Leading Integration of Organizational Cultures Following an Equal Merger

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ABSTRACT

Mergers have become an increasingly important and interesting option for companies to expand. Research, however, shows that more than 50% of mergers fail. The reason for the high failure rate, according to many researchers, is that most mergers are too focused on business and financial conditions instead of the human factors. Executive Committees often do not put enough attention on core values, beliefs and attitudes.

The purpose of this thesis is to gain a deeper understanding of the importance of the cultural integration process during a merger. A model has been constructed to explain the process of “leading the integration of organizational cultures”. With the empirical research based on a main case study and a complementary literature study, the aim is to see if the model can be applied to real corporate life.

Our findings are that it is hard for the Executive Committees to focus on the cultural aspects to the extent that we argue is needed, but that mergers become more successful when cultural aspects are really taken into account.

Key words: Merger, Culture, Integration, Leadership, Communication
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1 INTRODUCTION

This introductory chapter is divided into two parts. First a brief background about mergers will be presented. Thereafter the problem discussion will be provided that will lead to the research question of this thesis.

1.1 Background

Mergers have become an increasingly important and interesting option for companies to expand. During the last couple of years, the number of mergers has risen quite dramatically, and they appear constantly in the news. There are many reasons why companies merge. Some examples of motives are achieving economies of scale, increased market share or higher productivity (Buono & Bowditch 2003). Today, a typical merger is strategic and operational in nature (Galpin & Herndon 2000).

Regardless of the reason to merge, there is always a question of power distribution in the new company. One term that has been used for mergers that take place between two companies that are similar in size, defined mainly in terms of production, sales, revenue and market value, is mergers of equals (Rock 1987:360). When it comes to value contribution, a strict definition of a merger of equals is one where there is a completely equal exchange of stocks between the two merging firms and where the board of the merged organization has members from both companies. A looser definition, however, allows for the two merging companies to show an approximately equal value contribution even if the exchange of stocks is not exactly 50–50 (Zaheer et.al 2003:186).

The equal merger aims for clear expectations and strict equality in all aspects of the process. For example, management will have to be redesigned to make it representative of both former companies. In such a situation, there has to be a special focus on cultural integration. Because of confusions of who is in charge of various aspects of the merger integration process and arguments about who should give up what, organizational integration can be difficult in mergers of equals but makes them nonetheless interesting to examine (Zaheer et.al 2003). ¹

¹ In this thesis, we will define a merger of equals as a merger between two firms that are similar in size as defined by Rock, and where the both parties have agreed on creating a new company with a new culture and an equal power distribution.
1.2 Problem discussion

Research around the strategic, financial and operational factors shows that less than 50% of mergers are expected to be successful (Buono & Bowditch 2003:7). A problem is that many firms appear to overestimate the potential benefits of a merger. Issues like communication failures, hostile mentalities towards members from the partner company, lack of commitment, lowered productivity, struggles for power and loss of important staff members are often faced by merging companies (ibid).

It has been argued that one reason for the high failure rate is that most mergers are too focused on business and financial conditions instead of the human factors\(^2\) (Bijlsma-Frankema 2001: 192). When different organizational cultures merge, people are forced to understand each other and to change their attitudes and ways of behaving. The reaction is often a feeling of lack of information and lost identity, and fears of consequences such as loosing ones job (Schweiger et.al 1987:127-129). It is the people that bring success to an integration of two companies, but today employees at different organizational levels are often ignored (Buono & Bowditch 2003:1).

This quote from Kilmann et.al. (1985: 427) illustrates the situation;

*Picture two icebergs in the ocean, where the tip of each represents the top management groups ± primarily financial people ± deciding the fate of the two companies and how the merger will work. As these top management groups set the merger in process, the two icebergs begin moving toward one another until the tips meet and mesh as one. Such a consolidation however, can never take place. As the icebergs approach one another, it is not the tops that meet; rather it is the much larger mass below the surface of the water, the respective cultures that collide. Instead of synergy there is a culture clash.*

Although culture definitely is a concern for many companies that plan a merger today, a problem is that it is sometimes thought that cultural compatibility between the merging firms in itself brings merger success. In many mergers, there is therefore not enough attention on agreeing upon new core values, beliefs, attitudes and managerial styles in the new company (Cartwright & Cooper 1996:1-9). Moreover, the role of the leaders is a concern with issues like unclear roles and a lack of understanding of human factors (Thatch & Nyman 2001:146).

\(^2\) Human factors are factors which impact people within an organization, for example management style or communication methods.
Sometimes, the Executive Committee\(^3\) is too reluctant or incapable of exercising the leadership necessary for changes to take place, while in fact employees are more open to change and want to get started with the process (Hoag et.al 2002:6).

During this study we will explore how the Executive Committee of two merging companies can behave and react during an equal merger to involve the human factors and avoid the problems that normally arise. Our purpose is not to investigate operational, financial or strategic matters in connection with the merger, nor do we aspire to take them into consideration. Instead, we would like to emphasize that a merger of two organizations actually is a merger of individuals and groups. We will particularly look at integration of organizational cultures and how this integration process can be structured and emphasized by the Executive Committee. A model is developed as a tool for the Executive Committee to integrate the two organizational cultures in order to achieve a united culture.

More specifically, we attempt to answer the question;

*How can the Executive Committee lead the integration of two organizational cultures in an equal merger?*

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\(^3\) In this thesis, the term “Executive Committee” will be used to signify the Senior management group in a company which is led by the CEO.
2 LEADING INTEGRATION OF ORGANIZATIONAL CULTURES

This chapter contains theories relevant to this study and is divided into four different areas. First, theories around creating a new organizational culture will be presented. Thereafter, theories around communicating a new culture and how to measure the success of a united culture will be provided. Subsequently, a model based on the theory will be presented, which clarifies a process of “leading integration of organizational cultures”.

