus was instead placed on defining common goals within the new teams and starting to work together to achieve these. Theory further suggested that the employees of Vasakronan should have resisted the reduced level of autonomy, and higher level of structure. This is partly true, many of the technicians who chose to leave the organization did so because they did not like the centralization and their new more specialized work tasks and this is why this department had a somewhat turbulent integration. However, many of the employees from Vasakronan who still works in the company appreciated the increased level of structure and routines, if not immediately at least when they had familiarized themselves with the new way of working.

By setting the structure for the new organization the management was able to define the space in which the culture could then develop. It is interesting to note that very few recognized that the management had worked at all with culture during the integration when in fact the new culture is very much a reflection of the staffing and the structure decided upon during the integration. When analyzing how the two cultures became one it became clear how important

it was that the management facilitated a high level of integration between the members from both organizations by mixing the teams deliberately and sometimes forcing people to sit in mixed groups. Acculturation theory suggests that cultures that are in contact will change as a result of the contact. Our findings support this argument as integration progresses quicker the higher the level of contact was between members from both organizations.

It was suggested by theory that an integration is more likely to succeed if the best parts of both companies can be preserved and brought into the new company. When conducting our empirical study it soon became clear that most new structures and systems were in fact extensions of AP Fastigheter's old ones. When examining this closer we realized that the managers from the acquiring firm often struggled to pick systems or managers from the other company as they were then questioned by their colleagues. The CEO points out that it was difficult to separate the emotions from the analysis and he felt that this way of conducting the integration may not have been possible if he would have had a longer history with the company. It was probably valuable that the managers in the organization and the integration planning teams were required to motivate their choices before the more objective steering committee. With this in mind the objectiveness of the CEO may have been at least equally important as speed in the integration. Overall, we found the leaders to be hugely influential for the corporate culture in the companies and it is possible, even likely, that the new corporate culture could not have developed with either of the old CEOs and the merger might hence not have been as successful.

A final important aspect that may influence the findings is that the company size often has a large influence on corporate culture. So for example the fact that many employees from former Vasakronan experienced the new organization as more hierarchical may to a large extent be explained by the fact that the company now is around twice as large as the original two merging companies.

7.1 Generalizability

When looking at the generalizability of the case there are some aspects that may limit the possibility to directly transfer our findings to any other combination.

Our case addressed a combination between two companies within the same industry namely the real-estate industry. It is possible that the managers used a more *laissez faire* approach towards the culture since they could quite easily regulate routines and processes to make sure that their most important asset, the properties, were handled correctly. In for example a Professional Service firm, where the employees are the main asset, it might have been more

important to work in a more bottom up way when setting the structure and culture for the new organization to ensure that people remained committed and loyal to the organization.

The combination between AP Fastigheter and Vasakronan took place in 2008, just as the financial crisis began. This may have influenced the willingness the employees and managers showed to adapt to the new organization as people may have feared losing their jobs. The cultural changes that occurred after the integration were often related to more emphasis of efficiency, which would also be in line with the external pressure caused by the financial downturn. If the economy had been booming at the time of the merger it is possible that there would have been more active resistance.

7.2 Suggestions for Future Research

Building on the findings of this thesis it would be interesting to investigate if the strategy applied in this case would also be suitable for the professional service firm. That is, integrate the two organizations by first focusing on creating the structure for the new organization by combining the best parts of both and ensuring that there is an equal balance between managers from both organizations and that the employees are mixed to the highest degree possible. When this foundation is set the managers allow the culture to develop freely within this structure. The research question could then be:

How is a new corporate culture formed in the integration between two professional service firms when the managers do not directly address the corporate culture but rather influence it indirectly through staffing and setting the structure for the new organization?

Another interesting question would be to investigate the impact of the leaders' informal ties to the organization as our findings point to the CEO's ability to be objective in the analysis as a key strength when integrating the two companies. The research question would then be:

Are CEO's that are new to the organization better when it comes to integrating two companies of the same size and shaping a new culture for the new company?

