What Explains Mergers’ Success or Failure?

The Role of Organizational Structures, Strategies and External Environments in Mergers - Empirical evidence from two contrasting cases

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The study of mergers and acquisitions represents a broad interdisciplinary field of research. Mergers and acquisitions are ever present in the corporate world, and they have become an increasingly important part of corporate strategies. However, not all attempts to undertake a merger between two companies are successful: the reported failure rate in mergers and acquisitions is actually high. So, why do some mergers succeed whereas others fail? The literature in this field points to several possible answers to this question. This study intends to open a new research direction in this field by drawing insights from the literature on technological and organizational innovation for the study of the determinants of mergers’ success and failures. The empirical analysis focuses on the comparison of two different mergers, one that was cancelled and one that was successful. The successful case is the merger between Statoil and Hydro in 2007, and the failure case is the attempt to merge made by Telenor and Telia in 1999. The main findings of the thesis are that the main factors explaining the success of a merger are the similarities and complementarities of the two merging companies in terms of their respective organizational structures, business strategies and external policy environment.

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The sole responsibility for the quality of the thesis rests on me, and any remaining errors or faults are mine, and mine alone.

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1. Introduction

“No rway is the last Soviet state”

The Swedish Minister of Trade and Industry, Bjørn Rosengren gave this famous citation in the merger negotiations between Telia and Telenor in 1999, and today the citation stands as a heritage of the failed merger attempt. In this study I have chosen two large-scale mergers, the merger of Statoil and Hydro’s oil and gas activities, and the failed attempt made by Telenor and Telia to merge their telecom activities. The former case represents a successful merger between two giants in the Norwegian context, and the latter case a failed merger attempt that crosses the national borders of Norway and Sweden. Telenor and Telia were the two leading telecom companies in Scandinavia at the time of the merger attempt. They were both government-owned companies with similar histories and development. The merger attempt was also intergovernmental as it crossed the national borders of the two countries. Despite similarities and nearness in national culture, corporate practice, language, and despite the fact that the EU had approved the merger, the Telia-Telenor negotiation eventually broke down. On December 16th 1999, the Telia-Telenor merger ended after only two months in existence. What went wrong? By investigating the motives and strategies, the organizational and strategical fit of the two companies, I will explain why this merger did not happen.

“The merger ensures long-term value creation for shareholders, continued development of competence and innovation and a further strengthening of Norway’s role as a globally leading energy supplier”

This citation was given by the CEO of Hydro, Eivind Reiten on the day of the stock market announcement of the Statoil-Hydro merger in December 2006. The citation indicates both the merger in a national setting and in the global energy industry. In a national setting the merger represented a combination of two major industrial actors, which had both played important
roles in developing Norway as an oil nation in the previous decades. Both companies had through their activities on the Norwegian Continental Shelf acquired competence and technologies, that when combined would give them the capabilities and strength necessary to pursue international growth and to continue to develop on the Norwegian Continental Shelf. Why did this merger succeed in achieving its objectives? Again, by investigating the motives and strategies, the organizational and strategical fit of the two merging companies, I will explain why this merger succeeded.

**Research Question:**

*What are the factors that can explain merger success and failure?*

The field of mergers and acquisitions have received extensive attention in recent decades from practitioners and academics in various fields, and the approaches have been from a multitude of theoretical frameworks. Research on mergers is clearly an interdisciplinary field, and the research on the subject is extensive (Sherman, 2010; Gaughan 2011). The units of analysis in this thesis are the two merger cases, and therefore the four companies involved in the cases. The thesis will present the four companies and the merger plans. Both the merger cases analysed in this thesis include sectors, industries and companies with a high level of innovation in products and processes, along with high investments in research and development (R&D). By trying to link the literature on mergers and innovation together, this study intends to open a new research direction in this field. By selecting two different mergers, one that was cancelled and one that is regarded as a success, makes it possible to

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1 Defining the research questions is probably the most important step in a study (Yin, 2009). Research questions do five main things according to Punch (2005); they organize the project, and give it direction and coherence; they delimit the project, showing its boundaries; they keep the researcher focused during the project; they provide a framework for writing up the project; and they point out the data that will be needed.
explore, understand and highlight both the differences and the similarities in the selected cases. A variety of questions on organizational change and other relevant issues emerge. Explaining the reasons that one merger succeeded and another failed is an interesting topic. It will also be interesting to explore whether the cases reveal similar or different motives for undertaking the merging process. Further, it could be valuable for future merging parties to learn from the experience of both the success and the failure case.

By choosing different mergers with two different outcomes, I will make compare the motives, contexts, strategies and other factors involved. The literature and research on mergers and acquisitions argues that synergy, growth and management motives are most often the reason why mergers and acquisitions occur. I have chosen the resource-dependence perspective as the theoretical framework to explain these types of organizational changes. This perspective emphasizes how organizations become dependent on both their own resources and assets, and on the organizational environment in which they operate. To understand why some mergers fail and some succeed, the merger literature suggests that the pre-merger planning and the post-merger integration are crucial in understanding the outcome of the deal. In an attempt to extend the existing literature, the theoretical part of this thesis argues that the strategic, organizational and environmental fit of the merging companies represent the central factors to understand merger outcomes. Indeed, the empirical analysis carried out in the second part of this work suggests that the external policy context, and the motives, strategies, structures and assets of the merging companies turn out to be the crucial factors to explain success and failure of the two selected cases. In particular, in the failure case, I will show how the different strategies, the lack of organizational fit and political battles between the Norwegian and Swedish national authorities contributed to make the merger a failure. In the success case,
on the other hand, I will show how similar resources, complementary strategies, and a favourable political environment made this case a success.

The thesis is organized as follows. In chapter 2 the literature on mergers and acquisitions will be presented, in chapter 3 the literature on innovation and organizational change. In chapter 4 I will present some general propositions that explain the main factors that are relevant to explain the outcome of a merger, and that try to link more explicitly the merger literature and the innovation literature. Chapter 5 will present the methodology adopted for the empirical analysis. Chapter 6 and 7 will present the two selected merger cases. Chapter 8 will carry out a comparison of the two cases and a discussion of the empirical validity of the hypotheses of the work, and chapter 9 will conclude and briefly point to some possible limitations and future extensions of this line of research.
2. Mergers and Acquisitions

The phenomenon of mergers and acquisitions (M&A) has developed to become a highly popular form of corporate development to create growth and diversity (Cartwright and Schoenberg, 2006). M&A are a vital part of both healthy and weak economies and are often the primary way in which companies are able to provide returns to their investors, stakeholders and owners (Sherman, 2010). M&A enable strong companies to grow faster than their competitors, and ensure that weaker companies are acquired. The pace of M&A picked up in the early 2000s, and in 2004 there were over 30,000 acquisitions completed around the world (Gaughan, 2011; Cartwright and Schoenberg, 2006). Sikora (2006) explains the increasing numbers of M&A with factors such as low inflation, deregulation and a rising stock market. In recent years there have also been a significant increase in M&A activity within industries that are growing rapidly overall, such as health care, information technology, education infrastructure and software development, as well as in traditional industries such as manufacturing, consumer products and food services. The increase in M&A activity has given rise to the growth of academic research on this topic, and the rapidly evolving nature of M&A also requires constant updating in the research field (Sherman, 2010; Gaughan, 2011). In this chapter I will give a brief introduction to current research on M&A, including definitions, descriptions on different types of mergers and merger motives, and a framework on how to understand merger success and failure.

2.1 Mergers and Acquisitions - definitions

Mergers and acquisitions are closely connected, but it is important to separate the two. Gaughan (2011: 12) defines mergers as “a combination of two corporations in which only the one corporation survives and the merged corporation goes out of existence”. Meaning that in

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2 M&A is a widely used abbreviation in both research and literature on mergers and acquisitions.
a merger, the acquiring company takes over the assets and liabilities of the merged company. An acquisition is “to take over ownership of another organization, firm, company etc.” (Johnson et al., 2006: 349). Sherman (2010: 3) defines a merger as “a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a different organization after the merger, it retains its original identity”. Further he defines an acquisition as “the purchase of an asset such as a plant, a division, or even an entire company” (Sherman, 2010:3) Peng (2006: 377) defines a merger as “the combination of assets, operations, and management of two firms to establish a new legal entity”, and an acquisition as “the transfer of control of assets, operations, and management from one firm (target) to another (acquirer)”. On the surface, these distinctions may not matter, since the result is often the same; two (or more) companies that originally had separate ownership are now operating together to obtain some strategic or financial objective. Yet, the strategic, financial, tax, and cultural impact of the deals may be very different in both. While it would be interesting to shed light on both processes, the object of study in this thesis is the process of mergers.

As important as a distinction between a merger and an acquisition is, it is also important to distinguish between a merger and a consolidation. The latter is a business combination where two or more companies join to form an entirely new company. Another term used widely in the field of M&A transactions is a takeover. This term however is vague; sometimes it refers only to hostile transactions, and other times it could refer to both friendly and unfriendly mergers (Gaughan, 2011).

In mergers of equals, two companies combine in a friendly deal that is a result of extensive negotiations between the management teams or the owners of both companies, and
particularly between the CEOs of both companies. A merger of equals is often defined as “the combination of two firms of about the same size to form a new company” (Colman et al., 2011:19). Both of the mergers in this study are mergers of equals.

### 2.2 Types of Mergers

Mergers can be categorized into three different types: the vertical integration mergers; the horizontal mergers; and the diversification/conglomerate. The first type, vertical mergers are combinations of companies that have a buyer-seller relationship or are symbiotically related. These mergers happen when organizations that are engaged in related functions but at different stages in the production process merge with one another (Scott, 2003; Gaughan, 2011). According to Pfeffer (1972) research supports an expectation that mergers involving vertical integration are more likely to occur among companies in industries engaged in frequent transactions.

The second type, horizontal mergers, occurs when organizations performing similar functions merge to increase the scale of their operations. It occurs e.g. when two competitors combine, and economies of scale are realized (Scott, 2003; Gaughan, 2011). Pfeffer (1972) argues that horizontal mergers are more likely to occur among firms located in industries exhibiting intermediate levels of concentration, meaning situations of maximum intra-industry competition. If a horizontal merger causes the merged companies to experience an increase in market power that will have anticompetitive effects, the merger may be opposed on antitrust grounds (Gaughan, 2011).

Thirdly, diversification happen when one organization acquire one or more organizations that are neither exchange partners nor similar organizations competing with each other, but
organizations operating in different domains. The extreme form of diversification is the conglomerate (Scott, 2003; Gaughan, 2011). Pfeffer argues that mergers involving diversification are most likely to occur when exchanges are very concentrated and when capital or statutory constraints limit the use of other options for managing interorganizational interdependence (Pfeffer, 1972; Pfeffer and Salancik, 1978; Scott, 2003).

2.3 Merger Research and History

M&A research represents an interdisciplinary research field with different approaches on motives, evaluating and understanding M&A. Corporate history, as well as extensive research has shown that M&A are often driven by a complex pattern of motives and reasons, patterns that no single research approach can render a full account of. Most of the historical and empirical research on M&A has been carried out in the United States. The history of the field has been given little attention according to Gaughan (2011), but is nevertheless very relevant because of the short memory in the market. American research has demonstrated that patterns of mergers tend to reoccur. These patterns can help us understand the reasons and strategies for mergers, and help companies identify both opportunities and threats when considering merger as a strategy. Research has indicated six merger waves, or periods of high merger activity in the United States. They are all characterized by a cyclic activity with high levels of mergers followed by periods of lower activity. Merger waves tend to be caused by a combination of economic, regulatory and technological shocks to the market (Sherman, 2010; Gaughan, 2011). These shocks can therefore explain some of the reasons for mergers, not only the merger waves. An economic shock could be an expansion that motivates companies to magnify to meet the rapidly growing aggregate demand in the economy. A regulatory shock could be the eliminations of barriers and laws that might have prevented corporate combinations and cooperation earlier. A technological shock can be a transformation that
results in dramatic changes in existing industry or market, and even create new ones (Gaughan, 2011; Andrade et al., 2001). Economic theory teaches that mergers occur because of efficiency related reasons, synergies, attempts to increase market power, and to take advantage of market opportunities (Mitchell and Mulherin, 1996). However, some of these reasons appear to be more relevant in certain time periods. Mergers occur in waves, but within a wave mergers strongly cluster by industry. Also, the industries that make each merger wave may vary tremendously. Mitchell and Mulherin (1996) explain this variation with different industry-level shocks. Shocks like technological innovations, supply shocks, deregulations, and financial innovations.

2.4 Merger Motives: Growth, Synergies and Management

The strategic reasons for companies for considering M&A are numerous. From achieving economies of scale, reduce risk, to satisfy management and shareholders’ hunger for growth, to enter new markets, and the list continues. In this section I will give a broad introduction in different motives and strategies for mergers. Firstly, the most common reasons for merging are the motives of expansion and growth. External expansion, by acquiring a company in a line of business or geographical area in which the company want to expand to, can be quicker than internal expansion. An expansion may provide certain synergy benefits, such as when two lines of business complement one another. Synergy occurs when the sum of the parts is more productive and valuable than the individual components. Financial factors are also vital when understanding motives for merging. The value of the acquiring company may be significantly increased in market value when merged with the targeted company (Sherman, 2010; Gaughan, 2011).
2.4.1 Growth - internal or external?
Companies seeking to expand are faced with a choice between internal growth, organic growth or growth through M&A. Growth through M&A may be much more rapid than internal growth, since companies may grow within their own industries or expand outside their business category. Mergers can be an effective and efficient way to enter a new market, add a new production line, or increase distribution for a company. If a company seeks to expand within its own industry it may conclude that internal growth is not an acceptable means of expansion. As a company grows slowly through internal expansion, competitors may respond quickly, use a limited window of opportunity, and take market share. Advantages of a company may disappear over time because of actions of others, and one solution here may be to acquire another company. In many cases, as shown in the research presented on merger waves, M&A are driven by a key trend within a given industry. These key trends affect the question of internal or external growth. Key trends within an industry can be rapidly changing technology, fierce competition, changing consumer preferences, pressure on costs control, and a reduction in demand (Sherman, 2010; Gaughan, 2011).

2.4.2 Growth - geographical expansion and internationalization
Another example of using M&A to facilitate growth is when a company wants to expand to another geographical region. A company could already be a national company seeking to gain market share in other countries, or seeking market share in other regions within the same country. Globalization has forced many companies to explore M&A as a means of developing an international presence and expanding their market share (Sherman, 2010). This market penetration strategy is often more cost-effective than e.g. trying to build an overseas operation from scratch. Therefore, in many instances, it may be quicker and less risky to expand geographically through M&A than through internal development. Many deals are therefore
driven by the premise that it is less expensive to buy brand loyalty and customer relationships than it is to build them. This may be particularly true of international growth, where many characteristics are needed to be successful in a new geographic area. The company needs to know all of the nuances in the new market, recruit new personnel, and deal with other hurdles such as language and law barriers. M&A may therefore be the fastest and lowest risk alternatives. Companies that have successful products in one national market may see cross border M&A as a way of achieving greater revenues and profits. And a cross-border deal may enable an acquirer to utilize the country specific know-how of the target, including its indigenous staff and distribution network (Sherman, 2010; Gaughan, 2011). In a study on multinational firms and innovations by Castellani and Zanfei (2006) M&A was one of the most frequent forms used by multinational companies to expand both their external and internal networks and markets.