2.1 Creating a new organizational culture

There are many ways to define the concept of organizational culture. Hofstede & Hofstede, well-known for their studies of organizations and cultures, define organizational culture as “the collective mental programming that separates the members of one organization from the members of another organization” (2005:300). Cartwright & Cooper have worked extensively with culture and human resources in connection with mergers and acquisitions in particular, and define organizational culture as the attitudes, values, norms, traditions and rules within an organization that create the atmosphere for employee interaction (1996:55-57). Which type of culture an organization has depends on many different factors such as history, size, nature of business activities, technology and external environment, as well as the people, especially the founders and leaders. The national culture, of course, also influences organizational culture4 (Cartwright & Cooper 1992:55).

To begin a process of integrating two organizational cultures, many researchers agree that it is of extreme importance that both the merging partners first get to know each others’ cultures and agree upon what the culture in the new merged company should look like. They also state the necessity of having a special focus on the cultural integration process (Walt 2005: 41-46), (Beckett-Huges 2005: 50-51) (Cartwright & Cooper 1992). In order for a merged company to function at its best, a new common organizational culture where people understand each other and adapt to the same values, behaviors and attitudes needs to be developed (Buno & Bowditch 2003).

4 Because national culture consists of a broad range of factors that influence organizational culture, we have chosen not to further investigate how national culture affects a merger by itself.
An essential part of a cultural integration strategy is to assign areas of responsibility. Beckett-Hughes (2005:50) believes that the only way to succeed in integrating two organizational cultures is to appoint someone at an early stage that has the main responsibility for the whole process. If the process is complex, responsibilities could be divided among different people who all have a very clear and specific role. Walt (2005:41-46) has similar ideas and points out the importance of creating a due diligence team, a team that systematically evaluates culture and people issues in both merging companies both before and after the merger. He also stresses the involvement of the Human Resources Department (HR department) in the planning of the integration process. According to him, HR people are often better suited than the Executive Committee to assess the relation between different cultural factors, since they have more experience within the area.

### 2.2 Communicating a new culture

According to Walt (2005:41-46), communication is the most important aspect to prepare, accustom and engage employees in the required cultural changes. Communication should be frequent and direct, and happen at all levels in the company. This is particularly important if the two former organizational cultures are very different from each other (ibid). Some researchers mean that information should come from the old companies in order to reduce employee anxiety. Others, however, state that the information should come from the new merged organization since the employees otherwise will be too isolated from the new management (Buono & Bowditch 2003:198-199).

Walt (2005:41-46) asserts that the communication process should start on the day of announcement and continue for a long time after the formal integration process is finished. (ibid) Some researchers suggest a “staged approach”, where top management informs middle management, which carries the message on to the next level of the organization (Buono & Bowditch 2003:198). Middle managers can be used frequently in communication, since they often have strong formal and informal networks, and can influence employees at all levels of the company (Walt 2005:41-46). After observing several mergers during four years, mainly though in-depth cases and formal interviews, Cartwright & Cooper (1992:110) found that a common problem is that organizations only act to integrate cultural changes at top level management and expect the result to “trickle down” to the rest of the employees in both former organizations. A solution to this could be to establish focus groups at an early stage
that contain people from both the companies. These groups should work with teambuilding at all levels. They could also be used as a forum for employees’ expectations and problems, as well as to make sure that certain behavior is implemented (ibid).

There are several ways to communicate cultural change during a merger. Nguyen et.al (2003:451) find that one of the most important aspects of the communication process is that the people in charge of the cultural change must create an environment where people involved in the cultural integration can open themselves up to the new ideas and concepts. As a result of eight years of field research, Buono and Bowditch (2003:201-208) have summarized some ways of successfully communicating in a merger process. Examples of useful tools are, according to them, newsletters, hotlines, presentations, workshops and seminars. While for example newsletters provide employees with clarifications and invite them to dialogues, hotlines can provide employees with an outlet where they can anonymously ask questions, give criticism and get answers. If these tactics are combined, management can ask questions to employees in the newsletters, which can be anonymously responded to by employees through the hotline. Thereby management can at an early stage get ideas on how to manage the situation, and better adapt their messages and actions. Presentations can also help staff members, and can include everything from general orientation to presentations in specific areas. More interactive tools are workshops on different issues, as well as informal support groups among co-workers (ibid). To really engage employees, one suggestion from the management consultancy firm McKinsey is to create new work tasks that connect employees from both former companies. By taking part in these activities, employees can more easily learn to compromise and act together instead of relying too much on their “old” culture and habits (Weber & Camerer 2003: 413).

### 2.3 Measuring the success of a united culture

In order to understand the employees’ picture of the new culture and the procedure of integration, management must continuously review the integration process. Early adapters might welcome the new situation and have no problem in accepting the new vision of the merged company. Other groups of employees may be more concerned, and have a “wait-and-see attitude”. Furthermore, there will be those who are even more pessimistic and will not or cannot deal with changes at all (Lesowitz & Knauff 2003). Galpin & Herndon (2000: 154-
180) have studied numerous merger processes and find that specifically targeted surveys is one useful technique to measure cultural integration. These surveys could ask questions about cultural dimensions like information transfer, customs, norms, and ceremonies, feedback and interpersonal communication, decision-making processes, leadership within the organization and employee involvement, to mention some. The integration core team and the task force for cultural integration can then analyse the findings and advise management of possible actions (ibid). Nguyen et.al (2003: 449) consent that measuring the cultural integration progress is vital, and assert that five to seven years are usually required for employees to feel truly integrated into a new culture.

**2.4 Summary – model for integrating organizational cultures**

To succeed with the integration of two organizational cultures during a merger, we have reached the conclusion that the cultural integration should start at an early stage in the overall integration process of the merger. It has to involve all levels of the organization and there has to be a structured process for it, where the focus is on the human factors. Based on the theories presented above we have come up with a model of how the process of integrating two organizational cultures in an equal merger can ideally look. The model contributes to the understanding of the cultural integration process. It relates to earlier studies in the field, but is different in the sense that it deals specifically with building a new culture in mergers of equals alone.