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9 Appendix 1: Organizational structure before integration

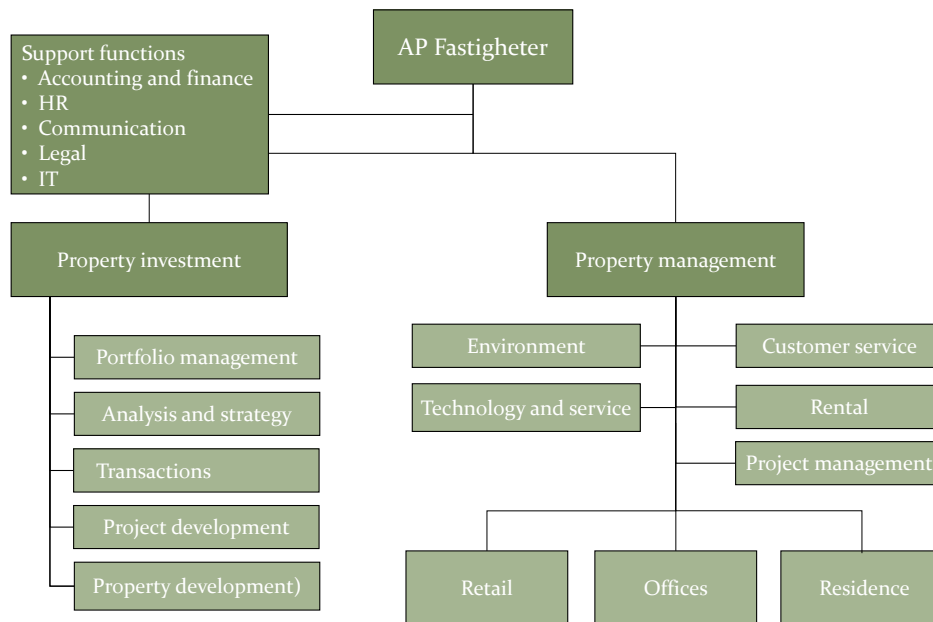


Figure 9 AP Fastigheter had a centralized structure before the integration (AP Fastigheter, 2008b)

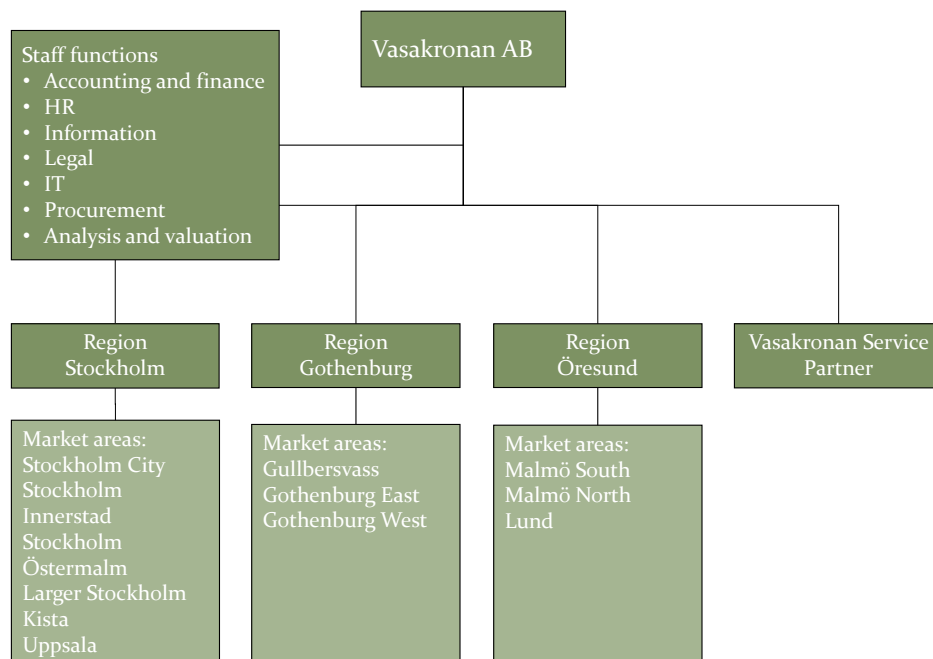


Figure 10 Vasakronan had a decentralized structure before the integration (AP Fastigheter, 2008b)

10 Appendix 2: Interview Questions

The questions below have been used as an outline for our interviews. The questions were tailored according to the interviewee's role in the company during the integration. They are not meant to be neither mutually exclusive nor collectively exhaustive but rather to serve as a support for the discussion during the interviews. For further information about our interviews please refer to the methodology section of the thesis.