2.4.3 Management

Corporate managers are often under constant pressure to demonstrate successful growth, especially when the company has achieved growth in the past. When the demand for a company’s products or services slows down, it becomes more difficult to continue to grow. When this happen, managers often look to M&A as a way to jump-start growth (Gaughan, 2011). However, managers need to make sure that the growth will generate returns for both shareholders and the board. According to Gaughan (2011) there are instances where management may be able to continue to generate acceptable returns by keeping a company at a given size, but instead choose to pursue aggressive growth through M&A. Some M&A are motivated by the need to transform a company’s corporate identity, where the targeted company may lead the acquiring company in a new direction or add significantly new capabilities (Sherman, 2010). Other M&A may be motivated more by a survival strategy from
its managers than by growth. Sometimes companies need to merge or be acquired in order to survive and cut costs efficiently (Sherman, 2010). Another management approach on merger motives is the hubris hypothesis, or the pride of the managers. The hypotheses implies that manager seek to acquire companies for their own personal motives, and that economic gains are not the sole motivation or the primary motivation in the deal (Gaughan, 2011). Improved management could also be a motive in M&A deals. Deals can be motivated by a belief that an acquiring company’s management can better manage the target’s resources. The acquirer may believe that its management skills are such that the value of the acquiring target would rise under its control. Gaughan (2011) argues that this improved management argument may have particular validity in merger cases with large companies making offers for smaller, entrepreneur led, growing companies. The lack of managerial expertise may be a block in a growing company, limiting its ability to compete in a broader marketplace. Managerial resources are therefor an asset larger firms can offer the targeted firm.

2.4.4 Synergies

The key premise of a synergy is that the whole will be greater than the sum of its parts (Sherman, 2010). The term synergy refers to “the reactions that occur when two substances or factors combine to produce a greater effect than that which the sum of the two operating independently could account for” (Gaughan, 2011: 132). Simply stated, synergy refers to the phenomenon of $2 + 2 = 5$. In mergers this translates into the ability for a corporate combination to be more profitable than the individual parts of the combined companies. There are two main types of synergy, operating synergy and financial synergy. The latter refers to the possibility that combining one or more companies may lower the cost of capital. Operating synergy comes in two forms; revenue enhancements and cost reductions. In operating synergy, revenue-enhancing synergies may be more difficult to achieve than cost
reduction synergies (Gaughan, 2011). There are many potential sources of revenue enhancements, and they may vary from deal to deal. They may derive from a sharing of market opportunities by cross marketing each merger partner’s products, they may derive from a company with a major brand name lending its reputation and status to an upcoming product line of a merger partner, and they may derive from a company with a strong distribution network merging with a company that has products with potentials but low ability to get them to the market before rivals can react. Although the sources for revenue enhancement synergies are great, it is often difficult to achieve. Enhancements are difficult to quantify and build into valuation models in merger planning. This is why cost-related synergies are often highlighted in merger planning, and potential revenue enhancements discussed but not clearly defined. As merger planners tend to look for cost-reducing synergies, these synergies are often the main source of operational synergies. These cost reductions may be a result of economies of scale, the decreasing in per unit cost caused by an increase in the size or scale of a company’s operations, or by the need to spread the risk and cost of developing new technologies, conduct research, or gaining access to new sources of energy (Gaughan, 2011; Sherman, 2010).

2.5 Success and Failure of M&A

The question of merger success or failure is the central topic of this thesis. By choosing a merger that did not get completed, it is obvious that one case can be classified as a failure. It is still important to analyse why it did not go through. On the other hand it is equally important to understand why the success case chosen in this thesis can be labelled as a success. When analysing the success or failure of a merger process it is important to look at the motives, strategies and objectives in the pre-merger planning and compare it with the results after the merger date. According to earlier research, failures include a lack of adequate
planning, an overly aggressive timetable to closing the deal, a lack of looking at possible post-merger integration problems, and projecting synergies that turn out to be illusory (Sherman, 2010). A study of managers of acquiring company’s report that 44% of their acquisitions are not living up to the original objectives, and about 70% of all M&A are reported as failures (Cartwright and Schoenberg, 2006; Peng, 2006). Successful M&A are neither an art nor a science, but a process. Therefore it is crucial to understand the merger process itself when analysing the merger outcome and result.

A transaction as complex as a merger or an acquisition has many potential problems and pitfalls. Many of these problems arise in the preliminary stages of the process, such as forcing a deal that should not be done, as a result of mistakes, errors, rushed or misleading planning, or because the post-merger integration process between the companies becomes a nightmare (Sherman, 2010). These pitfalls and problems can undoubtedly become expensive for the companies. It is sometimes also difficult to evaluate the anticipated benefits and effects of a merger. Potential revenue enhancements are often vaguely referred to as merger benefits, but are not clearly quantified in the merger planning. This is one reason some deals fail to manifest the anticipated benefits, and the reason could be found in poor pre-merger planning (Gaughan, 2011).

The high failure rate of M&A are also caused by the lack of consideration of different factors both in the pre-M&A phase and the post-M&A phase (Jones and Miskell, 2007). In the pre-M&A phase the failures can be traced back into a synergy trap, e.g. when organizations pay too much for the targeted firm because of managerial motives or hubris. In the post-M&A phase there could be integration problems that also has to be taken into consideration when analysing failure. Not just the strategic fit in an M&A has to be achieved, but also the
organizational fit, meaning similarity in cultures, systems and structures that will facilitate the procedure (Lubatkin, 1983; Peng, 2006). Also the stakeholders’ concerns in the post-M&A phase can be a problem, with the fear of losing their jobs, the restructured responsibilities, and diminished power. This could all contribute to a M&A failure (Bekier and Shelton, 2002).

The role of human resource departments (HR) also plays a critical role in succeeding with M&A. Waight (2004) states that it is not only the financial, economic or commercial factors of the M&A that will affect the outcome of the pre-planning, but also the HR-department. A detailed merger plan over how the implementation of the M&A should be executed is important. The plan should contain elements such as organizational structure, management structure, product lines, and business process. The speed of the integration process is also considered as a factor of success (Camara and Renjen, 2004). It is important to integrate well, but it is also important to integrate quickly.

As opposed to the failures, in the mergers that did succeed, experience and preparations are mentioned as key factors. The M&A process has a greater chance of succeeding if the organizations and managers have experience from previous M&A. Further, the strategic similarities are also mentioned as success factors. The better the strategic fit between the two companies, the easier to succeed (Lubatkin, 1983). According to Chapman (2004) the screening and pre-planning phase are also critical success factors for M&A. The more planning prior to the M&A the better, since the pre-planning phase will affect all areas of business and how the integration is handled (Chapman, 2004). Firstbrook (2007) also emphasizes the importance of pre-planning in order to reach a strategic fit between companies in an M&A. It is important that the M&A-planning has a clear view of the acquired company’s role in the strategy after the M&A. Even when a strategy is clear, many companies
do not spend enough time to search for companies that will be the best fit for the strategy. Often the acquiring company just acquire the first company that looks like a fit (Firstbrook, 2007). This indicates that the synergies that should have occurred do not occur, due to the lack of matching and complementary strategic capabilities between the companies. Strategic incompatibilities are likely to be more problematic in some situations than in others. M&A that cut across national boundaries are more demanding because of the different nationalities involved, and because there is a bigger need for cultural sensitivity in resolving strategic incompatibilities (Mayer and Altenborg, 2008). When the merger is also strongly influenced by national political considerations, the problem of resolving strategic incompatibilities is likely to increase (Bruner, 2005).

Along with the pre-planning and strategic fit of organizations, the organizational fit could also inflict the success of a M&A. Organizational fit can be measured by the number of organizational adjustments that have to be implemented after the M&A (Castro and Uhlenbruck, 1998). Peng (2006) explains organizational fit as similarities in culture, structure and systems. He emphasizes the importance of investigating the organizational fit before acquiring a company, and organizational fit should be a substantial part of the screening process when considering a M&A. However, Peng points out that this is seldom the case. Almost 80% of the acquirers have not done accurate studies on the organizational fit between the companies.

Management motives are mentioned as central motives when understanding why M&A occur. In understanding factors of success and failure in M&A it could also be useful to look to management, as a common problem in M&A could be relational problems (Pablo, 1994). Being manager in a company merging with another company and getting a new role could
create obstacles. If the acquirer is a much larger company than the acquired company, there could be power differentials between the companies. The largest company’s managers would have more influence, which could lead to the managers from the acquired company feeling unwelcome and run over. The acquirer company’s managers could feel pressured to implement new orders quickly to meet performance expectation, which could be viewed as greater capabilities to enforce their preferences than the other company’s manager. It is not only the size differences that matter for the managers but also the beliefs of superiority and inferiority between the companies. From being in the core of the organization in one company, managers risk reducing their significance in the overall business, ending up with less impact, status and power relative to the managers from the other company. One of the most important causes of M&A failures are the dominating company’s attitude and beliefs about superiority and inferiority towards the other company (Hambrick and Cannella, 1993).

2.5.1 Post-Merger Integration.

As mentioned above, pre-planning, screening and organizational integration are key concerns in succeeding with a merger. There are several important topics when considering the integration process. Applying change management in the integrations process, developing a shared organizational identity and identification within the new organization, focusing on developing a new organization, and competencies are all areas considered critical for the achievement of organizational integration (Colman et al., 2011). Firstly, in the change management the role of middle managers becomes important. Top management plays an important role in mergers and other large-scale organizational change processes. Most of the literature on change management focuses on the role of top management, but in the implementation of change a broader set of change agents or middle managers is often recognized as crucial for the process. When developing the new organization the design f the
organization becomes important. The post-merger design of a new organization is critical for
the integration. It is through the design of the new organization that decisions are made on
how to combine the merging parties’ processes, capabilities and resources (Colman et.al
2011). Colman (2011) argues that the collective side of employee participation and union
cooperation has been largely ignored in the merger and acquisition literature. She argues that
these topics are also important for understanding the integration process, especially in a
Scandinavian context.
3. Innovation and Organizational Change

In this study I want to understand M&A from an innovation point of view before analysing successes and failures of mergers. In this chapter I will give an introduction of innovation in a theoretical framework, including definitions, the process of innovations and explaining organizational innovation. M&A could also represent huge organizational changes, and I will therefore also present different frameworks on how we can understand such changes. I have selected the resource dependence perspective, and this approach will be thoroughly described in this section, along with other approaches on organizational changes.

3.1 Innovation – what is it?

When exploring mergers from an innovation point of view it is important to define and understand the term innovation. There are great variations in the use and understanding of the term. In its broadest sense the term comes from the Latin word *innovare*, which means “to make something new” (Tidd and Bessant, 2008: 16). An innovation could be explained as a new idea. The idea may be a recombination of old ideas or a unique approach, but is perceived as new by the individuals involved. “As long as the idea is perceived as new to the people involved, it is an innovation, even though it may appear to others to be an imitation of something that exist elsewhere” (Van de Ven, 1986: 592). Innovation might be seen as “a new product, a new process of production, the substitution of a cheaper material newly developed, the reorganization of production leading to increased efficiency and lower costs, or an improvement in instruments or methods of doing innovations” (Kline and Rosenberg, 1986: 278-279).

Schumpeter has distinguished between five different types of innovations; “new products, new methods of production, new sources of supply, the exploitation of new markets, and new
ways to organize business” (Schumpeter, cited in Fagerberg, 2005: 6-7; Fagerberg 2003: 64).
In organizational research, innovation could also be described as “a process of bringing new, problem solving, ideas into use” (Lam, 2005: 123). Mezias and Glynn define innovation as “nonroutine, significant, and discontinuous organizational change that embodies a new idea that is not consistent with the current concept of the organization’s business” (Mezias and Glynn, cited in Lam, 2005: 123). Tidd and Bessant (2008) view innovation on the term as a process of turning opportunities into new ideas and of putting these into practice. “Innovation is the successful exploitation of new ideas” and “Industrial innovation includes the technical, design, manufacturing, management and commercial activities involved in the marketing of a new (or improved) product of the first commercial use of a new (or improved) process or equipment”. Innovation can also be classified into dimensions like product innovation, process innovation, position innovation and paradigm innovation (Tidd and Bessant, 2008: 16-21). All the definitions above demonstrate how innovation is a complex phenomenon to study. It extends from ideas, product innovations to a more management approach. Some of these definitions are more useful than others when analyzing the organizational change itself, and some of them could also be used to understand the motives for the organizational change.

3.2 Product and Process Innovation

The ability for organizations to innovate is not a new concern. Organizations have always had to think about changing what they offer, and the way they create and deliver that offering if they are to survive and grow. As presented in the section above, new or improved products are considered to be innovations. Tidd and Bessant (2008) argue that research suggests a strong correlation between market performance and new products. New products help capture and retain market shares, and also increase profitability in those markets. In cases with more developed and established products, competitive sales growth does not simply come from
being able to offer low prices, but also from a variety of non-price factors such as design and quality. New product development is an important capability of a company because of the constantly changing environment. Competitors may introduce new products, thus representing a threat to the existing market positions. Legislations and socioeconomic shifts may also create both opportunities and constraints. Product innovation is here considered to be a way for companies to respond to those shifts. Product innovation can be explained as changes in the product and services that an organization offers (Tidd and Bessant, 2008). Both sectors and industries in the selected merger cases have an extensive degree of product innovation during the last decades, especially the telecom-industry. During the 1990s, the field of mobile communication experienced revolutionary changes with new products and services such as rapid development of new models and generations of mobile phones, as well as new functions and services such as text-messaging and mobile-net development.

While new products are often seen as the cutting edge of innovation in the market place, process innovation plays just an important strategic role. Process innovation can be explained as changes in the ways in which products and services are created and delivered. Being able to make something no one else can, or to do so in ways that are better than anyone else, is a powerful source of advantage. Offering better service; e.g. faster, cheaper, higher quality, and so on, has long been seen as a competitive source (Tidd and Bessant, 2008). As in product innovation, both industries and sectors in this study can be characterized as areas with a high level of process innovation. The oil and gas sector, being a fossil fuel energy sector, has been facing the threat of extinction of its resources. New technology and production methods had to be developed in order to access new reservoirs in order to still provide the sectors main products and services.
3.3 The Process of Innovation

Drucker (1998) explains innovation as a certain kind of activity. He explains innovation as; “the effort to create purposeful, focused change in an enterprise’s economic or social potential” (Drucker 1998: 3). This definition could help us understand how to manage and carry out innovation in a company. The process of innovation is also a complex activity. Using a process point of view on innovation and innovation management could help us understand why organizations choose to innovate and change. Innovation processes differ in many respects according to the economic sector, field of knowledge, type of innovation, historical period and country. They also vary with the size of the company, its corporate strategies and its experience with innovation. Innovation processes involve the exploration and exploitation of opportunities for new or improved products, processes or services, based either on an advance in technical practice, a change in market demand, or a combination of the two. Since innovation is uncertain, meaning it is impossible to predict the cost and performance of it, or the reaction to it, it is useful to investigate the learning processes in companies (Pavitt, 2005).

Pavitt (2005) organize innovation into three different and overlapping processes. Each of the processes could help explain understand how companies cope with innovation. The first process is the production of scientific and technological knowledge. How is the knowledge in use produced? A major trend has been the increasingly specialization of scientific and technological knowledge-production by discipline, by function and by institution. Here, three forms of corporate specialization have developed. The first is the development in large manufacturing companies with R&D laboratories specialized in the production of knowledge for commercial exploitation. The development of many small companies providing continuous improvements in specialized producers’ goods is the second. The third
specialization is the changing division of labor between private knowledge developed and applied in business, and public knowledge developed by universities or similar institutions. The second process of innovation is the translation of knowledge into working artifacts. How is the scientific and technological knowledge taken into use? Scientific and technological advances enable the creation of artifacts of increasing complexity. These advantages, and the increased specialization of production, have reduced the costs of technological search and experimentation when transforming the knowledge into products, systems and services.