In the model it is assumed that the decision to merge has already been taken by the Executive Committees of the merging companies. In order for the model to function optimally, it is crucial that the merging companies have carefully evaluated the cultural fit before deciding to merge. The three steps in the model are expected to occur simultaneously, but start in a sequential manner. Integration 1 therefore begins before Integration 2, which in turns begins before Integration 3. None of the three steps has a definite end. Because of the uniqueness of each merger situation no exact time frame for the process can be given.
**Integration 1, Creating a new culture**

As a first step, the Executive Committee of the two merging companies should evaluate their own and the partners’ culture to see how they match, and how they should proceed with the integration. When the new Executive Committee is formed (grey area) a gradual process is begun regarding how this Executive Committee, step by step, should proceed in integrating the two cultures into a common organizational culture. It needs to define the new culture, come up with a plan/strategy for the cultural integration process and create areas of responsibilities. The Executive Committee will have to make an overall integration plan, but what is crucial is that it also creates a specific cultural integration plan that will be incorporated as early as possible in the integration process.

**Integration 2, Communicating the new culture**

The second step in our model is to communicate the new organizational culture and the changes that follow down to the employees at all levels. Until the new Executive Committee can fully take over (grey line), this needs to be done by the Executive Committees in both the...
merging companies (black lines). In this step, it is essential that the old and new Executive Committees give employees the motivation to be a part of the new organization, and provide them with the tools and information they need to handle the new situation. It is equally important that the new Executive Committee lets the employees be involved and take an active role in integration and decision-making, meaning that communication must be bilateral. Practices within the organization can be combined with help from external consultants with experience in the area.

**Integration 3. Measuring the success of a united culture**

The goal of the cultural integration process is that all employees should feel like members of one united company and value their new organizational culture as much as their old one (grey area). When all employees in the two former companies are aware of how they should act and communicate with each other in the new culture, the success of the cultural integration can be measured for the first time. It is important that the Executive Committee makes sure to measure the success of the cultural integration. They need to be aware of the atmosphere down through the chain and see if the culture has changed in the desired direction\(^5\). If the results of the measurements show unevenness throughout the company, the Executive Committee needs to go back and work more on Integration 2, communicating the new culture.

\(^5\) Since our focus in this paper is on the Executive Committee, we cannot fully assess the success of cultural integration and will only give general guidelines. The third step of our model will be a base for a master’s thesis, where we can quantitatively measure success by surveying a larger selection of employees.
3 RESEARCH METHODOLOGY

This third chapter presents how the research has been conducted and the motives for the chosen methodology. First, the purpose of the research and the research approach will be provided. Thereafter the data collection methods will be presented followed by the caveats.

3.1 Purpose of research

As previously stated, the purpose of this research is to examine how an Executive Committee should handle the integration of two organizational cultures after an equal merger, with a model as a tool. To measure the relevance of the model and further look into the process of cultural integration and why mergers succeed or fail, we have performed a case study on AstraZeneca.

Our choice of case was based on a desire to study a company that has gone through an equal merger. We wanted to examine a company where the aim was to build a completely new culture and where the integration process therefore had to be in focus. We also wanted to study a merger that had been perceived as successful, trying to sort out what the most vital aspects for succeeding with a cultural integration process are.

In most Medias, the merger of Astra and Zeneca has been perceived as a comparatively successful merger of equals, and many leaders within the organization have expressed their satisfaction with the merger. Since we wanted to assess the success of a process, it was also important to choose a merger that did not happen too recently, in order for the process to fully develop. The merger of Astra and Zeneca took place six years ago, in 1999.

To complement our success bias, we supplemented our empirical investigation of AstraZeneca with a literature study of the merger of Pharmacia & Upjohn. We chose to study this merger because it was an equal merger, within the same industry and close in time to the merger of Astra and Zeneca. The outcome, however, has been more negatively perceived and the literature study is based primarily on the issues that arose in this merger. Because it is difficult to approach a company with the aim of bringing up negative aspects of a process they have gone through, and because Pharmacia & Upjohn has been involved in other mergers and
no longer exists as a company, we decided to rely fully on secondary data for this study. We also decided to only look at a selection of events during the first critical period of the process until the first CEO decided to resign. A reason for this is the complicated history of the company.

3.2 Research Approach

We have chosen to use a qualitative research method for the case with personal interviews as a foundation. The reason for this is that we aim to examine a process where many parts have to be covered. Culture is also a complex topic where it is difficult to form questions that can give statistically measurable answers. By using the qualitative method, we will be able to more thoroughly investigate a relatively small sample, and focus on gaining deeper understanding. In both cases, we have looked at the mergers mainly from a Swedish perspective.

3.3 Data Collection

3.3.1 Secondary data

In the initial stage, we searched for information about both AstraZeneca and Pharmacia & Upjohn mainly in the daily press and on the Internet to create a picture about how the mergers had taken place, what motives they had and which persons had been prominent in the merging process.

3.3.2 Primary data

Through a personal contact and by searching through news articles and AstraZeneca’s web page, we gathered information about persons that could be interesting to interview. The individuals we were eager to meet should have been either a part of the Executive Committee or one of the merger teams that were set up after the merger. We decided to look at the merger only from the perspective of former Astra employees, since these would be easier to reach. All in all, four interviews were conducted between November and January 2006 (Se appendix 1 for a complete list of interviewees). We chose to conduct both personal and telephone interviews. Personal interviews are beneficial because they give the interviewers the
possibility to read the respondent’s non-verbal cues (Yin 1994). We therefore conducted the interviews that could be carried out at AstraZeneca’s head office in Södertälje in person. The reason for conducting some interviews over the telephone was that some important persons that we wanted to get in contact with no longer lived in Sweden, or no longer worked for AstraZeneca. To meet all respondents personally would also have been very costly.

The interview guides that we used were sent to the interviewees two business days ahead of the interview. The reason for this is that we wanted the interviewees to be able to think through the topic and come prepared to the interview. To avoid standardized answers, however, we asked follow-up questions during the whole interview that had not been previewed by the respondents. To avoid incorrect citations, all interviews were recorded with the approval of the interviewees.

