The Old Mutual and Skandia demerger

Building commitment as a factor of success

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Abstract

Increasing M&A activity has during recent years shown no indication of slowing down. Contrarily, the success rate of the M&A’s are still low, accordingly an increased frequency of demergers is a likely outcome. The demerger phenomenon has yet to reach the gaze of the academic community, where little is known surrounding the subject. This study takes a qualitative approach to try to understand the underlying reasons that drive a demerger process, and the factors that determine the success of a demerger process, through the lens of M&A literature. Our findings provide indications that the planning and execution of the disintegration and communication within a demerger correlates to demerger success.

Furthermore, our contributions give indications that building employee commitment is an essential driver that enhances the possibility of a successful demerger.

**KEY WORDS:** Demerger process; Commitment; Communication; Conflict of interest
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1. Introduction

An ever-growing field within Business Organization studies is the prevalence, motives and characteristics behind Merger and Acquisitions (M&A’s), that is, the consolidation of two separate companies. Historically, the prevalence of the M&A phenomenon has fluctuated in cycles, where trends of M&A activity have mirrored the contemporary economic state (Martynova & Renneboog, 2008). In statistics provided by the Institute of Mergers, Acquisitions and Alliances (IMAA), whose mission is to “... provide and advance knowledge and insights to improve the use and benefits of M&A’s and strategic alliances.”, the data clearly illustrates a sharp increase of worldwide M&A activity. The statistics show that the amount of M&A deals reported back in 1985 amounted to approximately 2000 deals. However, these figures are marginalized in relation to the all-time high figures of 2007, which amounted to almost 50,000 M&A deals with a total value of $5 billion (imaa-institute.org). Although between 2009 and 2011, these figures has decreased to around 40,000 announced deals, grossing just over $2 billion (imaa-institute.org). Consequently, as the economic state now has begun to recover, one can, in line with Martyrnova and Renneboog’s (2008) claim, M&A’s activity will do the same, i.e. when the economic state is flourishing, companies are more prone to adopt M&A strategy, where focus on growth and expansion is enabled. Miczka and Größler (2010) argue that this, in fact, is one of the primary goals of an M&A.

A key to understanding how M&A-strategies facilitate growth and expansion within companies is to identify their underlying motives. According to Naiper (1989) whom argue that there are a multitude of motives for adopting M&A-strategies, which can be divided into two main categories: Financial/Value maximizing motives and Managerial/Non-value maximizing motives. The first implicates that the company’s reason for undergoing an M&A is attributed towards value creation for their shareholders, where focus might lie within attaining specific synergy effects through raising efficiency in production or through knowledge transfer and thereby generate a competitive advantage (Naiper, 1989). The second motive revolves around increasing sales or asset growth, increasing in management’s power and/or prestige, or diversifying the company’s exposure to risk (Naiper, 1989). These motives entail how companies use M&A’s as means to adopt to changes in their environment (competition, legislation, markets). Thus, the overall goal of an M&A could therefore be seen as combining two companies in order to reach
heights which would not have been possible individually; increasing overall performance (Lubatkin, 1983).

Drawing from media coverage of demergers, although limited, the drivers of news value in the covered cases often entail a major failure or scandal e.g. the demerger of AOL and Time Warner which produced articles like “AOL merger was the biggest mistake in corporate history” (telegraph.co.uk). Explanations as to why, could logically stem from the business community’s reluctance to share bad news, where, unless pressured, focus often is towards sharing only good news. More, perhaps unheard of, examples include the fairly recent demerger between Cloetta and Fazer, who merged 1999 and demerged 2008 due to the strife between the shareholders and the different strategic perspectives (Thomasson & Janusonis, 2012). The Daimler-Chrysler demerger is another example where the two companies separated due to low profits (Schweizer & Lagerström, 2013).

Even though one might assume that the historical increase of M&A activity would be a telltale sign of the strategy’s success, estimations made by the academic community provides that the success rate of any given M&A (Domestic/Cross-border) ranges between 20% and 50% (Schweizer, 2007). Amongst academics and practitioners alike, the low success rate has prompted questions as to why M&A’s fail. Drawing on M&A literature, one can discern that the two most commonly used reasons attributed to M&A failure is the lack of strategic and organizational fit (Schweitzer, 2007). These variables explain how well companies could be integrated, where strategic fit focuses on how both companies augment and/or complement each other in terms of know-how and resources whereas organizational fit explains how well administrative and cultural practices are matched. The lack of either strategic or organizational fit will affect how two companies can be integrated and how well expected synergies will be reached (Haspeslagh and Jemison 1991:105).