Responding to and influencing market demand is the third process on innovation. This involves a process of matching products, systems and services with users’ requirements. In a competitive system, corporate technological and organizational practices co-evolve with the markets. This matching of products, processes, systems and services with actual and potential market demand is a major responsibility for innovation managers. Responding to market needs and demands involves dealing with disruptive change. This disruptive change interacts with one of the negative consequences of specialization; the potential for tribal warfare over the old and the new between specialized functions and disciplines within the company (Pavitt, 2005).

The process of innovation in organizations or firms can also be introduced through four different phases in a management process; search, select, implement and capture. This view presents innovation as a core process, which needs to be organized and managed, and gives us tools for analyzing how different companies and organizations perform. The different phases can give answers in how successful innovators acquire and accumulate technical resources and managerial capabilities over time, and on how they see innovation as a process that can be continuously improved. Searching is about how organizations can find opportunities for innovation. Scanning both internal and external environments for threats and opportunities for
change are examples of strategies and management in this phase. It is important for successful innovation management to have well developed mechanisms for identifying, processing and selecting information from the environment. Technological and market monitoring and networking can be examples of activities in this phase, and the same is redefining the market boundaries of the company. Selecting is about deciding on which of the signals one choose to respond to, and which to leave aside. The purpose of this phase is to resolve the inputs into an innovation concept, and there are several and different types of inputs in this phase. There can be a flow of signals about possible technological and market opportunities available to the organization. The inputs can concern the organization’s knowledge base and its competence, and inputs can view how opportunities fit with the overall business. In other words, the selection criteria are shaped by the organizations specific situation and history. Implementing is about turning and translating potential ideas from the environment into reality, for example in a new product or service, a change in process, a shift in business model or organization. In this phase, research on technology and markets, helps clarify whether or not the innovation is possible. The phase has several core elements for analyzing the management of the innovation process and its routines. Acquiring knowledge is one of them, and this involves combining new and existing knowledge to offer a solution to a problem. This involves generation of technological knowledge and technology transfer, and routines for use and management of resources in firms. Another element in this phase is how projects are executed in organizations, or how innovation is eventually accomplished. Risk-taking and levels of uncertainty are key words in this element of the implementing phase. Launching and sustaining the innovation are two other elements in this phase. Capturing is about the benefits from an innovation process, regardless of this being a commercial success, market share, cost reduction or a social innovation. Capturing value is a critical theme, and there are several ways to do this. Formal methods like patenting, and less formal methods like the use of tacit
knowledge. An inevitable outcome of the launch of an innovation is the creation of new stimuli for restarting the process. Re-innovations build upon earlier success, but improve the next process of innovation in the organization. Capturing is therefore also about experiences and learning, and how to manage the process (Tidd and Bessant, 2008: 19, 55, 79-86).

3.4 Organizational Innovation

The ability of an organization to innovate is a precondition for the successful utilization of inventive resources and new technologies available for the organization (Lam, 2005). Conversely, the introduction of new technology often presents complex opportunities and challenges for organizations, leading to changes in managerial practices and the emergence of new organizational forms. Organizational and technological innovations are therefore intertwined, meaning that introduction of new technology often presents challenges and opportunities leading to change in managerial practices (Lam, 2005). Schumpeter viewed organizational changes as one of the factors of creative destruction. Organizational change has been a core concern in organization studies, leading to a broad area of views on what needs to be studied and how this should be done (Van de Ven and Poole, 2005). The term organizational innovation refers to the creation or adoption of an idea or behaviour new to the organization (Daft, 1978 and Damanpour, 1996, cited in Lam 2005). Lam (2005) has classified the literature and theoretical frameworks on organizational innovation into three different approaches; theories of organizational design, theories of organizational cognition and learning, and theories of organizational change, adaption and creation of new organizational forms. The first approach focuses on the link between structural designs and the ability of an organization to innovate. There is a long tradition of investigating the links between environment, structures and organizational performance within this approach. Several studies have shown how certain organizational structures facilitate the creation of new
products and processes, especially in relation to fast-changing environments. The second approach focuses on the micro level processes of how organizations develop new ideas for problem solving. It emphasizes the cognitive foundations of organizational innovation, which is related to the learning and organizational knowledge creation process. This approach gives us a micro lens for understanding the capacity of organizations to create and exploit new knowledge necessary for innovative activities. The third, and last approach focuses on understanding whether organizations can overcome inertia and adapt to radical environmental shifts and technological changes. Innovation is considered as a capacity to respond to changes in the external environment, and to influence and shape these changes. (Lam 2005: 116-117).

All three approaches could be useful in understanding organizational innovation and change, and to discuss the motives and possible results from organizational changes caused by M&A.

### 3.4.1 Organizational Structures and Innovation Potentials

An organization’s structure influences its innovation potential. Studies have shown how certain organizational structures facilitate the creation of new products and processes, especially in relation to fast changing environments (Lam, 2005). Therefore, the structure of a company gives us the possibility to investigate the innovation potential in that company. One approach on organizational structure is contingency theory. This approach argues that the best structure for an organization is the one that best fits a given operating contingency, such as the scale of the operation, the technology or the environment (Lam, 2005). One way to understand organizational structure is by using the polar typologies mechanistic and organic organizations. Burns and Stalker developed the terms in the late 1950s, explaining how differences in technological and market environment affect the structure and innovation management in companies. There are several characteristics for the two typologies, characteristics that show management structures and practices that can be responses to the
environment. It is important to keep in mind that these forms are polar types at the opposite ends of a continuum, and that a mixture of both can be found in organizations (Lam 2005).

The mechanistic organization is characterized by a more rigid structure and is to be found in more stable environments. In this organizational form tasks are broken down into specialized, functionally differential duties and individual tasks are pursued in an abstract way that is more or less distinct from the organization as a whole. The precise definition of rights, obligations, and technical methods are attached to roles, and these are translated into responsibilities of a functional position. There is a hierarchical structure of control, authority and communication, and knowledge of the whole organization is located exclusively at the top of the hierarchy. There is also a tendency for interactions between members of the organization to be vertical (Lam 2005, Tidd and Bessant 2008).

The organic organization has a much more fluid set of arrangements, and is an appropriate form for changing environmental conditions which require emergent and innovative response. In this organizational form individuals contribute to the common tasks of the organization and there is continual adjustments and redefinitions of individual tasks through interaction with others. The organic organization is characterized by a network structure of authority and communication, and the direction of communication is lateral rather than vertical. Knowledge may be located anywhere in the network, with the ad hoc location becoming the center of authority and communication (Lam 2005, Tidd and Bessant 2008).

Another way to understand and analyze organizational structure is by using the organizational framework of Mintzberg. He proposed a series of archetypes when describing different types of organizations. These provide basic structural configurations of firms operating in different
environments. Mintzberg argues that a successful organization designs its structure to match its situation and environment. Each of the archetypes have different structure characteristics, and innovation potential and implications, and companies are likely to be dominated by one of the pure types (Mintzberg, 1979; Lam, 2005; Tidd and Bessant, 2008). There are six archetypes listed by Mintzberg: simple structure, machine bureaucracy, divisionalized form, professional bureaucracy, adhocracy, and mission oriented.

Mintzberg (1979; cited in Lam, 2005; Tidd and Bessant, 2008) describes the archetypes by their characteristics and their innovations potential. The simple structure is characterized as an organic type centrally controlled by one person, which can respond quickly to changes in environment, i.e. small start-ups in high technology industries. The innovation potential in this archetype can be described as entrepreneurial and often highly innovative, continually searching in high-risk environments. Weaknesses are the vulnerability to individual misjudgment and resource limits on growth. The machine bureaucracy is characterized as a mechanistic organization with a high level of specialization, standardization and centralized control. Continuous effort is given to make tasks routines through formalization of worker skills and experience. Examples here are the mass production firms. The innovation potential in this archetype is low. Firms are designed for efficiency and stability. They are good at dealing with routine problems, but highly rigid and unable to cope with novelty of change. The divisionalized form is characterized as a decentralized organic form in which quasi-autonomous entities are loosely coupled together by a central administrative structure. Typically associated with larger organizations designed to meet local environment challenges. The innovation potential in this archetype is characterized by the ability to concentrate on developing competence in specific niches. Weaknesses here include a pull away from central research and development towards local efforts, and competitions between divisions. The
professional bureaucracy is characterized as a mechanistic form with high degree of autonomy to individual professionals. Examples here are universities and hospitals. Individual experts being highly innovative within their domain characterize the innovation potential in this archetype, but difficulties regarding coordination across functions, domains and disciplines impose limits on the innovative capability of the organization as a whole. The adhocracy is characterized as a highly flexible project based organization design to deal with instability and complexity. Here, problem-solving teams can be rapidly reconfigured in response to external changes and markets demands. Examples here are software engineering firms. The innovation potential is high, with fast learning and unlearning, highly adaptive, flexibility and innovative. Weaknesses here could be lack of control and commitment to the project at the expense of the wider organization. The mission-oriented archetype is characterized as an organization held together by members sharing common purpose and values. Examples here are voluntary and charity organizations. Here, successful innovation requires energy and a clearly purpose, and a quest for continuous improvement driven from within. Strengths lie in the common purpose and empowerment of individuals to take initiatives. Weaknesses lie in overdependence on key persons.

3.5 The Organizational Environment and the Resource Dependence Perspective

In this thesis the organizational environments and resources will be used in explaining reasons for merging and when analysing the factors of success or failure in the chosen mergers. The environmental contexts are fluid and ever changing, and this makes it complicated doing research on organizations in light of their environments. Therefore it is central to understand the potential role of the environment. Researchers and investigators cannot ignore the effects of environments on organizations, and there is little doubt that environment profoundly shape organizations, their structures, their performance and their outputs. Over the past decades,
organizational studies have expanded both up and out to include higher and wider levels of analysis and to encompass more kinds of factors or forces shaping organizations (Scott, 2003). In several organizational approaches managing task environments becomes a central question for organizations. Scott (2003: 197) defines task management as “those features of the environment relevant to the organization viewed as a production system, in particular the sources of input, markets for outputs, competitors, and regulators”. One of these approaches is the resource dependence approach developed by Pfeffer and Salancik.

The underlying premise for this perspective on organizational behaviour and choice is that “organizational activities and outcomes are accounted for by the context in which the organization is embedded” (Pfeffer and Salancik, 1978: 39). In this view the organizational environment plays a crucial role in understanding organizations’ choices and actions. They explain organizational outcomes with interdependent causes and agents. Interdependence can be explained as any event that depends on more than a single causal agent. In social systems interdependence exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action. Therefore, virtually all organizational outcomes are based on interdependent causes or agents. Interdependence is a consequence of the nature of organizations, the fact that organizations must transact with elements of the environment in order to obtain resources necessary for survival (Pfeffer and Salancik, 1978).

Pfeffer and Salancik (1978) argue that organizations could not survive if they were not responsive to the demands from their environments. Organizations engage in exchanges and transactions with other organizations and groups. The exchanges may involve monetary or physical resources, information or social legitimacy, and because organizations are not self-
contained or self-sufficient the environment must be relied upon to provide support. To continue to provide what the organization needs, the external organizations may demand certain actions from the organization in return. It is the organization’s dependence on the environment that makes the external control and constraint of organizational behaviour possible and almost inevitable. The need to acquire resources creates dependencies between organizations and external units. How important and how scarce these resources are determines the extent of the dependency (Scott, 2003; Pfeffer and Salancik 1978).

In this approach it is assumed that one cannot understand the structure or behaviour of an organization without understanding the context it operates in. Here, organizations are viewed as active, not passive, in determining their own fate. Organizations and their managers are agents, not passive subjects, of selection processes. They scan the relevant environments for opportunities and threats, attempting to strike favourable decisions and to avoid costly ones (Scott, 2003). Thus the resource dependence approach, view organizations as capable of changing, as well as responsive to the environment. Managers manage their environment as well as their organizations, and organizations have the ability to intervene in their environments (Scott, 2003; Aldrich and Pfeffer, 1976). Management is one way to deal with resource dependencies. Innovation is also considered as a way to respond to changes in the external environment, and to help the organization to adapt, influence and shape the environment through changes (Lam, 2005).

3.6 Other approaches on organizational change, adaption and creation
How organizations evolve, adapt and change because of their environments can also be explained in several other ways. A central debate concerns whether organizations change and adapt because of major technological changes and environmental shifts, or whether radical
change in organizational forms occur at the population level through a selection process. The
population ecologist perspective on organizations argues that organizations respond slowly to
opportunities and threats in the environment because of strong inertial forces (Lam, 2005).
The institutional perspective on organizations argues that a major source of resistance to
change rises from the normative embedded values, norms, rules and beliefs within an
organization (Lam, 2005). In this view, change consists of reproduction and reinforcing the
existing organization. Evolutionary theories on organization argue that organizations are
subject to inertial forces because their routines and skills have become difficult to change. In
this approach organizational change is a product of the search of new practices in the
neighbourhood of an organization’s existing practices. Changes on skills and routines
therefore happen slowly and incrementally. The ability for an organization to adapt to changes
is therefore influenced by the speed at which new competences and skills can be developed to
match the new demands. This perspective is based on the central premise that organizational
change is difficult, at least to the pace in which change takes in the external environment
(Hannan and Freeman, 1984; Lam, 2005).

In contrast to the different approaches on organizational change mentioned above, we have
the punctuated equilibrium model. This model proposes that organizations are capable of
initiating revolutionary change during periods of environmental turbulence. This model
describes organizations as evolving through long periods of stability, equilibrium periods,
which are punctuated by relative short periods of fundamental change. These revolutionary
periods involve fast paced, quantum leaps, with most or all key dominants of the
organizational activity will be involved, e.g. changes in strategy, structure, power distribution,
and control systems. These periods provide opportunities for organizations to break the grip
of structural and cultural inertia, and organization are therefore most likely to introduce
changes in times of performance crises and shifting environments. Studies have shown that fundamental organizational changes occur according to the pattern predicted by this approach (Lam, 2005; Van de Ven and Poole, 2005).

A third approach in this strand of organizational change is the strategic choice perspective, which focuses on the role of managerial action and strategic choice in shaping organizational changes. In this view the organizational change is a result of actors’ decisions and learning, rather than a result from a passive environmental selection process. Actors are capable of redefining and modify structures in ways that opens up possibilities for renewal for the companies (Lam, 2005). Teece, Pisano and Shuen (1997) present a view on strategic management through the dynamic capabilities approach. Their view can be used to analyse organizational change and management, and organizational performance. The dynamic capabilities approach underlines the importance of dynamic change and corporate learning. They argue that winners at the marketplace have been the firms and organizations that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to effectively coordinate and redeploy internal and external competences. The approach emphasizes two aspects, the shifting environment of organizations, and the key role of strategic management in adapting, integrating and reconfiguring internal and external organizational skills, resources and competencies to match the requirements in a changing environment (Teece et al., 1997, Tidd and Bessant, 2008). These capabilities become strategic assets when they become unique and difficult to replicate by others. Such assets could be technological, financial, structural, reputational, institutional, and the market structure. Choices about how to invest on different areas are central for a strategy. In this approach the choices on gaining competence are highly influenced by past choices. Organizations and firms follow a certain path of competence development, a path
that defines today’s choices. An organization’s opportunities for learning will often be linked to previous activities. By paths they refer to the strategic alternatives available to the organization. Where a firm can go is thus a function of its current position and path dependency. A strategic challenge is to identify the internal and external competences that are difficult to imitate. Competitive advantage can only be achieved if the competences and capabilities are based on a collection of routines, skills, and complementary assets, which are difficult to imitate for others (Teece et al., 1997).
4. Integrating the M&A and innovation literature: General Propositions

The research question in this thesis asks how to explain the success or failure of mergers. M&A have above been presented from a theoretical and literary point of view in chapter 2. This, together with the theoretical part on innovation in chapter 3, provides us with a framework for analysing M&A. Previous research have seen little interaction between the two strands of literature. Much of the existing literature and research on M&A are related to the economic performance of companies, or on how companies acquire knowledge, competencies and market shares. This thesis seeks to link M&A literature and innovation literature. Innovation theories could be used in order to analyse merger motives, merger processes and merger outcomes. In this chapter I will propose a new direction of research to combine the existing literature on mergers and the innovation literature, by proposing some general propositions on merger success and failure. Based on the propositions I will analyse and compare the two merger cases in this thesis.