The interview guide is divided into four parts that cohere with our theory and model. Subsequently, in the section “merging cultures” the interviewees were asked about their views on the two merging cultures before the merger, and the new integrated culture after the merger. Although the empirical findings from this section are not analyzed, we found it important to include this part of the interview guide to get a detailed background of the merging cultures. In “leading integration” and “communicating integration”, interviewees were inquired about their views on leadership in a merger situation and how the merger was communicated in the company. Finally, the section “success factors” gave the interviewees the chance to tell us their own view of the merger they were a part of, and what they believe to be general success factors when merging two organizational cultures. The interview guide should be seen simply as a guide, and different areas have been focused on with different interviewees. A sample questionnaire is attached as Appendix 26.

6 In the interview guide, the word “board” is used in the interview questions 2, 3 and 4. The reason for this is that the board has the last say in all matters. During the course of the study, we realized that “Executive Committee” would be a more appropriate term to use in the rest of the thesis, since we are interested in the part of top management that has an operative function only. This should, however, not influence the collected data.
3.4 Caveats

One problem with the chosen research method is that the selection is rather narrow, with the result that the interviewees might not represent the former Astra employees in AstraZeneca as a population. However, since we are interested in the actions of the Executive Committee, this should not be a major issue. A further issue has been to find the right interviewees since the merger occurred several years ago. It is also possible that some information that could have been useful is no longer accessible, and the respondents might not remember all of the details from the process. Moreover, a difficulty has been to design questions that would not upset the interviewees or put them in an uncomfortable situation. Organizational culture is also a wide concept, which can lead to misunderstandings. To solve this problem, we tried to have an open dialogue with the interviewees and tried to be as explicit as possible in our communication. We also encouraged our interviewees to ask questions during the interview or let us know if there was anything they could not respond to.

Since culture is a sensitive topic for both the Executive Committee and employees, a further problem is that it is complicated to get information that is objective and not distorted by an attempt to describe the company in the best way. The persons that agree to participate in an interview are more likely to be the ones that have had a positive picture of the merger. Moreover, it is likely that the things remembered are the positive rather than the negative aspects. Furthermore, the interviewees are likely to know which factors constitute a successful cultural integration according to the literature, and be influenced by the questions we ask. By asking follow-up questions that the interviewees did not know of before the interview and by reading a lot of secondary material on the merger, we have tried to minimize this problem.

In the Pharmacia &Upjohn study, the data we have presented does not reflect all of the aspects of the merger. We have made a considerate choice to look specifically at some specific merger problems and are aware of this fact. It does, however, mean that we can not present the history of the company in a completely fair and accurate way.
4 EMPIRICAL FINDINGS

In this chapter we will present the data from the empirical findings from our two studies, the case study of AstraZeneca, and the complementary literature study of Pharmacia & Upjohn. First, the AstraZeneca case will be presented. It starts with a background to the merger followed by a description of the integration process. After that the literature study of Pharmacia & Upjohn will be presented, with the purpose of bringing up supplementary aspects of what problems can occur during the integration process.

4.1 Case study AstraZeneca

Astra was founded by Adolf Rising in 1913. From being a relatively small company for many years, Astra became on of the 40 largest companies in Sweden in the 1980’s with headquarters in Södertälje. During the beginning of the 1990’s, Astra continued to succeed within the pharmaceutical industry, and its product Losec became the worlds “most sold” pharmaceutical product (Sundling 2003:304-305). In 1998, Astra focused on four principal groups of products: cardiovascular, respiratory, gastrointestinal and pain control. Research & development, manufacturing and marketing was unilaterally conducted by the Astra pharmaceutical group (http://www.astrazeneca.com).

Zeneca was formed 1993 as a spin off from Imperial Chemical Industries (founded in 1926). Like Astra, Zeneca was engaged in research & development as well as manufacturing and marketing of its own pharmaceutical products. Cancer, central nervous system, anesthesia, cardiovascular, central nervous system and specialty and agricultural chemicals were main business areas (http://www.astrazeneca.com).

After five great years in the beginning of the 1990’s, Astra’s growth had started to stagnate and the dependency on Losec was becoming an issue. The Executive Committee of Astra was starting to look for possible structural solutions. At the same time, Zeneca was near to being bought. In 1996, Astra’s CEO, Håkan Mogren, had become acquainted with Sir David Barnes, the CEO of Zeneca. They had similar business ideas and discussed a potential cooperation (Sundling 2003: 306-307). At the same time, Astra investigated several other merger partners, but came to the conclusion that Zeneca would be their best fit (Forss 2005). A strategy group was appointed, and a proposal for an equal merger was made, but nothing
more happened. One reason was that Astra still had to close a deal with another big pharmaceutical company in the business, Merck. The day after the deal with Merck was closed in June 1998, Mogren and Barnes met. After thorough investigations, the Board of Directors in Astra and Zeneca negotiated an agreement about an equal merger on the 9th of December 1998 (Sundling 2003:308-311).

The merger between Astra and Zeneca was formally carried out in April 1999. According to Tom McKillop, the new CEO of AstraZeneca, the reason for the merger was the conviction that the two companies would be able to create synergy effects and be more successful than they ever could have been alone. The major reason for this was the increasing costs for developing and marketing pharmaceutical products in the industry (Sundling 2003:306-313). The newly formed company could get a stronger research base, stronger global sales and marketing, cost savings of 1.1 billion USD in three years and financial resources to create strategic flexibility. Besides, the leadership styles and corporate cultures in Astra and Zeneca were perceived as very similar, which created a base for equality (Astra/Zeneca press release 1998).

Astra Zeneca established its head office in London. The new company had its concentrations in five major therapeutic areas: Gastrointestinal, cardiovascular, respiratory, oncology and local and general anesthesia. The new board consisted of fourteen members, seven from Astra and seven from Zeneca, with Percy Barnevik from former Astra as a non-Executive chairman and Tom McKillop from Zeneca as the CEO responsible for the new merged Executive Committee (Astra/Zeneca press release 1998).