Introduction

Is it ok if we record the interview?

Introduction of us and the thesis

Can you tell us a bit about yourself and your background within the company? (How long have they been working in the company, did they come from AP or VK, what role did he/she have during the integration, and now?)

The integration

When did you find out that AP was going to buy Vasakronan? What type of information did you receive? What were your reactions? How did others react? What were the reactions from the other company?

What happened after the announcement? How was your work influenced, what role did you play in the integration?

How was your unit designed before the merger, what type of work did you do, how were you organized etc. Do you know how it was the in the other company?

How did the every day work life change for you and your colleagues when the companies merged? What were the reactions to this?

What type of information did you receive regarding the integration? Progress, practical steps etc. How was it delivered?

When you merged the operations how did you work in order to get them to feel and act as one single unit? What happened naturally and what had to be actively managed?

How did you work in order to anchor it within the organization and get everyone on board on new work procedures etc.?

According to the theory we have studied it is very hard to succeed with these types of changes. What difficulties did you run in to and how were they handled?

The CEO told us that the first phase of the integration had a very tight time schedule. How did you experience that? How did it work for your unit, did you follow the same plan or was it possible to customize the plan?

Another thing he mentioned was that it is sometimes hard as a manager not to do too much too fast, to be able to listen to everyone in the organization and make sure that those farthest

out in the organization has understood before you go on to the next step. Is this something that you have experienced?

Do you think that the corporate culture influenced the integration, and if so how?

According to your experience, how did the corporate culture emerge in the new organization? (top down/bottom up)

If you look at the planned time and resources and compare this to the actual outcome, were there any differences? If so why do you think this happened?

Did you experience any power struggles in the context of the integration? If so can you describe these and the effect they had on the process?

We got the impression that there had been some workshops and trainings within the company during the last years. Is this something your unit has participated in, and if so could you describe these?

How long time did it take before it felt like one united company? Does it feel like this today?

The new company chose the name Vasakronan. Why is that and do you think this affected the integration?

The two companies

If you think about AP Fastigheter and old Vasakronan, how would you describe their respective corporate culture? Similarities, differences? (Organizational structures, Power structures, Symbols
Stories, Routines and rituals, Control systems)

How would you describe the values and corporate culture at Vasakronan today?

Were there any differences in terms of office space, clothing, meetings, promotions etc.?

Accounting

Can you tell us about this how AP and VK had designed their accounting and finance departments? What were their work tasks, organization etc.

In some aspects it was a huge transformation in order to create the department as it looks today, can you tell us about this journey? (org. structure, reporting relationships, centralization, efficiency)

Technology and Service

As we understood that the work focus changed for many of the employees (more technical less customer) can you find any differences between the type of people who work within the unit today compare to before the integration? How have the people handled this transformation?

Do you think the reaction among the employees at T&S on the announcement that AP would buy VK differed from other units? (Someone said that since the properties are bought and sold every once in a while the technicians are more used to these types of changes).

Was it hard to get people to change their reporting relationships? (informal structures)

HR, CEO and integration committee

Did you and work anything with the company vision, leadership, goals etc during and after the integration. If so, how?

What role do you think the HR department played in the integration process? (leadership, culture)

How did you handle redundancies?

What groups were most resistant towards the change? How did this show and how did you handle this?

What was easiest/hardest to change? Was this different between units?

How come that you have put so much emphasis on leadership training during the last years? (Something to do with the merger?)

If you look at routines like promotions and appraisals were there any differences?

What role do you think that you as a CEO have played in the work of integrating the two companies in terms of leadership and culture?

Can you tell us about the work that the integration committee did during this period? What was your role?

Are there any other persons that were important during the integration? In what ways? What role have the middle managers played?

Why did you chose to integrate the two companies to such a large extent and create a “new company”.

Looking back at the integration, can you find any key events?

Rounding of

What are you most pleased with about the integration? Can you give some advice to a company/employee facing a similar type of merger?

If you would take part in a similar merger again is there anything that you would like to change compared to this one?

Is it ok if we return to you if we have any additional questions?

Do you have any recommendations concerning other people we could talk to regarding this subject?

Do you have any (written) material that could be relevant?