Connecting the literature on M&A and innovation together results in several interesting propositions. First, a central question on organizational change is whether it is possible to change the organizational structure or archetype and how to do so. The structure of a company affects and influences the company’s ability to innovate. Similar companies will therefore have analogous capabilities and characteristics. By changing the archetype of an organization, it may also change its innovation potential, leading to new possibilities, e.g. new products, new markets, new technologies or new organizational forms. Can an organization change rapidly by acquiring new technology and competence, or does it require a slow process of incremental change within the organization? Also, the structures of the companies involved in a merger may affect the organizational fit between the companies. Lack of organizational fit could result in an increased need for organizational adjustments and changes
in the merger process. For example, a merger between a company described as a machine bureaucracy and a company being more of an adhocracy would increase the need for adjustments and changes, and therefore complicate the merger. The need for additional changes and adjustments could complicate the merger process, and therefore affect the success of the deal.

**Proposition 1:** *The more similar the organizational structure of two merging companies, the more likely the merger will be successful.*

The structures of organizations give us information on how innovation is carried out in the different companies, and it helps to explore the differences and similarities in how the companies organize their innovation, and research and development activities. The structure can tell us how the companies produce scientific and technological knowledge, and how they use this knowledge in their markets and in further development. Since both the cases analysed in this thesis are mergers of companies within the same sector or industry, it is likely to expect similarities in products, processes, systems and services. The proposition outlined above suggests that the more similar the companies are, the more likely the merger will be a success.

In the presentation of all the companies involved in this study, it will therefore become important to investigate any difference or similarity in organizational structure, both in the pre-merger phase and in the merger plans.

Another dimension worth highlighting is the external environment of the company. As discussed above, in the resource dependence perspective, the organizational environment plays a crucial role in understanding organizations’ choices and actions. Similarities in the
external environment could also represent important factors in achieving both organizational and strategical fit of the organizations involved. The external environment is also considered to be a challenging factor in mergers that cross borders. An example of a difficult merger with a low rate of succeeding could therefore be a merger that crosses both nationalities and markets.

**Proposition 2:** The more similar the external environment surrounding two merging companies (political, cultural), the more likely the merger will be successful.

The differences in the external environments in the merger cases could help us understand both the success case and the failure case involved in this study. It is therefore important to examine how contextual and environmental factors such as political, historical, industrial, cultural, as well as corporate factors may affect the companies during a merger process. The proposition suggests that similar external environments will have a positive impact on the success of M&A. And conversely, differences in external environments could help explain a merger failure. A negative impact of the external environment could increase the strategic incompatibility between the companies, and this is more likely to occur in cross-border mergers. Research on international M&A indicates that resolving strategic incompatibility can be particularly challenging when there are different nationalities and cultures involved. In the selected cases, as discussed in chapter 6 and 7, we have one example each of a cross-border merger and a merger within the same country. In both cases, political factors of relevance could be the system of governance, and the (political) parties involved in the negotiations on behalf of the state or the owners. Cultural factors involved in the selected cases could be the corporate cultures in the four companies, different cultures in the two countries involved in
the failure case, the historical development of the companies and their products and services, along with differences in the sectors and industries. In the presentations of the companies, and further in the analysis I will therefore look for similarities and differences on such factors.

A third matter of considerable importance is the firm-level strategies involved. Organizational analysts often connect strategy with the goals and objectives of an organization. One definition of strategy is “the determination of the basic long-range goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, cited in Scott, 2003; 293). In this thesis the focus will be on the strategies of the companies on growth, internationalization, R&D and knowledge production, along with management strategies. A firm-level strategy could e.g. be a company’s plans for growth and expansion, and how the company wants to achieve those.

Also, when looking into the R&D-strategies of a company it becomes important to understand the knowledge production within the company, the specialization in e.g. technology, markets, products and niches. The firm-level strategies involved in the empirical cases in this thesis will tell us whether the companies wanted to develop in the same directions or not in the pre-merger phase, e.g. if they wanted to achieve growth in the same geographical and product markets. Similarities and differences in the companies’ strategies before the merger process are therefore essential when examining both the strategical fit and organizational fit between the merger parties. Similarities in strategies are necessary in order to achieve a good strategic fit between the companies.

**Proposition 3:** The more similar the firm-level strategies of two merging companies (growth, R&D, management), the more likely the merger will be successful.
The proposition suggests that the more similar the companies’ strategies are, the more likely the merger will be successful. Since both the merger cases presented in chapter 6 and 7 are horizontal mergers with companies within the same sector or industry, it is likely to expect some similarities in firm-level strategies, at least in terms of R&D specialization and competencies. Different strategies could help us understand a merger failure, and whether one of the selected cases is an example of a deal that never should have been suggested. As seen in chapter 2.5, failures in M&A can be caused by the lack of consideration of different factors in the pre-M&A phase. Management objectives or hubris could therefore also be an important firm-level factor in the analysis.

In the theoretical part on mergers it was presented how different motives can lead to M&A. Motives such as growth, synergies and management were used to explain why M&A occur. These motives could also be linked to the process of innovation, especially in the phases of search and select. In chapter 2.5 we saw different explanations on merger success and failures. None of them mentioned innovation as a factor, but understanding the drive for innovation, change and development is important when looking for factors of M&A success or failure. Using the different definitions on innovation we can propose that an organizational change could led to an innovation in form of a new idea, the possible exploitation of new markets, new sources of knowledge and products, or new possible ways to organize business. M&A provide possibilities for massive changes for an organization, but whether M&A lead to an innovation depends on the outcome, or the capturing, of the changes. To explain, innovation is often driven by the ability to see connections, to spot opportunities and to take advantage of them, e.g. capturing market shares. The same arguments could be used on M&A. Innovation can also offer new ways of serving established and developed markets, and new markets represent a common M&A motive.
In order to link more explicitly the innovation literature and M&A literature together, I will propose two more specific propositions. Proposition 1 stated that the more similar the organizational structure of two merging companies, the more likely the merger will be successful. Similarities in organizational structure, or same type of archetypes, require less changes in order to achieve a suitable organizational fit in the post-merger phase. This indicates that M&A between different organizations and archetypes, each with different set of structures and innovation potentials, would complicate the deal and require additional organizational changes. I would then expect to find less organizational changes in the success case, than in the failure case. It is therefore interesting to investigate any organizational change proposed in the merger deal, in merger plans and in the post-merger phase.

**Proposition 4:** *The more similar the organizational structure of two merging companies, the less likely there will be further organizational changes during the merger process.*

If there are similarities in the organizational structures in the selected merger cases, it is less likely there will be additional organizational changes if the mergers would succeed. On the other hand, the more different the structures of the merging parties are, the more likely there will be a need for further organizational changes to match the two companies, and the more likely the merger process will be difficult. As already mentioned under proposition 1, I expect to find similarities in products, processes, systems and services in both merger cases, as both are mergers of companies within the same sector or industry. If the expectation is correct there will be less need for further organizational changes in a successful merger process. Allocation decisions on name, management positions, organizational structure and
localization could indicate the level of organizational adjustment needed to ensure a high organizational fit. In both cases it will be important to thoroughly investigate if any of the expected similarities in structure differs.

Further, it is also interesting to explore the links between M&A and technological innovation. In proposition 3 above, I proposed that the more similar the firm-level strategies of merging companies, the more likely the merger would be a success. One of the firm-level strategies I mentioned was the R&D in the companies. In chapter 3.3 it was shown how innovation could be understood as an activity with three different and overlapping processes. The production of scientific and technological knowledge, the translation of such knowledge into working artefacts, and the response and influence to the market demands. These are three processes that could help us understand the outcome of a merger. Similarities in knowledge production could also be a part of similarities in products, processes, niches and markets. How do the companies choose to produce their knowledge? The trend of increasing specialization of the knowledge production by discipline, function and institution, could highlight differences in the selected cases. How the companies take their knowledge into use is also an area of great interest. Both the merger cases represent industries with a vast scientific and technological complexity of products, services and systems. Are there similarities in what products, services and systems the companies focus on? Also, the process of how the companies choose to respond to the changing market demands is an area of interest. I expect the merging companies to have some similarities in all these three processes since they operate within the same industries, and therefore also e.g. in similar product markets. Keeping in mind that the merger cases are both examples of horizontal mergers, I propose that similarities in R&D would create economies of scale in the knowledge production processes. Also, this is likely to result in further scientific and technological development within the same markets and niches.
as before the merger, resulting in deeper and increased incremental innovations in products, processes, systems and services.

**Proposition 5:** If two companies with similar R&D-strategies and technological competencies merge, this will lead to an increased pace of technological innovation because of higher R&D investments and economies of scale within the same market segments.

If there are similarities in R&D-strategies and competencies it will become important to highlight those when introducing the companies and the merger deals. In contrast, if the companies have different R&D-strategies and technological competencies, it will lead to a widening of the R&D and technological competencies, resulting in more differences in product, processes, systems and services. Such differences could possibly lead to more radical product and process innovations for the companies in the future. Again, it is important to keep in mind that the two selected cases in this study are examples of horizontal mergers. A vertical merger with two companies that have e.g. a buyer-seller relationship would be a different situation. Companies can undertake vertical mergers in order to incorporate more phases of the production or distribution processes. The merging companies in this thesis are also related in size. A study by Phillips and Zhdanov (2012) shows how M&A affects both small and large companies’ incentives to innovate and conduct R&D. They argue that an active M&A market encourages innovation particularly in small companies in an industry, and that large firms can outsource R&D to small companies and then acquire those that succeed.
5. Methodological Approach: Case study research

The aim of this thesis is to investigate factors of merger failure and success. So far I have tried to link the merger literature and some theories of innovation. Before discussing the empirical cases of the two merger processes, I will present the methodology used in the empirical analysis.

5.1 Data

Evidence in case study research can come from many sources. Yin (2009) discusses six complementary sources for collecting case study evidence, and reveals both strengths and weaknesses to the different sources. The six sources are documentation, archival records, interviews, direct observation, participant-observation, and physical artefacts.

In this thesis I will use both documentation and archival records. The sources will be reports, prospectus and merger plans, earlier research on the merger cases, government papers, annual reports and other reports and analysis from the companies I have selected in my study. The strengths of documentation as a data source of evidence are that documents are stable, meaning documents can be reviewed repeatedly. Documents are unobtrusive; they are not created as a result of the case study itself. They are exact and containing exact names, references, and details of an event. And documents give a broad coverage of time, events and the settings. The weaknesses of documentation as a source of evidence could be the retrievability of documents; they can be difficult to find. Accessing the documents is also a problem since they may be deliberately withheld for various reasons (Yin, 2009).

Several research projects and reports have been conducted on the Statoil-Hydro merger. After the time of the merger, StatoilHydro ASA signed a research agreement with the International
Research Institute of Stavanger (IRIS), Institute for Research in Economics and Business Administration (SNF) and Institute for Labour and Social Research (Fafo), where the experiences from the merger and the merger integration process would be documented. The research program, named the Merger Integration Trailing Project, lasted three years, from 2008 to 2010 (www.fafo.no). In the Telenor-Telia case there is also much research done on the failed merger attempt, along with merger plans, government papers and other strategic documents from the pre-merger time that I will use in the this thesis. I have also used other sources in order to get a broad understanding of both cases and in how they were received. I then used sources such as parliamentary proceedings, media receptions, articles, initiatives and descriptions. The data I have used is presented in table 1.

**Table 1. Case study database: Documents used in Statoil-Hydro and Telenor-Telia**

<table>
<thead>
<tr>
<th>Case 1: Statoil-Hydro</th>
<th>Description and use</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What</strong></td>
<td></td>
</tr>
<tr>
<td>Storting’s Proposition 60, 2006-2007: Sammenslåing av Statoils og Hydros petroliumsaktivitet</td>
<td>Proposition from the Norwegian parliament. The proposition is used as background material, to the presentation of the companies and the merger deal, and in the analysis. 79 pages.</td>
</tr>
<tr>
<td>Merger Plan StatoilHydro</td>
<td>The merger agreement and plan between the companies entered into by the boards of directors of Norsk Hydro ASA and Statoil ASA on 12 and 13 March 2007 respectively for subsequent approval by the companies’ respective general meetings. Used in describing the merger motives and in analysing the merger. The merger plan itself consists of 20 pages, but 511 pages when including all 14 annexes.</td>
</tr>
<tr>
<td>Merger Prospectus StatoilHydro</td>
<td>A prospectus that provides stakeholders with material information about stocks and investments, description of the company's business, financial statements, biographies of officers and directors, detailed information about their compensation, any litigation that is taking place, a list of material properties and any other material information. The merger prospectus provides detailed information about the proposed</td>
</tr>
</tbody>
</table>

See Appendix A for how to access the documents.
transactions in the merger plan. Used in presenting and analysing the merger. 276 pages, some identical to the annexes in the merger plan.