Before the merger, Astra and Zeneca had quite similar organizational cultures. They were similar in size, were both already very international and had a similar view of the market. Moreover, there was good personal chemistry between the two Executive Committees (Stavling 2005). In both of the companies, respect for each individual’s competence was considered very important (Ternby 2005). The main difference was that Astra was more decentralized than Zeneca, which instead had more bureaucracy, routines and formalized “working ways” (Stavling 2005, Forss 2005). Zeneca was also more process-oriented than
Regarding decision-making, Astra was faster and the managers had a stronger mandate than the managers in Zeneca that were more controlled by their headquarters (Stavling 2005, Ternby 2005). Astra’s employees also had more influence and a key was to engage the people. One possible explanation for the cultural differences was the companies’ different histories, where Astra had grown from being a small company whereas Zeneca was spun off from a larger organization. Coming to the national cultures, the differences between the United Kingdom and Sweden were not so many, which made the integration process easier (Stavling 2005). A difference, however, was that Zeneca was largely influenced by its home market England, while Astra felt more international (Forss 2005).

4.1.1 The creation of AstraZeneca’s new culture

From the beginning, the companies had agreed that the merger should be equal, and therefore a whole new culture had to be created. Some of the things that the Astra board and management found important to preserve was the freedom to have the people in focus and to keep decision-making decentralized. The Executive Committees from Astra and Zeneca met several times at a secret location to agree upon the composition of the new Executive Committee (Ternby 2005). To decide the guidelines for the new company, the whole new Executive Committee met on their own one weekend to discuss important strategic and cultural issues. They agreed not to leave the venue until clear roles and responsibilities were set (Stavling 2005).

To create the new organizational culture, the new Vice President of Human Resources, Gunnar Christiani⁷, formed a group with four other people from both Astra and Zeneca that worked more deeply with evaluating the two organizational cultures and made the initial cultural plans. They had a close relation with the CEO Tom McKillop, and consistently reviewed the plans with him. The best of Astra and the best of Zeneca, together with external best practices and new practices, formed the new integrated culture (Warnström 2006). The new values were presented quickly to the rest of the company (Ternby 2005).

The corner stones of the new culture were based on (1) respect for the individual and diversity, (2) openness, honesty, trust and support for each other, (3) integrity and high ethical standards and (4) leading by example at all levels of the company (Mogren 2002).

⁷ Member of the Executive Committee
What Astra had to change in the new culture was to become a bit more bureaucratic. Another thing that changed was that the new head office was in London. According to Ternby (2005), this was “the only clear mistake” in the merger process. The move was a bit hard to deal with for the Astra people, mainly because the new headquarters was one of Zeneca’s old London offices where people already had their ways of working. Moreover, it was hard for some of the Zeneca people to integrate with their headquarters in London, since their research & development plant in Manchester had always been very independent.

4.1.2 The role of the Integration Office and the HR Steering Group

The integration process had to be carried out very quickly (Forss 2005). The chief responsible for the integration was Tom McKillop (Stavling 2005). A team was selected to run the integration process from what was called the Integration Office. Åke Stavling, the Executive Director- Business Development and Integration at AstraZeneca, received the responsibility to lead the Integration Office (Stavling 2005, Ternby 2005, Forss 2005). The role of the integration office was to work as an Air Control Tower that coordinated all of the processes and made sure things were happening in time (Stavling 2005). They served as a contact link between different divisions and did not have an operational role (Ternby 2005).

One of the main objectives behind the integration process was the structure of decentralization, meaning that responsibility should be delegated and all the successive department managers should take their own responsibility for the integration of the staff under them (Forss 2005, Stavling 2005). The team members of the Integration Office were individually responsible for keeping track of the integration in the different divisions, for example research & development, marketing, finance and HR. All divisions, however, had to make their own integration plan. The integration office was the direct link to the middle managers in each division, who were responsible for implementing the integration plan (ibid). According to Forss (2005), “the merger was quite technically oriented”. The time was very limited and other issues than cultural often had to be prioritized. He said “I do not recognize that we should have actively tried to influence attitudes and behaviours”.

David Hyde had the HR responsibility within the Integration office. He was also part of a group called the HR steering group, which among other things worked specifically with the cultural integration. The group consisted of seven people, and was linked to the Executive Committee through Gunnar Christiani. Under the steering group, there were about ten
different subgroups working with HR related issues in the new company. The consulting firm McKinsey served as a source for information and provided the company with business cases, templates and personal experiences from other mergers (Warnström 2006).

4.1.3 The communication of the new culture

The HR Steering Group took a role in communicating the culture. They wanted the new values to be spread through as many channels as possible (Warnström 2006). The first month of communication was managed by the former Executive Committees in Astra and Zeneca. It was essential to give the employees a clear message of what was going on (Ternby 2005). On the day of the announcement, top managers were the first to be informed. A press release was published, and there was also information on the Internet for employees. Shortly after the announcement, the Executive Committee of Zeneca met Astra employees in London. Meanwhile, Astra’s Executive Committee travelled to Manchester to meet Zeneca employees. In the end of the spring 1999, a huge video conference was arranged, where the management from all subsidiaries took part, and were able to discuss integration issues (Stavling 2005). Newsletters, magazines and the web were also used as a means of communication (Ternby 2005).

The HR Steering Group documented the new culture. Manuals were distributed within the company to all different divisions that were supposed to be used in seminars. The manuals involved questions about the new culture, how the employees felt about it and what could be changed for the better. They were designed to work without a special tutor and could be led by the manager of each task force. The seminars were supposed to be carried out during the fall 1999 (Warnström 2006). The cultural integration was also expected to take place through the interaction between employees that participated in different task forces (Forss 2005). Both organizations tried to share their best traditions and practices. As an example, the employees from former Astra arranged a traditional Swedish Lucia celebration at the year of the merger, 1999, at the British head quarters of AstraZeneca. The next year, the British people at AstraZeneca redid it in the traditional Swedish way (Stavling 2005).
4.1.4 Measuring the united culture

To measure the success of the united culture, the HR Steering team performed traditional surveys on employees. The purpose of the surveys was to see that the seminars had been carried out properly in all divisions, which was necessary in order to take further actions. The surveys tested the knowledge around the new culture and gave the employees the possibility to give feedback. The measurements of the organizational culture took place for the first time in 2000. More general measurements, not as focused on the merger, have been carried out in 2002, 2004 and will be carried out in 2006. Some examples of questions that employees were asked regarding the culture were; if they had been invited to the seminars to discuss AstraZeneca’s mission and/or corporate values, their view of AstraZeneca’s overall aspirations and values, and how they felt the company was doing in living up to each of the value statements (Warnström 2006).

4.1.5 A successful cultural integration?

The merger of Astra and Zeneca has been perceived as very successful (Ternby 2005, Stavling 2005, Forss 2005, Warnström 2006). According to several respondents, it took about a year from the merger until the company felt like one united company, AstraZeneca (Stavling 2005, Ternby 2005, Forss 2005). One challenge that was faced in integrating both the companies, according to Stavling (2005), was that people had different opinions on how fast things should be done; he thinks that the integration process could have been even quicker. According to him it was also hard to create the big picture of the whole integration process (ibid). According to Forss (2005), it is possible that the merger would have become more successful if there had been an even more specific focus on cultural integration. Warnström (2005), on the contrary, asserts that the survey in 2000 showed very positive results and that employees expressed a common picture of the culture. According to him, one main success factor for the process was the fact that “the Executive Committee saw the cultural aspects as the conclusive question”.

4.2 The Pharmacia & Upjohn merger

In August 1995, the two pharmaceutical firms Pharmacia AB and The Upjohn Company merged into one new organization called Pharmacia & Upjohn, Inc. (Pharmacia & Upjohn, Inc. Annual Report 1995:97). The companies came from backgrounds that were a bit different. The Upjohn Company had a history of growing organically and was established in 1886 by W.E. Upjohn, in Michigan, USA. Pharmacia was founded in 1911 in Sweden, and had grown through several acquisitions (Sandlund & Pagot 1996).

Before the merger, Pharmacia had evaluated numerous merger partners, but decided that Upjohn would be a good company to merge with because of similarities in many relevant areas (Sandlund & Pagot 1996), (“Ekberg river pyramiderna” 1997). The main reason for the merger was that both companies wanted to strengthen their market positions by building a strong unit, due to an increasingly competitive pharmaceutical market. Both Pharmacia and Upjohn also feared being acquired, and Pharmacia had a large interest in the American market (Olsson 1995), (Andersson 1995).

The companies joined each other in an equal merger, using a pooling method in which shares are exchanged and with a mission of having an equal power distribution (Pharmacia & Upjohn, Inc. Annual Report 1995:97). The purpose was to form a completely new organization with new values, missions, and beliefs. In every country, an “identity ambassador” that would spread the values within the new organization was appointed (Nordlander 1997:29). Moreover, positions within the new company should be equally divided between Europeans and Americans (“Ekberg river pyramiderna” 1997).

In the new organization, the former Upjohn CEO, John L. Zabriskie, became the CEO. Jan Ekberg, the former CEO of Pharmacia, was appointed the role of Chairman of the Board. In the new Board and Executive Committee, half of the members came from Pharmacia and half from Upjohn (Pharmacia & Upjohn, Inc. Annual Report 1996:1). For diplomatic reasons, the Executive Committee was placed in London (Barkman 1997). Although the structure of the new company was quite similar to Pharmacia’s matrix structure, the company became more centralized after the merger (Sandlund & Pagot 1996).
A merger executive group constituted of three executives from Pharmacia and three from Upjohn was set up to lead the integration and make the most central decisions. Zabriskie and Ekberg were both a part of the group. Earlier the same group had had the responsibility of analyzing the merger, and now it continued with planning the whole integration process. Under the group, about 20 merger teams were working on different issues. A merger process group coordinated all the projects, and reported back to the merger executive group (Sandlund 1996).

4.2.1 Merger problems

In the new organization, employees seemed positive at the beginning, according to opinion surveys (Sandlund & Pagot 1996). Only one year after the merger, however, many employees, mainly from former Pharmacia, had left the company. For example, the persons responsible for four out of five Swedish therapeutic areas had left the organization and many key persons within the research area resigned (Nachemson-Ekwall 1996).

One problem on the board and top management level was that the Swedish members of the Executive Committee were used to gradual solutions taken in mutual agreement, and they were shocked by the Americans’ “harder,” task-oriented leadership style. Because the CEO only saw the choice of London as location of the head office as a diplomatic solution, he tended to turn to his old organization in the USA instead of his new headquarters. The head office became more and more Americanized and had very little knowledge about the organization in Sweden (Barkman 1997). As a result of the American domination in the Executive Committee, Swedish employees perceived the Swedish Executive Committee members as marionettes that never dared to question the Americans (Holm & Lock 2002: 27).

Another reason for problems was that many people from the Swedish part of the organization were unhappy with communication and leadership from the corporate level. Many Swedish managers felt confused; they had responsibilities to take care of but no authority to carry them out. Very annoyed Swedish managers could read in the newspaper about decisions concerning them that they did not know about and did not have a chance to influence. Partly as a result of this, many of these managers chose to leave their positions. The Americans did not have the same problem and continued working more in the same style as they had done before (Nordlander 1997:30).
All in all, there was lowered trust for top management. One reason was that all the parts of the company that had to be sold off were old Pharmacia businesses, and none of the businesses of Upjohn. On January 20th 1997, the CEO John Zabriskie left his position, officially because of “personal reasons and a wish to work with other interests”. One of the unofficial explanations, however, is that the board was disappointed with Mr. Zabriskie’s leadership style and ways of dealing with the problems that had occurred in the Swedish part of the organization. Unfair assignment of leading positions, with more Americans in “heavy” positions in fields like finance and law was one part of the criticism from Sweden (Nordlander 1997:31-32).