<table>
<thead>
<tr>
<th>Document</th>
<th>Description and use</th>
</tr>
</thead>
<tbody>
<tr>
<td>StatoilHydro’s Annual Report 2008</td>
<td>As of 2008 StatoilHydro ceased to publish their annual report in printed form, and only published it online. A vast range of documents and presentations are available at Statoil’s webpages. Used as background material, to present the company and in the analysis. The Annual Report on Form 20-F consists of 292 pages.</td>
</tr>
<tr>
<td>Statoil’s Annual Report 2007</td>
<td>Used as background material, in presenting the company and in the analysis. 246 pages.</td>
</tr>
<tr>
<td>Statoil’s Annual Report 2006</td>
<td>Used as background material, in presenting the company and in the analysis. 156 pages.</td>
</tr>
<tr>
<td>Hydro’s Annual Report 2007</td>
<td>Used as background material, in presenting the company and in the analysis. 262 pages.</td>
</tr>
<tr>
<td>Hydro’s Annual Report 2006</td>
<td>Used as background material, in presenting the company and in the analysis. 246 pages.</td>
</tr>
<tr>
<td>Presentation of Stock Market Announcement.</td>
<td>Used in analysing and describing the merger. 24 slides in a PowerPoint-presentation used in the announcement 18th December 2006.</td>
</tr>
<tr>
<td>Transcript of Stock Market Announcement.</td>
<td>Used in analysing and describing the merger. 3 pages of transcription from the announcement 18th December 2006.</td>
</tr>
<tr>
<td>Book: <em>A merger of Equals? The Integration of Statoil and Hydro’s Oil and Gas Activities.</em></td>
<td>Published research project. A research project on the integration process in the merger. Based on over 300 informants from Statoil, and on collaboration between different researchers and research institutions. Used as background material, in describing the companies and the process, and in the analysis part. 302 pages.</td>
</tr>
<tr>
<td>Article: <em>The Merger of Statoil and Hydro Oil and Energy. Managing the integration process.</em></td>
<td>Published research article from the Merger Integration Trailing Project from SNF. Used in describing the integration process. 32 pages.</td>
</tr>
</tbody>
</table>

**Case 2: Telenor-Telia**

<table>
<thead>
<tr>
<th>What</th>
<th>Description and use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storting’s Proposition 58, 1998-1999: <em>Om sammenslåingen av Telenor AS og Telia AB</em></td>
<td>Proposition from the Norwegian parliament. Used as background material, in presenting the company and in the analysis. Almost 80 pages when including the merger deal and the shareholder agreement.</td>
</tr>
<tr>
<td>Riksdagen’s Proposition 99, 1998-1999: <em>Sammanslagning av Telia AB och Telenor AS</em></td>
<td>The Swedish government’s report to the parliament. Used as background material, in presenting the company and in the analysis. Almost 80 pages when including the merger deal and the shareholder agreement.</td>
</tr>
<tr>
<td>Storting’s Proposition 59, 1999-2000: <em>Om avviklingen av sammenslåingen av Telenor AS og Telia AB</em></td>
<td>Proposition from the Norwegian parliament. Used as background material and in the analysis. 20 pages.</td>
</tr>
<tr>
<td>Telenor’s Annual Report</td>
<td>Used as background material, in presenting the company</td>
</tr>
<tr>
<td>Year</td>
<td>Document/Press Release/Book/Article</td>
</tr>
<tr>
<td>-----------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1999</td>
<td>Telenor’s Annual Report 1998</td>
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<tr>
<td>1999</td>
<td>Telia’s Annual Report 1999</td>
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<tr>
<td>1998</td>
<td>Telia’s Annual Report 1998</td>
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<tr>
<td></td>
<td>Telenor Press Release 16th December</td>
</tr>
<tr>
<td></td>
<td>Book: <em>Interessekonflikt, kommunikasjonssvikt og kulturkollisjon. En studie av fusjonen mellom Telia og Telenor.</em></td>
</tr>
<tr>
<td></td>
<td>Article: <em>Why did the Telia-Telenor merger fail?</em></td>
</tr>
<tr>
<td></td>
<td>Article: <em>Incompatible strategies in international mergers: the failed merger between Telia and Telenor.</em></td>
</tr>
</tbody>
</table>

### 5.4.1 Document and Text Analysis

Documents are a rich source of data in this thesis. It is therefore important to know how to use documents and texts in research. Texts serve three purposes in the process of qualitative research; they are essential data on which the findings are based upon, they are the basis of interpretations and thirdly the central medium for presenting and communicate the research (Flick, 2002). Documentary sources of data may be used in several ways in research, and the sources can consist of a wide range of different types of documents. Several questions appear when collecting and using such sources of data: its authenticity – whether it is original and genuine; its credibility – whether it is accurate; its representativeness – whether it is representative of the totality of documents of its class; and its meaning – what it is intended to say (Jupp, cited in Punch, 2005: 185). When analysing such data several other questions and concerns arise. First, how did the document come into being and how was it made? All
documentary sources are the result of human activity, produced on the basis of certain ideas, theories or commonly accepted, taken-for-granted principles, and these are always located within the constraints of particular social, historical or administrative conditions and structures. Documents and texts need to be understood in their social and institutional setting. A second concern is the social organization of the document. How are documents written? Who writes them? Who reads them? And for what purpose? How are they read? What do readers need to know to make sense of them? A third concern is the direct analysis of meaning, including questions of truth and error. This part of the analysis can focus on the surface or the literal meaning, or on the deeper meaning in documents and texts. A fourth question is the application of different theoretical approaches to the analysis of texts and documents (Punch, 2005).

Krippendorff (2004) elaborates several features of texts that are relevant in understanding and using texts in research. First, texts have no objectives, there is no reader-independent qualities. Second, texts do not have single meanings that could be identified, described or found for what they are. Third, the meanings invoked by texts need not to be shared. Fourth, meanings speak to something other than the given text. Fifth, texts have meanings relative to particular context, discourses or purposes. And the last feature is the nature of texts, that demands that analysts draw specific inferences from a body of texts to their chosen context.

Translated into my study, all this becomes important for the documents and texts used and several questions arise. What are the differences that we need to take into consideration between e.g. government papers and corporate reports? What do we need to know about the time period or the contexts to better understand the production and meaning of the documents? The documents and the use of them are described in Table 1, but that does not
give any guarantee for how to understand the documents. For example, propositions and annual reports are different types of documents. Propositions form the basis for the parliaments’ consideration of proposed resolutions, new legislation or amendments to legislation, the budget, or other matters that require a decision by the parliaments. An annual report is a complete report on a company's activities throughout the preceding year. Annual reports are intended to give shareholders and other interested people information about the company's activities and performance. It is important to keep such differences in mind when using the documents in research.

Researchers should use different methods for the research tasks for which it is best suited, and use alternative methods to compensate for the limitations of different approaches. Which method chosen to answer the research question with is determined with the help of the formulation of the research question itself, the purpose of the research, the empirical data, and the amount of time and resources available for the research (Andersen, 94). This thesis is based on case study research. Case study research is used in many situations to contribute to our knowledge of individual or organizational phenomena. In this thesis case study research will be used to gain in depth knowledge on both mergers as a phenomenon, and on the two selected merger cases to study factors of success and failure. I have chosen this methodological approach for several reasons. First, in case studies, it is a clear advantage that the researcher can choose between different sources of evidence. Second, this type of research method makes it possible to link two areas that lack a clear connection in the literature, namely M&A (performance) and innovation.

Doing a multiple-case design with two cases makes case-comparison possible. The method could also be used to create new hypotheses about mergers as phenomena and on explaining
the merger outcomes. Multiple-case designs have distinct advantages and disadvantages in comparison to single-case designs. The evidence from multiple-case designs is often considered more compelling, and the overall study is therefore regarded as being more robust. But the rationale for single-case designs cannot be satisfied by multiple cases, and the conduct of a multiple-case study can require more resources and time than a single-case design (Yin, 2009).

Case study research has particular advantages in answering certain kinds of questions (George and Bennett, 2005; Yin, 2009). Yin (2009) describes case studies as the preferred strategy when how and why questions are being posed, and when the focus is on a contemporary phenomenon within some real-life context. George and Bennett (2005:17) define a case as “an instance of a class of events”. The term class of events refers here to a phenomenon of scientific interest. Yin (2009: 18) gives a twofold, technical explanation of case studies. First, a case study is an empirical inquiry that investigates contemporary phenomenon in depth and within its real-life context. Second, the case study inquiry relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, benefiting from prior development of theoretical propositions to guide data collection and analysis.

There is potential for confusion among the terms comparative methods, case study methods and qualitative methods. The comparative method, the use of comparisons among a small number of cases, is distinct from the single-case study method, which involves only the internal examination of single cases. The term qualitative method is sometimes used to encompass both case studies and comparative methods. George and Bennett (2005) describe case study methods to include both within-case analysis of single cases and comparisons of a
small number of cases, since there is a growing consensus that the strongest means of drawing inferences from case studies is the use of a combination.

5.2 Strengths of case study methods.

George and Bennett (2005) identify four advantages of case methods that make them valuable in testing hypotheses and useful for theory development: their potential for achieving high conceptual validity; their strong procedures for developing new hypotheses; their value as a useful means to closely examine the hypothesized role of causal mechanisms in the context of individual cases; and their capacity for addressing causal complexity. Firstly, case studies allow researchers to achieve high levels of conceptual validity, or to identify and measure the indicators that best represent the theoretical concepts the researcher intends to measure. Many of the variables that interest social scientists are difficult to measure, thus researchers must carry out contextualized comparison which self-consciously seeks to address the issue of equivalence be searching for analytically equivalent phenomena across different contexts.

Whereas statistical studies run the risk of “conceptual stretching” by lumping together dissimilar cases to get a larger sample, case studies allow for conceptual refinements with a higher level of validity over a smaller number of cases (Ibid: 20).

Therefore, statistical research is frequently preceded by case study research to identify relevant variables, followed by case study work that focuses on deviant cases and further refines concepts. Secondly, case studies have advantages in the heuristic identification of new variables and hypotheses through the study of deviant or outlier cases and in the course of fieldwork, such as archival research and interviews. If a researcher asks one question of individuals or documents but gets an entirely different answer than expected, the researcher may move on to develop new theories that can be tested through previously unexamined evidence. Thirdly, case studies examine the operation of causal mechanisms in individual
cases in detail. Within a single case, researchers can look at a large number of intervening variables and inductively observe any unexpected aspects of the operation of a particular causal mechanism or help identify what conditions present in a case activate the causal mechanism. Lastly, case studies have the ability to accommodate complex causal relations such as interactions effects and path dependency (George and Bennett, 2005: 19-22)

5.3 Limitations, trade-offs and potential pitfalls of case studies.

It is important to distinguish among limits, trade-offs and examples of poor implementation of case study methods, and not to misinterpret these aspects through the prism and techniques of statistical methods (George and Bennett, 2005). Limitations include a relative inability to render judgement on the frequency or representativeness of particular cases and a weak capability for estimating the average causal effect of variables for a sample. Trade-offs include the problem of case selection, the trade-off between parsimony and richness, and the related tension between achieving high internal validity and good explanations of particular cases versus making generalizations that apply to broad populations. The problem of case selection bias. In contrast to statistical researchers, case study researchers sometimes deliberately choose cases that share a particular outcome. Selection of cases on the basis of the value of their dependent variable is appropriate for some purposes, but not for others. On the other hand, cases selected on the dependent variable can help identify which variables are not necessary or sufficient conditions for the selected outcome. Making tentative conclusions. A limitation of case studies is that they can make only tentative conclusions on how much graduations of a particular variable affect the outcome in a particular case or how much they generally contribute to the outcome in a class or type of cases. In other words, a case study remains much stronger in assessing whether or how a variable mattered to the outcome than assessing how much it mattered. The “degrees of freedom”-problem” is also applicable in
case studies. This term is the statistical term for the broader issue of under-determination, or the potential inability to discriminate between competing explanations on the basis of the evidence. In statistical studies, degrees of freedom are crucial because they determine the power of a particular research design. In case studies there might be a freedom problem caused by less variables, both dependent and independent. Case studies receive criticism because of their lack of representativeness. Case study researchers do not aspire to select cases that are directly representative from populations, and they usually do not make claims that their findings are applicable to the populations. Statistical researchers devote much time and effort in trying to make the samples as representative as possible. In case studies this is difficult and sometimes counterproductive. Here, case study methods involve a trade-off among the goals of attaining theoretical parsimony, establishing explanatory richness, and keeping the number of cases to be studied manageable. Another criticism towards case studies is the lack of independence of cases. This issue concerns whether cases are independent of one another. There is a danger that the researcher will fail to identify a lack of independence between cases and will consequently reach false conclusions. This issue depends on the research objectives, theories and hypotheses in use, and how the comparison of cases is structured. However, a lack of independence of cases is useful to test whether results from an earlier case played a crucial role in a later one (George and Bennett 2005; Yin, 2009). E.g. in a case study on mergers it could be useful to study any former mergers in all the companies’ histories.

5.4 Reliability and Validity

Reliability and validity are two criteria used to examine a research method. Reliability considers the dependability of the data used in the research, and one goal of reliability is to minimize errors and biases in a study (Punch, 2005; Yin, 2009). In a research method
consistency and stability over time are important aspects. Usually expressed in the following question: “if the same instruments were given to the same people, under the same circumstances, but at a different time, to what extent would they get the same scores?” (Punch, 2005: 95). The same result would indicate that the measuring instruments and technics are reliable. Therefore, in a case study the objective is to be sure that, if a later investigator followed the same procedures as described by an earlier researcher and conducted the same case study all over again, the later investigator should get the same results. In order to do so it is important to document the procedures followed in the study. One of the tactics in case study research to secure reliability is the development of a case study database (Yin, 2009). Yin argues that every case study should strive to develop a presentable database, so that other investigators can review the evidence directly and not be limited to the written case study reports. Many documents will be collected and used in a case study, and the use of these documents should be covered. One way to do so is to have an annotated bibliography of these documents, crating a database for the study. The main objective is to make the documents retrievable for later inspection and research. Replicability is the most important form of reliability (Krippendorff, 2004). Transferred to this study it means that all the documents in use and how they were retrieved will need to be documented. Table 1 and appendix A constitutes this study’s database.

Validity, the other criteria has several dimensions and meanings in social research. The validity of data considers how well the data represent the phenomena for which they stand. Overall validity of the research is about the research as a whole, and refers to the extent to which the different elements of a study fit together. Validity can be divided into three different dimensions or tests; construct, internal and external validity. Construct validity refers to the operational measures for the concepts being studied. Internal validity is about the
study’s research design, whether it is a true reflection of the reality studied. External validity refers to the generalizability of the study’s findings and results. The question here is how far the findings can be transferred to other settings (Punch, 2005; Yin, 2009).

Yin (2009) considers the three dimensions to be three different tests for the research method and design in use. The first test, construct validity, is considered to be especially challenging in case studies, because of the problem of developing a sufficient operational set of measures. To meet the test of construct validity it is important to define the subject of research in terms of specific concepts, and identify operational measures that match the concepts. Also, different tactics are available to increase the construct validity in case studies. First, the use of multiple sources of evidence in the data collection contributes to increased construct validity. A second tactic is to establish a chain of evidence in the data collection and the study. In my study I have emphasized the use of a large number of, and different kinds of documents in the research.

Internal validity is mainly a concern for explanatory case studies, when a researcher is trying to explain why and how events led to other events. If a researcher concludes with a causal relationship between events without knowing whether other events caused the result, the research design has failed to deal with the threat to internal validity. Another concern here is the problem of making inferences. A case study involves an inference every time an event cannot be directly observed, and therefore it is important to question the inferences. Explanation building, addressing rival explanations, and using logic models are different tactics in addressing internal validity (Yin, 2009). Therefore, in this study it will be important to address other explanations and inferences than those given from earlier research or the analysis part of the thesis.
External validity, the generalizability of the study is considered as a great barrier when doing case studies. However, it is here important to distinguish between statistical generalization and analytical generalization. In case studies the latter one could be used to generalize particular results to some broader theory (Yin, 2009). In this study it will be impossible to make generalizations on M&A based on the two selected cases. However, the study provides new hypothesis or propositions (chapter 4) on similar M&A that may possibly have more general validity.

5.5 Limitations and Concerns

The lack of further sources of evidence could represent a possible limitation of this thesis. The broad set of documents in use is no guarantee that other sources could not have given more insight on the studied cases. In general, there is a concern for the potential overreliance on documents as a source of evidence in case studies. As viewed in the chapters above, when using documents as a source of evidence it is important to remember that all the documents were written for some specific purpose and readers other than a case study. Therefore, in this study it is important to be aware of how the documents and text were produced and originally used. The same goes for the archival records used in the study. Furthermore, whether the research is set in context could also represent a concern. Are the cases and the literature well connected? Meaning that the literature on M&A, innovation and organizational change need to be connected with the chosen cases.
6. A Case of Successful Merger: Statoil-Hydro

On December 18th 2006 the merger of the oil and gas companies of Statoil and Hydro, the two Norwegian industrial giants, was announced. In a Norwegian context this merger represented a historical event of great societal, industrial and organizational importance. The new company would include a total of 31 000 employees, with 5000 from the former Hydro and 26 000 from Statoil, and the merger involved approximately 85 percent of all activities on the Norwegian Continental Shelf. In an international setting it involved operations in almost 40 countries. At the time, both Statoil and Hydro held globally recognized technological competence in the oil and gas sector (Storting’s Proposition 60, 2006-07; Merger Prospectus, 2007; Colman et al., 2011).

On October 1st 2007 Statoil and the oil and energy activities from Hydro were merged into the new company StatoilHydro ASA. Statoil shareholders would own 67,3 percent and Hydro shareholders 32,7 percent in the merged company, and the Norwegian government would own 62,5 percent of the stock in the merged company (Storting’s Proposition 60, 2006-07; Merger Prospectus, 2007).