The changes that occurred made the Swedes feel further away from the new company. They did not feel the same sense of belonging as before to the organization and its culture (Kantor 1999).
5 ANALYSIS

In this chapter the empirical data from chapter four will be compared and analysed with the model that was presented in chapter two.

5.1 Integration 1 – Creating a new culture

Integration 1 in the model is the first important step in the integration process. In this step, the two Executive Committees of the merging companies must first come together and agree upon a new organizational culture to decide how to proceed with the integration process. It is essential that they investigate and learn about the two cultures before they come up with a new common culture that fit both parties. In the AstraZeneca case, it seems like the two Executive Committees came along very well and had similar attitudes towards the merger. The CEO’s had met many times before and wanted to create an open atmosphere between the two companies. They had agreed on having an equal merger with the purpose of creating a completely new culture. The fact that the Executive Committees met so frequently before the merger was announced to plan the merger process and to define the different roles in the new Executive Committee, shows that there was a close united team on the top. Moreover, the selection of a new CEO that had not been CEO in any of the old companies demonstrates the ambition of the Executive Committees to create something completely new. Together, these factors probably created respect for the new merged company from employees, and made it easier for the Executive Committees to integrate the two companies. Looking at Pharmacia and Upjohn, these two companies also joined each other in an equal merger. A big difference however, compared to AstraZeneca, is that the two Executive Committees did not appear to be as close as the ones in Astra and Zeneca. Even though an equal number of employees from Pharmacia and Upjohn were selected to form the new Executive Committee and Board, the culture of the new company was highly influenced by the Americans. One explanation for this could be that the old CEO of Upjohn got the new role as CEO, which created unbalance from the start. The fact that there appears to have been unfair assignments of the leading positions also implies that the power distribution wasn’t functioning properly. On the other hand, the new chairman was from Pharmacia. Looking at both AstraZeneca and Pharmacia & Upjohn, a crucial factor seems to be that the two Executive Committees in a merger must come along really well in order to create a new common organizational culture. Moreover, that they act
like one united force from the beginning appears to be crucial if they are going to have the chance to influence all of the other employees.

As a next step in Integration 1, the model states the importance of assigning people that are responsible for the integration process to make sure the process is implemented. Coming back to AstraZeneca, the Executive Committee thought it was important to give someone the main responsibility for the overall integration process. As we have read above, they created an Integration office that focused on making the integration as effective as possible. The Executive Committee also delegated the development of the cultural integration to the HR Steering Group. This indicates that the responsibilities were clear. One reflection, however, is how active the Integration office and the Executive Committee really were in the cultural integration. After interviewing two people from the Integration Office, that were responsible for the coordination of the integration process, it did not seem like they knew so much about the communication and integration of the new values. It seems like the HR Steering Group planned much of the cultural integration on their own, mainly discussing their plans with the specific HR representatives within the Integration Office and the Executive Committee and without involving too many other people. Regarding Pharmacia & Upjohn, a merger executive group was, as earlier mentioned, set up to lead the integration. We also know that there were many different subgroups that worked with the integration, and that these were all coordinated by a merger process group. This implies that the responsibilities were rather clear in Pharmacia & Upjohn as well. To what extent the integration process was focused on culture, however, is hard to say. Looking at the problem that occurred, it does not seem like they took the cultural aspects as seriously as might have been necessary. On the other hand, the use of for example identity ambassadors speaks for that certain people worked particularly with cultural integration. One explanation could be that the link between the identity ambassadors and the top management was simply too weak.

When the Executive Committee has come together and established the base for the new culture it is vital, according to the model, that it creates a clear plan for integrating the organizational cultures. In the case of AstraZeneca we have seen that the HR Steering Group created the specific cultural integration plan in close cooperation with the Executive Committee and with assistance from the Integration Office. How this plan was incorporated into the general integration process, is however hard to discern.
5.2 Integration 2 – Communicating the new culture

Integration 2 in the model highlights the importance of letting the employees be involved and take an active role in the integration and the decision-making process. According to the model, this is essential for giving employees the motivation to feel part of the new organization. In AstraZeneca’s case we know that the Executive Committee was thinking about involving the employees as much as possible to make the integration run as quickly and smoothly as possible. Early in the merger process, the “old” Executive Committee of Astra communicated both with employees in Astra and in Zeneca. As the new Executive Committee in AstraZeneca had taken over merger teams and task forces were used in the process, and the communication process was delegated to each and every manager. The HR Steering Group stimulated this interaction by creating manuals that could be used in seminars for cultural integration in all parts of the organization. In the Pharmacia case, one part of the criticism from employees concerned the centralized decision-making in the communication process, which demotivated them and minimized their trust for top management. They felt that they were not in charge of their own situation in the new organization. Sometimes, employees had tasks to take care of, but no authority to carry them out. The fact that the Executive Committee in AstraZeneca delegated the communication process to each and every manager can be seen as an essential factor in involving the people in an organization and making them more responsible for their actions. Moreover, that the management relied heavily on merger teams and task forces is an indicator of how they really tried to involve employees and let them be part of discussions and decisions.

What we know more regarding the communication process in AstraZeneca is that the Executive Committee was very strict on having a continuously open communication and that they used different communication channels for keeping the employees fully updated. Through the HR Steering team, they communicated the values in as many channels as possible. Most of the activities that are mentioned in the theory chapter were also carried out, except hotlines that were not used. It seems like they managed rather well in reaching the employees with information before it went out in the press, and that different channels were used for different employee groups. A reflection, however, is how successful the communication of the culture was. Even though the surveys showed positive results, it is of course crucial to hear the employee’s point of view fully assess the situation. In the Pharmacia & Upjohn merger the communication does not appear to have been as
unproblematic. The managers often received information too late, and could sometimes even read in the papers about decisions concerning them, which they had not been involved in. This led to a lot of speculations and rumours. According to the model, letting employees take an active role in decision-making is essential. Perhaps, this is even more important in an integration process during a merger than in other processes, since everybody is involved in the change and everybody has to change their own behaviour.