6.1 Statoil and Hydro – Strategies, Structures and the External Environments

At the time of the merger, Statoil was already the largest company working on the Norwegian Continental Shelf, and being located in 34 countries the company was also a huge international oil and gas company. Statoil was established as a state-owned oil company in 1972 with the purpose of, alone or in joint action with other oil companies, to assure Norwegian participation from the beginning of domestic shelf production to build the necessary expertise to form a national oil industry. The goal was to engage in exploration, production, transportation, refining and marketing of petroleum and derivative products, and
other activities (Storting’s Proposition 60, 2006-07). Statoil became a national, industrial and political project from the start, and the company became central in the economic development of Norway. When the first oil exploration in the North Sea took place in 1960s, it was the international oil companies that initiated it. It was therefore assumed that the foreign companies, such as Esso and Shell, would develop the activities on the Shelf if any oil reservoirs would be found. But in the late 1960s and the early 1970s the political opinion turned in favour of national and governmental control over the activities, and several committees concluded that much needed national expertise and competencies would be secured with a national company, and Statoil was established (Falkum and Tharaldsen, 2011).

By 1981 Statoil was the first Norwegian oil company to acquire operator privileges on the Norwegian Continental Shelf (Szumilas and Stensaker, 2009). The 1990s were characterised by intense technological innovation on the Norwegian Continental Shelf, with Statoil becoming a leading company within floating production facilities and subsea developments. Statoil grew strongly and expanded in product markets (Statoil’s Annual Report, 2006; Engen, 2009). The development of the Norwegian oil and gas exploration has been very successful, and it has often been referred to as an oil adventure. As a result, Statoil became an important and powerful actor in the development of Norway, but not quite as powerful in an international setting. For Statoil to become a stronger international company, it was partly privatized and introduced on the stock exchange for further growth. In 2001, the Norwegian Parliament Stortinget decided a stock market listing of the company, and also allowing for new owners to own a third of the company. Several attempts were made to merge Statoil and Hydro during the last decades, and the idea was to assemble the expertise and capacities needed to operate in international markets (Storting’s Proposition 60, 2006-07; Falkum and Tharaldsen, 2011).
Statoil’s head office was located in Stavanger, but the company also had activities otherwise in Norway, in Oslo, Bergen, Trondheim, Harstad and Hammerfest. In 2006 the organizational structure of the company consisted of five business areas: exploration and production in Norway, international exploration and production, natural gas, manufacturing and marketing, and technology and projects (Storting’s Proposition 60, 2006-07; Statoil’s Annual Report 2006). The organizational structure is shown in figure 1. In 2006 the strategic goals of Statoil were several. Firstly, the company wanted to maintain the role of leading player on the Norwegian Continental Shelf. Secondly, Statoil wanted to develop new international platforms. Thirdly, Statoil wanted to strengthen their position in pipeline and liquefied natural gas value chains. Fourthly, increase value creation in the product market. Fifthly, be world leading in project execution and in selected technology areas (Statoil’s Annual Report, 2006).

Figure 1: Organization Chart of Statoil 2006

In 2006 Hydro’s activities were based on two core business areas, oil and energy and aluminium, and both the areas had witnessed a strong increase in recent years. A few years earlier another core business area of the company, the production of fertilizers, had been

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4 Statoil Annual Report 2006; Storting’s Proposition 60, 2006-07; Colman et al., 2011
separated from the company. At the time of the merger, Hydro was the second largest oil and gas company on the Norwegian Continental Shelf, only beaten by Statoil. The company had become an important actor in the exploration of oil and gas in Norway and internationally, and had growth ambitions in both domestic and international markets (Storting’s Proposition 60, 2006-07). Hydro played an important role in the modernization of Norway. Norsk Hydro Aktiekvelstofselskab was established in 1905 as a private company based on producing nitrogen-based fertilizers, and from early on the company sought to enter the aluminium industry. This was the beginning of a long industrial development within agricultural and metal products. The Norwegian government acquired part ownership in the company from 1945, and in 1971 the government extended its ownership into the majority shareholding. The reason for the majority shareholding was national oil-politic motives and perspectives. The shareholding was reduced from 51% to 43.8% in 1999 (Storting’s Proposition 60, 2006-07; Falkum and Tharaldsen, 2011). Hydro started its oil and gas activities in 1963, and was part of the first oil discovery on the Norwegian Shelf in 1969. Hydro was also a major stakeholder in a second Norwegian oil company established at the start of the Norwegian oil adventure, Saga Petroleum. In the 1980s Hydro acquired its own productions blocks and developed its own oil and gas division (Falkum and Tharaldsen, 2011). Despite its growth and successes over the decades, the millennium marked a new beginning for Hydro as the company started reducing its range of activities by demerging its fertilizer and industrial gas businesses into an independent company, Yara International (Storting’s Proposition 60, 2006-07; Szumilas and Stensaker, 2009). At the turn of the century the company was based upon three pillars; oil and energy, aluminium and fertilizers, and the company’s strategy was to become a Norwegian-based international company in all three pillars. Other business areas were phased out, and Hydro acquired other companies in the core business areas. After the divesting of the fertilizer business, the company concentrated on the two areas remaining.
In 2006 the strategic aims for Hydro was to further develop the business areas of energy and aluminium. The main challenges were to increase the oil and gas reserves and improve the profitability in the aluminium business. Hydro was determined to strengthen their international oil business and their position in the European energy market. Another aim of the company’s strategy was to develop the next generation of aluminium production capacity (Hydro’s Annual Report, 2006). Looking deeper into the strategies of the Oil & Energy division in the company provides a further operationalization of the strategies involved. Firstly, in exploration and production Hydro intended to secure long-term growth in oil and gas business by exploiting its core competencies in exploration, project design, project execution and operations. Secondly, the company wanted to deliver strong production growth based on a broad portfolio of well-defined and profitable projects. Thirdly, to build the basis for future long term-term productions by pursue the optimal development and exploitation of the existing portfolio. Fourthly, Hydro wanted to capture the opportunities on the Shelf through technological advances and innovative field development solutions. Lastly, the company wanted to continue to pursue cost improvements in production and exploration activities (Hydro’s Annual Report, 2006). The merger with Statoil would give Hydro the possibility to concentrate on one core business area, the aluminium business, in which the company already was a strong, global, integrated aluminium company (Storting’s Proposition 60, 2006-07). The organizational structure of Hydro Oil & Energy is presented in figure 2.
Statoil and Hydro were founded and developed in different periods of time, but they were both embedded in the Norwegian oil industry that evolved from the 1970s. Thus they shared important experiences and understandings from the Norwegian oil project. Different types of contexts, such as political, historical and industrial have formed the two companies as they both have developed their oil and gas activities in the same period. Conversely, the companies have also shaped their surrounding environments and contexts. The almost fifty years of oil activities offshore have changed Norway, and both companies have contributed to the economic and technological change and development. At the time of the first discovery, the oil reservoirs became a driver for change in many aspects. New knowledge and new technology had to be developed and provided in order to cope with the discoveries. New production methods and new ways in how to organize work were needed, along with new laws and regulations (Falkum and Tharaldsen, 2011).

The changes in contexts and environmental factors have continued to shape the development in the oil and gas production, e.g. technology has already extended the production in the industry beyond the original expectations, and new areas are being explored. During the second half of the 1990s, economic insecurity troubled the Norwegian oil industry as oil prices had stabilized at a lower level. The largest fields had been discovered and developed,

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5 Hydro’s Annual Report, 2006; Storting’s Proposition 60, 2006-07; Colman et al., 2011
or their final development had been planned. The problem was not lack of new discoveries, but rather a tendency for new discoveries to be smaller and less accessible than previous fields and reservoirs. And in addition, the new discoveries contained more natural gas than oil. However, two conditions provided optimism for the oil and gas industry in Norway. First, new technologies and simpler construction methods were being deployed, enabling operating-cost reductions at almost 30%. Second, the opening of exploration and development of oil and gas activities in the northern Norwegian Sea provided new opportunities. Because of the new discoveries and the concern over high costs of exploration and development, the public founding of petroleum research increased during the late 1990s. Also, new inter-organizational models were gradually implemented to accompany the new technological development. The development was accompanied by a significant consolidation of the industry. Statoil and Hydro divided the smaller Norwegian oil company, Saga Petroleum, between them, achieving control of the production on the Norwegian Continental Shelf (Engen, 2009; Falkum and Tharaldsen, 2011).

The internationalization of the Norwegian petroleum industry marked a new era. In 1990 Statoil and British Petroleum (BP) formed an alliance, which focused on exploration and production in the former Soviet Union, Angola, Nigeria, China and Vietnam. The alliance was dissolved in 1999, but Statoil had intensified their effort to be established on the international arena with the acquisition of the Irish oil company Aran in 1995 (Engen, 2009). In 2006, in response to increasing competition in access to resources in the international oil and gas industry, Statoil and Hydro, independently of one another, engaged in a strategic review of their growth strategy and their competitive environment with a goal to enhance their respective competitive positions internationally (Merger Prospectus, 2007). At this time, both companies had a strategy of internationalization, and in 2006 Hydro Oil & Energy joined
Statoil when they tried to gain access to oilfields in Venezuela and capture a large share in the Russian field Stockman. Both the initiatives failed, but the strategies of competing on the international arena contributed to the merger the following year (Engen, 2009).

6.2 Merger Motives and the Merger Plan

As seen in chapter 2, companies merge based on a variety of reasons, such as access to competencies, resources and market shares, as well as internationalization. Some mergers are merely motivated by cost reduction through restructuring and downsizing, or other synergy effects, and some are motivated purely by management motives. In the Statoil-Hydro case the merger was driven by several motives. The objective for the merged company was to be a competitive global participant in the petroleum industry, and to become the world’s largest operator for offshore projects in water depths of more than 100 meters. The merged company would have a greater ability than each of the companies alone to secure further growth in an environment with increasing competition for new resources, and increasing technical complexity in available projects (Storting’s Proposition 60, 2006-07; Statoil-Hydro Merger Plan, 2007). The merger can be characterized as a horizontal merger of two former competitors motivated by a goal of international growth, more efficient operations internationally, scale-based efficiencies and expansion into new markets.

The scale economies would create a stronger possibility to pursue the international growth ambitions because of the joint forces in technological, operational and financial assets. The scale efficiencies would therefore be essential in the strengthened competition on accessing new oil and gas resources (Storting’s Proposition 60, 2006-07). Accessing and exploring new oil and gas reservoirs on the Norwegian Continental Shelf had become more and more difficult the last decades. Statoil and Hydro anticipated that the combined company would
have a better ability to explore, develop and produce oil and gas in technically demanding areas of the Norwegian Continental Shelf in the future. The required technology changes constantly, and therefore by combining the technological skills and knowledge of the two companies the merger would stimulate faster development and greater use of new innovative technologies. This would strengthen the company's position as one of the world's leading technology-driven oil and gas companies (Storting’s Proposition 60, 2006-07).

The new size of the company and the workforce would create a company better equipped for the future. By developing and combining the companies' total workforce of about 31,000 people, including 20,000 in exploration and exploitation, the combined company would be better prepared future challenges. The oil and gas industry faced significant challenges in securing the necessary expertise in the years ahead. The merger would result in a company with greater human capital, project execution capability and operator expertise both at home and internationally. The technological expertise the companies had built the last 40 years would make the combined company internationally competitive (Storting’s Proposition 60, 2006-07). As one of the world’s largest companies in petroleum production in deep water, the new company would be a more attractive customer for the supply and service industry. In the long term the merger would create more efficient use of resources and reduced costs in supply and services in use. The size and the combined forces would also be better equipped in terms of meeting the growing demand for renewable energy (Storting’s Proposition 60, 2006-07).

Other synergies were also an important motive in the merger. It was expected that the merger would contribute to significant cost-reductions through increased efficiency in the exploration, development and production phases. Internal resources would be transferred to other activities and areas of growth. The merger synergies were expected to continue over
time to lead to more revenue for the combined company than for the two companies separately through more efficient use of limited resources in relation to drilling and well activities, increased exploitation, integrated operations, management and international experience (Storting’s Proposition 60, 2006-07).

Geographical proximity is also mentioned as one of the motives for the merger. The activities of the two companies, both at the Norwegian Continental Shelf and in the world, are overlapping. And by combining the two companies' international production and development portfolio, the combined company would benefit from a broader global presence. The new company would therefore strengthen its position in several areas, such as the Gulf of Mexico, West Africa and North Africa. It would hold a diversified portfolio of future development projects, and Statoil and Hydro viewed the geographical spread of the merged company's oil and gas production of strategic importance in order to develop their combined reserves on a medium and long term (Storting’s Proposition 60, 2006-07).

Helge Lund, President and CEO of Statoil stated the following in connection with the announcement of the deal:

“The time is right for a strong Norwegian-based energy champion. We are creating a stronger and more competitive company. Combining the best of both organizations, we will significantly improve our competitive position internationally and promote long-term vitality of the Norwegian Continental Shelf” (Stock market announcement Dec.18 2006).

The following statement from the Statoil and Hydro boards of directors can summarize the ambitions and motives behind the merger.

“Statoil’s and Norsk Hydro’s boards of directors each believe that the combination of Statoil with Hydro Petroleum will create a Norwegian-based international oil and gas company that will be a more forceful international competitor than either Statoil or Hydro Petroleum would be on its own, with greater capabilities to accelerate growth, respond to the challenging
competitive landscape of the energy industry and deliver long-term value to shareholders” (Merger Prospectus, 2007: i).

6.3 The New Company and the Integration Process

As seen in chapter 3, the integration process plays a crucial role for the success in a merger. In the Statoil-Hydro merger the strategies and objectives communicated at the announcement of the merger, on combining the best from both, signaled a tight integration. Although there were obvious size differences between the companies, and unequal size on share holdings, the companies chose to announce the merger as a merger of equals (Colman et al., 2011). This implies a complete combination and equality of the premerger unit’s organizations, processes and resources. So why announce this merger as a merger of equals? Both the CEOs emphasized the importance of equality in the merger integration process.

“We did it to create a new company (...) that was stronger than each of us alone. That is why we were concerned with equality – that one party did not take over the other. It was not an acquisition where one party dictated the contingencies. (...) We agreed that it was a merger” (Eivind Reitan, former CEO of Hydro, in Colman et al. 2011:18).

“The merger represented a large change for both organizations, and I wanted to create the right tone in the merger from day one. My concern was to make sure that our people experienced through our communication and leadership actions that this was a merger of equals. Even though financial I think most people would characterize this as a takeover by Statoil of Hydro, in financial terminology. But for me that was uninteresting, because we would not be measured on the terminology, but on what we managed to create together in the new company” (Helge Lund, CEO Statoil, in Colman et al. 2011:18).

These two statements imply the fact that the size difference between the two companies was substantial, and that it was not likely the merger would be perceived as a merger between equals unless an effort was made.

This effort resulted in several decisions based on combining the best from both. Despite the focus on equality, the early decisions tended to favour Statoil. The top management appealed
to a pragmatic approach towards the equality based on the rationale of the overachieving principles of safe and efficient operations and business as usual (Colman et al., 2011). In the negotiations of the merger deal, some of the allocation decisions and management decisions were made. This included who would take the position as CEO and the position as chairman in the new company, with the CEO coming from Statoil and chairman from former Hydro. It was also decided that Statoil’s governance system and structure would be the chosen system and structure for the new company (Merger Plan, 2007; Colman et al., 2011). Statoil would be the surviving entity in the merger. The name of the new company would be StatoilHydro ASA, but the board of directors in the merged company were in charge of developing a new name and a new logo. The new name should symbolize the merged company’s strategies, values and visions, and it was decided that it should be different from the two existing companies’ names6 (Merger Plan, 2007; Merger Prospectus, 2007). On locations it was decided that the registered office of the merged company should be in Stavanger. Corporate functions should be located in both Oslo and Stavanger, and the CEO should have offices in both locations. Further, the CEO of the merged company would be Helge Lund, and the board of directors should consist of ten members; three from the employees, four nominated by the election committee of Statoil, two nominated by the election committee of Hydro, and Eivind Reitan from Hydro as chairman (Merger Plan, 2007). Decisions that were made after closing the deal included the remaining top management positions, localizations of activities and the staffing. In general, these remaining allocation decisions followed a principle of equality, either understood as 50/50 or as a proportional equality. The recent often interpreted as 1/3 to Hydro and 2/3 to Statoil, e.g. the top management team consisted of six managers from Statoil and three managers from Hydro (Colman et al., 2011).

6 In 2009 the merged company changed its name from StatoilHydro to Statoil ASA, and did not follow the original agreement.
Textbox 1: Factors of success in the Statoil-Hydro merger:

- Similar organizational structure
- Similar organizational strategies on R&D and international growth in the pre-merger phase
- Shared historical context and development
- Shared political environments
- Shared motives for merging: synergies such as economies of scale and cost-reductions
- Geographical proximity in both domestic and foreign activities
- Principle of equality could be understood as proportional equality
- Well prepared integration process
- The ability to make decisions during the negotiating process

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7 StatoilHydro’s Annual Report 2008
7. A Case of Failed Merger: Telenor-Telia

On 20th January 1999, the two leading and largest, state-owned telecom companies in Norway and Sweden announced their intention to merge into a new telecom company (Telenor Press Release 19th January 1999; Mayer and Altenborg, 2008; Neby, 2003). The new company, Newtel AB⁸, was set to become one of the strongest telecom companies in Europe. The boards stated that the merger would make the new company stronger and more robust in competition with the larger market players, and the deal involved almost 23 500 employees from Telenor and 30 500 employees from Telia (Telenor’s Annual Report, 1999; Telia’s Annual Report, 1999). The merger announcement was well received by both analyst and the press. The Financial Times claimed that the merger would be a jewel of communication, and claimed this marked a new era for the telecom sector in Europe (Meyer and Altenborg, 2008).

However, eleven months after the announcement, in December 1999, the merger was cancelled, and Telia and Telenor voluntary dissolved the merged company (Neby, 2003; Telenor Annual Report, 1999). This outcome was surprising, as the two companies were initially regarded as a good match for several reasons. First, the two companies had dominating positions in the telecom markets in their own countries, and economic analysts viewed this relatedness in markets as very favourable. Both companies were present in the same product markets, and they were both ahead of their competitors in the mobile, fixed and Internet markets. Also, the companies had similar historical backgrounds, being former monopolists in a regulated regime. They faced similar competitive challenges defending the strong position, and in changing their strategies to survive in a deregulated market (Storting’s Proposition 58, 1998-99; Meyer and Altenborg, 2008). The merger can be characterized as a horizontal merger of two similar companies motivated by a goal of growth, synergies in scale efficiencies, and national-political ambitions.

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⁸ The new company did not get any official name, but the name Newtel AB is used in correspondence between Telia and Telenor and in government papers.
7.1 Telia and Telenor – Strategies, Structures and the External Environments.

In 1999, Telia’s goal was to be the leading telecom company in the Nordic and Baltic region, both in the fixed net and in new business areas such as mobile and Internet. The company was a strong actor in sale and development of fixed net, both in Europe and between Europe and US (Telia’s Annual Report, 1999; Riksdag’s Proposition 99, 1998-99). Telia originates from a role as a state owned telecom company. The Swedish Televerket had been in charge of developing and operating telecom services in Sweden for a long time. It started with the first telegraph line back in 1853, and developed along with the changes in demands and technology. In 1993 the company became a corporation when Telia AB was founded. Televerket/Telia was a central actor in the vast technological development in the 1980s and 1990s. The company has always been closely related to the Swedish companies in the telecom hardware-manufacturing sector, especially to Ericsson, in developing, testing and producing technology and services in the telecom sector. In 1997, Telia became the first foreign company that was permitted full access to the American telecom markets, and overseas communication was an important strategy area for the company (Neby, 2003). At the time of the merger attempt the company had several strategies for its business areas and markets. Firstly, the company wanted to maintain its position in the Nordic and Baltic region as the leading telecom firm. Secondly, they wanted to increase the efficiency in production and distribution in the Swedish market. Thirdly, to become the leading alternative telecom company in all the Nordic countries. Fourthly, invest and develop the infrastructures and services in the Baltic countries to prepare for increased competition. Fifthly, to expand in Russia and the Baltic areas with the help of a Nordic partner. And lastly, to secure a global distribution capacity based on the strength of the company and strategic partnerships (Telia’s Annual Report, 1998). Functions and the different business areas influenced the
organizational structure of Telia in the pre-merger time. The enterprise was divided into eight business areas and three market areas. Several corporate service units supported the business areas and the markets. The organizational structure of Telia is presented in figure 4.

Figure 4: Organizational structure of Telia 1998

Telenor’s goal in 1999 was to remain the leading telecom, IT and media company in Norway, with the aim of further development for becoming an international telecom company (Storting’s Proposition 58, 1998-99; Telenor’s Annual Report, 1998). At the time, Telenor was the only company in Norway that provided a wide range of telecom services. Telenor’s history dates back to 1855, and it is quite similar to Telia’s. Both were state owned and they both shaped the telecom development of the two countries. Den Norske Telegrafadministrasjonen, Telegrafverket and Televerket are all former names of the

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9 Telia’s Annual Report 1998; Storting’s Proposition 58, 1998-99
company, and in 1994 the firm became a public corporation named Telenor (Neby, 2003). As with Telia, the changes in technologies also changed the company’s activities and operations several times during its history. In the 1990s the Norwegian telecom market was deregulated, and Televerket lost its monopoly in selling telecom services (Neby, 2003). In 1998 Telenor consisted of the overall company Telenor AS and several subsidiary and autonomous companies. While the structure of Telia is explained with the functions and the business areas of the company, the structure of Telenor reflects how the company was involved in several different niches and markets. The organizational structure of the company is presented in figure 5. The strategy of Telenor could be described by the overall ambitions and the strategies in the subsidiary companies. In 1998 the company had an aggressive internationalization plan, especially in the mobile market, and the company also wanted to defend and maintain its position in the Norwegian market by developing new products and services (Telenor’s Annual Report, 1998). By exploring the strategies of Telenor International AS, one of the autonomous subsidiary companies, it is possible to further uncover its main strategies. The international approach was to develop profitable businesses in chosen areas of competencies to increase the company’s position in the international market. The company was involved as owner in several mobile companies around the world, and the goal was to develop an international business alone or in joint action with others. Telenor was involved in projects in mobile communication in Germany, Austria, Russia, Bangladesh, Hungary and Ireland, and had a strategy of further growth in Western Europe, Central Europe, Russia and South East Asia (Telenor’s Annual Report, 1998).
The two Governments and the systems involved in the merger attempt are important parts of the contexts and the external environments for this merger case. Not only did they negotiate the merger deal as owners of the companies, but they were also responsible for informing, involving and getting the final approval from the two Parliaments involved (Neby, 2003). Both the Norwegian and Swedish Governments felt the need to build up a strong Nordic telecom company to meet the competition coming from outside the Nordic and Baltic regions (Fang, 2004). The Swedish parliament, Riksdagen, and the Norwegian parliament, Stortinget, both voted in favour of the merger after recommendations from the two governments. From Sweden it was the Ministry of Trade and Industry\textsuperscript{11} that negotiated on behalf of the Swedish Government, and from Norway the negotiations was made by the Ministry of Transport and Communications negotiated (Neby, 2003). Further, the two Prime Ministers and other members of the Governments were involved in the negotiations at different stages. The Swedish and Norwegian political systems are quite similar, but some differences could have influenced the merger process. In a study, Christensen, Lægreid and Wise (2001) show how the Swedish system has a tradition for less political involvement in the political-administrative system than in Norway. The same researchers have also indicated differences

\textsuperscript{10} Telenor’s Annual Report 1998, Proposition 58, 1998-99
\textsuperscript{11} Today named Ministry of Enterprise, Energy and Communications.
in how the systems handle accountability for the Government in political cases. In Sweden it is more common to have a joint responsibility within the Government, while in Norway it is more common with a higher accountability for the Minister involved (Christensen et.al., 2002). These political factors could have influenced the merger process because of the high level of governmental involvement and considerations. The actions and opinions of the involved politicians could have influenced the merger process, and contributed to the national battle in allocation and localization questions.

There are also other contextual elements that need to be taken into consideration when understanding the failed merger attempt. First, the historical relationship between Norway and Sweden could help analyse the merger case. Sweden and Norway were in a union from 1813 to 1905. Sweden was the superior power in this union, and from the start the Norwegians struggled for power, influence and autonomy. It is reasonable to believe that historical events and emotions could influence future relationships. Second, slightly differences in cultures could also be an important external factor when analysing the merger process. Third, differences in how to respond to shifts and opportunities could help the analysis. At the time of the merger attempt the telecom sector had seen a rapidly, on-going technological development, and deregulation and globalization provided new markets and opportunities (Neby, 2003). How the companies chose to respond to the development and these opportunities could reveal similarities and differences in the pre-merger phase.

7.2 Merger Motives and the Course of Events

The two companies started the initiative to merge already in the autumn of 1997, and negotiated with and without representatives from the two Governments involved in the following years. Business related questions were negotiated at top management level from
both companies, and ownership and other strategic questions were negotiated between the Norwegian and the Swedish Governments (Neby, 2003). Early on the two companies joined into an agreement on further development and strategies because of the merger initiative and process. When entering the agreement on 30\textsuperscript{th} Mars 1999, Telenor and Telia were prevented from carrying out independently, in what is referred to in the agreement as strategic transactions, including the acquisition and disposal of operations, reorganisation and major joint ventures with third parties, until the merger was completed (Telenor’s Annual Report, 1999). The companies were permitted to develop new strategic initiatives jointly, but were required to exercise caution because of an undecided approval of the merger by the EU Commission.

As seen in the chapter 2, and in the presentation of the Statoil-Hydro merger, there are several potential motives behind a merger. A merger between Telenor and Telia was considered important in order to meet the rapid development in the telecom sector, with a high pace of technological and structural changes. Both the Norwegian and the Swedish Governments wanted to maintain a strong telecom company within a national context, securing a nationwide offer of modern telecom services at low prices. Establishing a strong Nordic telecom company would give the size and competitiveness that would insure the governments on these issues. The merged company would create cost efficiency and other synergies for its owners, create a stronger base for innovation and development, along with the enhanced possibilities of expansion into new markets (Storting’s Proposition 58, 1998-99, Riksdag’s Proposition 99, 1998-99).

The merger motives are also explained by the deregulation in the telecom sector, with increased competition both in the national and international markets (Storting’s Proposition
In a press release from the day of the announcement of the agreement, the business strategies and goals for the merged company are summarized:

*To utilise the company’s world leading competence, primarily in the areas of mobile communication, satellites and the Internet, for international expansion, primarily in Europe, but also globally. To increase the profitability of the established Scandinavian activities through further development and continued efficiency improvement. To develop the company’s international business activities, primarily in the Baltic region and the rest of Europe* (Telenor-Telia Press Release March 31\(^{\text{th}}\) 1999).

However, the merger with all its possibilities for growth and synergies did not happen. A decision over location started the final break between the negotiating parties. At Newtel’s board meeting on December 8\(^{\text{th}}\) 1999, the President and CEOs’ proposal for the location of the business areas’ head offices was under consideration. The Swedish chairman of the board made it clear that he would use his casting vote to ensure that the Swedish proposal to locate the mobile operations in Sweden was adopted. Referring to the voting rules in the shareholders agreement, the Norwegian members of the board gave a clear warning of their opposition to this course of action. However, the Swedish board members rejected this. The Norwegian board members immediately had an official entry recorded in the minutes stating that the decision had been made in contravention of the voting rules in the shareholders' agreement (Neby, 2003; Telenor’s Annual Report, 1999). After an evaluation with the two Governments involved, the deal was eventually cancelled.

“For everyone involved – the two countries governments and the two companies – the conditions for a businesslike successful merger have been mutual respect and equality between the two parties carrying out the merger. When one of the parties clearly demonstrates that these conditions are no longer decisive, then unfortunately the whole basis for the merger is gone” (Tormod Hermansen, CEO Telenor, cited in Telenor’s press release December 16\(^{\text{th}}\) 1999).
Table 2: Course of events in the Telenor-Telia merger

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
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| September 1997| CEO of Telenor and CEO of Telia start talks on cooperation between the companies.  
The Swedish Minister of Trade and Industry starts search for partners for Telia. |
| November 1997 | The Norwegian Minister for Transport and Communications is informed about the conversations on a possible merger between Telia and Telenor. 
Political/government negotiations for cooperation starts | |
| January 1998  | The Norwegian Ministry of Transport and Communications informs Telenor that they do not wish to proceed with the merger negotiations.  
_Stortinget_ forces the government to continue the negotiations. |
| February 1998 | The Swedish Minister of Trade and Industry announced that the deal was off. |
| March 1998    | The two companies resume merger talks at top management level.        |
| Summer 1998   | Secret meetings between Telenor and Telia are been carried out.       |
| November 1998 | The political negotiations are reopened.                             |
| January 1999  | The Swedish and Norwegian Ministers announce the intention to merge Telenor and Telia through the agreement of intentions.  
The new agreement replaces all the earlier agreements. |
| March 1999    | The merger agreement is signed.                                      
Announcement of top management team and localisations postponed. |
| April 1999    | Announcement of top management team.                                 
Announcement of localisations postponed for second time. |
| June 1999     | The business units present their business plans to the top management team. 
Board members are appointed. |
| October 1999  | The EU Commission approves the merger on conditions.                 
The shareholder agreement is signed. |
| December 1999 | Telia sell its Norwegian telecom operations to Norwegian Enitel.      
The Swedish chairman of the board uses his casting vote in the decision to localise the mobile business area to Sweden. 
The deal is broken off. |

7.3 The New Company and the Merger Agreements

Telenor-Telia’s overall strategy was to expand internationally to become a leading actor in telecommunications and information services in northern Europe and globally, and to expand in other areas where the company could develop advantages of competition and competence. The company was expected to increase the profitability in the Nordic region through changes in efficiency and by using its advantages of competence; distribution of communication
services, research and development of the fixed net based on future technologies, an increasing penetration of current and new markets, development of new services and a geographical expansion. The business portfolio could be summarized in three areas of activity: the fixed communication services in the Nordic area; established and new areas of growth; and international investments through ownership and knowledge transfer (Storting’s Proposition 58, 1998-99; Fang et al., 2004).

The intention agreement from January 1999 contained an ownership agreement in favour of the Swedish side of a 60/40 relation (Storting’s Proposition 58, 1998-99; Fang et al., 2004; Neby, 2003). The 60/40-relation was a result of valuations, a due diligence, and negotiations between the parties. Equality between the parties became an important issue in all rounds of negotiations, but the question of ownership was not solved through equal shares. During the time of the negotiations there were several agreements with different sets of issues addressed. Three essential principles underlie all the agreements of the merger. First, the merger and the management of the new company were to be based on equal influence. Second the merged company should be partially privatized and stock market listed. And third, the new company should have a commercial and financial facility that will form the basis for a long-term industrial cooperation. The first principal on equality and power balance was superior to the rest of the principles, and in the merger and shareholder agreement this was reflected in several ways. Firstly, the governments should have equal votes in the general assembly. Secondly, the governments should have equal rights in appointing the same number of members of the board. Thirdly, the position as chairman should rotate between the parties. Fourthly, the Norwegian government was given the right to appoint the first CEO in the new company, and the Swedish government was given the right to appoint the two first deputy CEOs. Lastly, the head office for the new company was to be located in Sweden, and the
international centre was to be located in Norway. Further, the locating and managing the rest of the activities should be based on commercial principles and the integration principles according to the agreement (Storting’s Proposition 58, 1998-99).