5.3 Integration 3 – Measuring the success of a united culture

Integration 3 in our model explains how the Executive Committee should take the time to measure the success of the culture. The integration process has to go on until the goal of having one united culture is fulfilled. In the case of AstraZeneca, we have seen that the culture was measured, the first time one year after the merger was announced. This coheres with the model.

How successful the integration was, and whether the new Executive Committee in AstraZeneca had a deeper understanding of the cultural changes that were taking place within the company, is however hard to say. Warnström stated that the Executive Committee saw culture as a top priority which made the merger so successful. This implies that the process was carried out as stated in the model. Forss asserted that the merger of Astra and Zeneca was more of a technical nature, and that separating the cultural aspects was impossible because there was no time for that. Stavling and Ternby also did not stress the “softer side” of cultural integration. This implies that although there might have been a specific focus on cultural integration within the company, the process for how it should take place was sometimes a bit unclear. In the Pharmacia &Upjohn study, it is hard to discern if a common organizational culture was developed. The fact that the employees, especially the Swedes, become more and more unhappy and confused and became shocked about the American style can be seen as a sign of a more limited integration of the different cultures. Moreover, that the CEO turned to his former American colleagues rather than to the Swedish members of the Executive Committee, could be an indication of a fragmented culture. A reason to that a common work procedure did not seem to exist may have been that common values were not engendered.
6 CONCLUSIONS

In this chapter the conclusions from our study will be presented. The focus will be on answering the research question presented in chapter one, and discussing the analytical findings and the relevance of the model.

In this research paper we have argued that there is too little focus on the cultural integration process in mergers. After looking at the AstraZeneca and Pharmacia & Upjohn mergers, we have reached the conclusion that human aspects are indeed a central part of a successful merger and to focus more specifically on a cultural integration would solve a lot of problems. In our view, creating common values, beliefs, attitudes and behaviours among employees and adapting to a new working environment can most easily be done through a cultural integration process carried out by the Executive Committee.

From our research, we have come up with the following points that summarize the conclusion of what the Executive Committee should consider when leading the integration of two organizational cultures in an equal merger:

• The former Executive Committees need to get along well at an early stage in the integration process, acting rationally and compromising. A new Executive Committee, with an equal division of members from the two companies, must be created in order to make the power division more representative for the new company. Choosing a completely new CEO seems to be important not only for creating power balance, but also in order to give the right message to employees. Employees need to feel they are led by a new united Executive Committee with clear standpoints.

• Clear responsibilities for the cultural integration need to be set up. It is important to have working groups that coordinate the cultural integration and make sure everyone is involved in the process.

• Decentralized and honest communication is important. The delegated process motivates and involves all parts of the organization to be a part of the change.
• Evaluating the process continuously and carefully is also essential. This enables the Executive Committee to review the integration plans and take the necessary action steps.

An important reflection is how actively the Executive Committee should drive the cultural integration. As mentioned earlier, many mergers today have a more operational and strategic focus. How much can an Executive Committee prioritize the cultural aspects? The integration process is a complex process that must happen very quickly. To prevent the merging companies of ending up in a culture clash, our model argued the importance of actively communicating culture and at an early stage involving all employees in the process. In the case of AstraZeneca, we realize that one main way of communicating the new culture was letting people from both former companies work together in task forces, and thereby explore the new culture themselves. In other words, the cultural integration was not as active as we previously thought, and the values and beliefs were communicated in written materials rather than through continuous discussions and open dialogues. Looking at the results after these two studies we can draw the conclusion that our model could be applied to real corporate life. Whether cultural integration can be as prioritized as stated in the model is however something that deserves further research.
References


AstraZeneca home page. *Merger partners in brief.*


Appendix 1

Interviewees AstraZeneca:

Åke Stavling: Executive Director- Business development and Integration, head of the Integration office during the merger

Staffan Ternby: Information Director for the Swedish subsidiary of Astra Zeneca during the merger

Mikael Forss: Vice President Business Development, part of the Integration Office team of AstraZeneca during the merger

Claes Warnström: Vice President, HR Strategy & Coordination, part of HR Steering group during the merger
Appendix 2

Interview guide - The cultural integration process

Background information about the respondent:

- current position in the company
- role before the merger
- role during the merger

Merging the cultures

1. a) What similarities did you see between the organizational cultures of Astra and Zeneca before the merger?
   b) What differences did you see between the organizational cultures of Astra and Zeneca before the merger?

2. How willing was the board to change Astra’s organizational culture?

3. Was there anything that the board found especially important to preserve of Astra’s organizational culture?

4. In what ways did the board agree with Zeneca’s board on how the two organizational cultures were going to be integrated?

5. Was a clear common culture that would signify the new merged company created?

6. Was there a clear process for the integration? If yes, how was it structured?

7. a) What did Astra keep of its organizational culture after the merger?
   b) What had to change after the merger?

Leading integration

8. Who was in charge of the overall integration process?

9. How was this person/ were these persons selected?

10. Which tasks/ areas of responsibility did this individual/these individuals have?

11. Which tasks/ areas of responsibility did you have?

12. Did you have any special training of how to carry out the project?

13. How did you prepare yourself for the task?

14. Which leadership qualities/characteristics were demanded from you for the task?

15. What were the problems that you faced during the process as a leader?
16. What do you believe is the most important role of the board/management in integrating two cultures?

**Communicating integration**

17. Was there a clear communication program for the integration? If yes, how was this program structured?

18. Which persons handled the communication process?

19. How was the merger between Astra and Zeneca communicated to the employees on the day of announcement?

20. Which channels were used for continued communication of the cultural change process?

21. Which activities were organized for the employees to teach them to handle the culture changes that had to take place?

**Success factors**

22. How successful has the integration process been from your perspective?

23. How successful has the integration process been from AstraZeneca’s perspective?

24. What do you believe is the strongest success factor in merging two cultures?