Textbox 2: Factors of failure in the Telenor-Telia merger:
- Different organizational structure
- Different organizational strategies on international growth and development in the pre-merger phase
- Different priorities in the mobile and fixed market and development in the pre-merger phase
- Different nationalities, languages and cultures
- Different political environments and actors
- Different strategies on R&D and innovation
- Lacking geographical proximity in foreign activities
- Principle of equality resulted in several postponements of allocation and localization decisions, resulting in the lack of the ability to make decisions during the negotiating process
8. Discussion and Comparison of the two Cases

Chapter 4 presented five different propositions when integrating the M&A literature and the innovation literature. After presenting the involved companies, their structures, strategies, external environments, merger plans and course of events, it is now possible to illustrate the validity of the propositions with the empirical findings.

Proposition 1 suggested that the more similar the structures of the companies, the more likely the merger will be a success. In the case of Statoil-Hydro the structures can be described as similar. The similarities in structure between Statoil and Hydro are presented in figure 1 and figure 2. Both companies can be characterized as divisionalized companies. The figures show how the companies have similarities in business areas and in how they produce scientific and technological knowledge. In the negotiations of the merger deal the structure of Statoil was chosen, and as shown in figure 3, few changes were needed. Based on this, it is fair to claim that Statoil and Hydro achieved a high organizational fit. In the case of Telia and Telenor, there were several differences in the organizational structures. Figure 5 shows Telenor as a highly divisionalized company with autonomous subsidiary companies in different niches and markets. Figure 4 shows Telia as a less divisionalized company focused on different business areas and functions, with surrounding support units. The lack of organizational fit makes the merger more difficult to conduct, and therefore contributed to the failure.

Proposition 2 suggested that the more similar the external environment surrounding the two merging companies, the more likely the merger would be a success. In the Statoil-Hydro case the companies shared similar cultures, identities and history. Both Statoil and Hydro operated in the North Sea, giving the employees and managers from the two merger parties a shared history as important actors in the development and operation of the Norwegian oil and gas
exploration and production. By this, I mean they had met the same risks and challenges, used the same technologies, developed similar knowledge and skills, and followed the same rules and regulations. The two companies also shared the same political context. They had the same owner in the Norwegian Government, and had experienced the different shifts in political fluctuations. Before and after the first oil exploitation in the 1960s the Norwegian Government decided to develop national expertise in geology, physics, engineering, economics and law, in order to develop the oil industry as a national project. Both companies took part in developing systems for research and further development within the industry. Telenor and Telia also shared similar external environments in form of cultures and history. The companies were regarded as a good match for many reasons, especially because of the shared historical development of the companies. The companies had dominating positions in their country, both were ahead of their competitors in the mobile, fixed net and Internet markets, both had similar historical backgrounds as former monopolists, and they both faced competitive challenges in the new deregulated markets. Politically, the companies shared both similarities and differences. They were both state owned companies from similar governance systems, but had slightly differences in how the governments conducted their ownership. In the cross-cultural management literature, Sweden and Norway are ranked as similar cultures. Fang (et al., 2004) list several reasons why the culture became a problem in this particular merger process. First, one reason could be the lack of preparation on both sides due to the perceived similarities between the two countries in national culture, corporate culture, and language. Second, the differences between Norway and Sweden also concerned the trade unions. In Sweden, the trade unions have had a stronger position in relation to management, probably more powerful than in Norway. Third, incidents occurred during the negotiation process that aroused a strong nationalistic sentiment on the Norwegian side, which pulled the merger into the historical rivalry between Sweden and Norway.
Proposition 3 suggested that the more similar the companies’ strategies are, the more likely the merger will be a success. For example, to realize synergies the merging parties need to agree on how the combined resources will be deployed in the merged company. If the merging parties have different and divergent strategies on how the combined resources can be best combined, then their strategies are incompatible, and the more likely the merger will be a failure. Both cases represent mergers of companies with complementary resources, but also two different views on how to combine these resources. In the case of Statoil-Hydro the companies had developed similar strategic priorities before the merger. They had both adopted a strategy of international and domestic growth, and they had both experienced the need to develop new technologies and production processes in order to maintain their production and profitability. The consolidation strategy of Hydro suited the Statoil’s strategies for growth and increased value creation in the product markets. The synergies and efficiencies described in the merger plan could confirm the strategic fit between the companies.

In the case of Telia and Telenor, the two companies had embraced some different strategic priorities before the merger attempt. The development of the strategies in Telenor and Telia can be traced back to how the two companies chose to respond to the technological change and deregulation of the telecom market in the early 1990s (Meyer and Altenborg, 2008). In Telenor a substantial part of the company was separated from the regulated market to prepare for a more competitive market. New ventures were spun off into autonomous entities, giving business managers a large degree of control over their own business. Also, Telenor made different acquisitions in new areas such as information technology. The implication of this strategy was that Telenor at the time of the merger attempt was the centre of innovations in telecom in Norway. The innovations were either acquired through M&A or happened in-
house. In Telia, the strategy was highly influenced by their largest business, the fixed net (Mayer and Altenborg, 2008, Neby, 2003). The fixed net was the historical basis for Telia’s growth, and was the main central business unit in Telia. Telia’s strategy was to use their strong position in the fixed net in the domestic market to take on a stronger positions in neighbouring countries, and to become one of the world’s leading operators in the fixed net in Europe and the US. Telenor had an expansion plan based upon the company’s mobile and Internet divisions, and had expanded its mobile business into the Far East, Russia and Eastern Europe. The plan was to continue this strategy. Also, at the time of the merger Telenor had plans to establish a stronger position in the Nordic market. In their study of the failed merger, Mayer and Altenborg (2008) found that both Telenor and Telia were critical and sceptical to the growth strategies of their merging partner. Telenor saw little potential in international expansion in the fixed markets, and Telia doubted the strategy of expansion in Russia and the Far East.

However, both companies shared the ambitions to expand in the Nordic mobile markets. Another example of different strategies in the two companies is the innovation strategies involved. Telia’s management believed that innovation should be managed from the centre of the company, implying a single dominant logic, and that the fixed net should be revitalised through new technological innovations. Telia also had the benefits of being located in a strong cluster of telecom activities in Kista, Sweden. A location where Ericsson, at the time one of the world’s leading telecom hardware producer, was also located. The close relationship to Ericsson was important to Telia, and it was considered as a strong centre for innovation. In Telenor the innovations happened in-house within the business units that were separated from the regulated business, implying a diverse logic to innovations. Telenor also acquired innovations through M&A (Mayer and Altenborg, 2008). Research on international M&A
indicates that resolving strategic incompatibility can be particularly challenging when there are different nationalities involved. The Telenor-Telia case confirmed this as the companies lost confidence in one another, and in how they failed to reach key decisions because they were locked into national battles on location and strategic choices.

Management could also have contributed to both the success case and the failure case. Based on this thesis it is difficult to analyse whether hubris played an important role in the merger motives. However, it is possible to describe how the management dealt with the merger processes. Both mergers were presented as mergers of equals, with different understanding of the equality principles. Announcing a merger as a merger of equals elicits expectations from the different stakeholders. The implementation of a merger implies the reassignment and redistribution of resources, authority and responsibilities between individuals and between units. It was likely that conflicts of interest would occur, leading one of the involving partners to perceive the process as not equal. The announcement of a merger of equals sends strong signals of balance and equality, both to the merger process and its outcome. It also sets the stage for a difficult post-merger balancing act, with high expectations of equality that would not exist if the merger was announced in a different way. In the case of Statoil-Hydro the equality principle was not absolute, but also relative to the different size of the merging parties. The early integration and allocation decisions in the Statoil-Hydro case did not appear to elicit feelings of imbalance or inequality among management, managers or employees (Colman et al., 2011). In the case of Telenor-Telia the principle of equality led to both political and management disagreements. One analysis of the breakdown of the merger might be that representatives of Sweden, through their actions, showed that they regarded Norway as neither an equal player nor a telecom nation. In their study of the Telenor-Telia case, Mayer and Altenborg (2008) found that the forces resisting integration and hindering
operationalization of the strategic intent of the merger were located at the top. They observed how the positive spirit of integration deteriorated, particularly in the top management and the board of directors, whereas the middle management played a much more constructive role in translating the strategic intent into new business strategies. It is also interesting to ask whether Telenor was the preferred merging partner for Telia. Before entering into the merger attempt with Telenor, Telia had come a long way in discussing merger plans with Sonera, the major telecom company in Finland. After the merger breakdown and cancellation, Telia merged with Sonera in 2002.

Proposition 4 suggested that the more similar the organizational structure of two merging companies, the less likely there will be further organizational changes during the merger process. As already shown above the organizational structure of Statoil and Hydro were similar, and both companies could be described as divisionalized companies. Further, as shown in chapter 6.2 and 6.3, some of the decisions that affect the need for further organizational changes in the merger process were taken during the negotiations. Decisions such as who to appoint as CEO and chairman, the adaption of Statoil’s organizational structure, the name of the new company, a geographical balance in localization, and the decision to use a pragmatic approach to the equality principle during the rest of the merger process. In the case of Telia and Telenor we have seen the differences in structures, and how these differences could be explained. Telenor’s structure is organized towards the independent subsidiary companies in different niches and markets, and Telia’s structure towards functions and business areas. As shown in table 2, several of the allocation decisions in the merger attempt were postponed time after time. A great problem for Telia and Telenor was that there was no overriding mechanism for resolving issues where the parties had incompatible views. None of the parties became strong enough to overcome this problem. The equality principle
also contributed to this problem. The equal balance and equal representation and voting procedures implied that there was no overriding resolution mechanism. In the case of Telia and Telenor it is reasonable to conclude that several organizational changes would have been necessary to conduct the merger, if it had been successful.

Proposition 5 argued that if two companies with similar R&D-strategies and technological competencies merge, it will lead to an increased pace of technological innovation because of higher R&D-investments and economies of scale. In the case of Statoil-Hydro the R&D-expenditure increased from NOK 1.97 billion in 2007 to NOK 2.24 billion in 2008 (StatoilHydro’s Annual Report, 2008). StatoilHydro also reported that the company had delivered half of the identified merger synergies by the end of 2008, and summarized 2008 with a strong operational performance. It appears that some of the anticipated synergies were realized soon after the merger. The anticipated synergies mentioned in chapter 6.2 were e.g. economies of scale and other scale efficiencies because of the joint forces in technological and operational forces. Other synergies mentioned were the company’s total combined workforce, size and expertise. The combined forces resulted in a company better equipped in order to meet the demands and challenges in the oil and energy sector. Cost-reductions were also mentioned as an anticipated synergy in the merger, and a more efficient use of resources in relation to exploration and development were listed. A suggested future research could be to analyse the pace of the technological innovation and other synergies in Statoil-Hydro in a long-term perspective.
9. Conclusions

This thesis has investigated the factors that explain merger success and failure by making an attempt to link more explicitly the literature on M&A and the literature on technological and organizational innovation. The work has proposed some general propositions on how to study the outcome of a merger, and then compared the success case of the merger between Statoil and Hydro with the failed merger between Telenor and Telia.

Chapter 2 has presented the literature on M&A through different definitions, descriptions of different types of mergers and merger motives. The latter can be summarized by the three main factors of growth, synergies and management objectives. Different approaches and research on the success and merger failure were also presented in chapter 2. Motives, strategies, the pre-merger planning and the post-merger integration are examples of success factors that are often highlighted in the literature. Chapter 3 has presented a summary of some relevant theories on innovation and organizational change. The chapter has introduced innovation through definitions of the phenomena, by distinguishing between product and process innovation, and by exploring the process of innovation from different approaches. Organizational innovation has then been presented by pointing to the literature on organizational structures and their innovation potentials. Chapter 3 has also provided a framework on how to understand organizational changes by means of the organizational environments and resources, namely the resource dependence perspective. The main premise for this approach is that organizational activities and outcomes are accounted for by the context in which the organization is embedded. Chapter 4 has made an attempt to draw insights from the innovation literature for the study of mergers. By proposing five general propositions (or hypotheses), the chapter has tried to propose a new direction of research. These propositions focus on how organizational structures, external environments, and firm-
level strategies may affect the result of a merger. Chapter 5 has then presented the methodological approach used in the empirical analysis of the two cases. The presentation of the data and the case study database are two important aspects of this chapter. Further, the chapter has also discussed some important aspects of document and text analysis, strengths and limitations of case studies, reliability and validity of the thesis, and some thoughts on limitations and concerns for the thesis. Chapter 6 has described the success case of the merger between Statoil and Hydro, and chapter 7 the failed case of the merger between Telenor and Telia. Here, the companies’ strategies, structures and external environments have been described, along with the merger negotiations, motives, plans, negotiations and the integration process. Chapter 8 has then discussed and compared the results of the two cases in the light of the theoretical propositions outlined in chapter 4.

The main result of this comparative study is that several factors contributed to the success of the first case. The companies Statoil and Hydro had similar organizational structures and similar business strategies on R&D and international growth in the pre-merger phase. The firms also developed in the same historical contexts, with the same political environments and actors. The two companies also shared the same motives when entering the merger process, and could therefore set up a detailed plan of the anticipated synergies in terms of efficiencies and cost-reductions. The pre-merger planning and the ability to take decisions during the negotiations resulted in a prepared integration process in the post-merger phase. Statoil and Hydro also shared a geographical proximity in both their national and international activities.

In the second case, the merger attempt between Telenor and Telia, the empirical evidence suggests that several factors contributed to the merger breakdown. Telenor and Telia had developed in different countries and business cultures. The differences in political
environment and actors contributed to lock the merger process in national battles.

Furthermore, the two companies had different organizational structures, and different business strategies on international growth and development in the pre-merger phase. For example, the companies differed at that time in terms of their different focus on the developments of mobile and fixed telephony market respectively. Different strategies on R&D and innovation are two other important factors. The two companies also lacked geographical proximity in their foreign activities before the merger attempt. During the negotiations for the merger, the principle of equality resulted in several postponements of allocation and localization decisions, resulting in the lack of ability to make conclusive decisions.

As previously outlined, besides explaining the different outcomes of these two merging cases, this thesis has made an effort to point out some more general propositions that may be useful to link more explicitly the merger and the innovation literatures, thus suggesting a possible new direction of research in this field. However, it is clear that this study has been an exploratory exercise, and the validity of this new research direction will have to be largely developed and extended through additional studies in the future. Further, both of the selected cases analysed in this thesis represent horizontal mergers with companies similar in terms of size, product, services, technologies and sectoral systems. It would therefore be interesting to test these propositions on different types of mergers, as well as in different sectors and national contexts.
REFERENCES


Appendix A: Accessing the documents and texts used in the merger cases

Statoil-Hydro

- Merger Prospectus, accessible at http://www.statoil.com/en/InvestorCentre/Presentations/Prospectus/Pages/Prospectus.aspx
- Stock market announcement 18th Dec. 2006.
- Information about the Merger Integration Trailing Project accessible at http://www.fafo.no/pro/BVS/bvs_tema3_statoilhydro.html

Telenor-Telia


• Telia’s Annual Report 1998, accessible for purchase at http://www.bolagsverket.se