This vast field of M&A research has witnessed a myriad of theses, dissertations and articles where a multitude aspects and facets of the M&A phenomenon has been scrutinized. However, as statistics show, the increasing M&A activity does not show any signs of slowing down and with the maintained low success rate, where both have contributed to that merged companies
have cut their losses and chosen to go separate ways. Thus initiating a phenomenon which researchers within the field of M&A research, as of yet, have investigated, namely: Demergers.

1.1 Problematization

If the definition of a merger is to combine two previously separated entities, then a demerger could be seen as the reciprocal opposite; decoupling two previously merged entities into two or several new separated entities (Schweizer & Lagerström, 2013). As stated above, the phenomenon of demergers is a subject that is yet to have reached the gaze of the academic community, where there is little to none previous research (Schweizer & Lagerström, 2013; Thomasson & Janusonis, 2012; Karlsson & Nordell, 2012).

Michael Breen¹, who as a CEO has experienced a demerger provides pragmatic insights towards a more nuanced picture of the demerger phenomenon. He states that although a complex and time consuming process; demergers can provide companies with newfound strength in order to focus on core business areas and improve efficiency and promote synergies within the new entity (Breen, 2005). Given the aforementioned examples of demergers with Michael Breen’s testimonial, one can discern that motives which cause the demerger are differentiated and thus constituted by different inherent reasons. Schweizer & Lagerström (2013) conceptualize the demerger motives by drawing on M&A literature, where they conclude three categories; economical, organizational, and managerial.

The merger process is commonly divided into three distinct phases (Schweizer, 2007); (1) the pre-merger phase, where strategic and organizational planning begins. (2) The demerger phase, where the actual integration between the two firms commence and ends when the two companies are fully integrated. (3) The post-merger phase, which is the phase in which the merger consolidates within the new entity and the work conducted is focused forward. A derived assumption is that a demerger would include the same chronological disposition i.e. pre-dememerger, demerger and post-dememerger phase, which is further supported by Schweizer and Lagerström (2013).

¹ Michael Breen is CEO of Blitz Charter, which is a British visual technology equipment company
In order to gain deeper insights regarding demergers, we have to identify what aspects that are important within the process. Borrowing from M&A-theory, there are indications of what aspects that are of great importance for the merger process. For example, argued by many academics being of paramount importance is the integration process i.e. to combine two companies at every level of the organization (Calipha, Tarba & Brock, 2010; Knilans, 2009). Haspeslagh and Jemison (1991:105) states that integration is the key for making the relationship between two merged companies work, and thereby attain expected synergies. How well the integration will proceed is imperative to obtaining a strategic and organizational fit, thus dictating how successful the merger will be (Schweizer, 2007).

Another important facet which we need in order to understand the demerger process is the importance of external/internal communication. Appelbaum et al. (2000) argues that M&A research literature implies that communication throughout all the steps of an M&A is the single most important factor, which given that a demerger also is an example of organizational change makes communication an important aspect to gauge.

The study therefore attempts to investigate the reasons that facilitate a demerger. Moreover, as there are similarities between mergers and demergers, and since field M&A-research is extensive, an investigation of how well M&A theory could explain a demerger could provide the understanding of demergers with a much needed theoretical framework. A literature review within the field of M&A theory has provided us with indications of what aspects of a demerger that, as for mergers, might have a big impact on the process, with the aspects being disintegration (opposite of integration) and communication. Further relevance is given to the study by previously stated assumption that the increasing numbers, but the maintained low success of M&A’s would also give rise to increasing numbers of demergers (Thomasson & Janusonis, 2012; Karlsson & Nordell, 2012).

1.2 Purpose

The derived purpose for this thesis is therefore: Through the lens of M&A theory (1) Identify what reasons that might facilitate a demerger. (2) Investigate the process itself, and evaluate how
the planning and execution of the disintegration process and internal/external communication affect the outcome of a demerger and (3) Construct a model of critical factors that are important in each phase of a demerger, and due to the similarities between mergers and demergers gauge how previous M&A theory can be used to understand the demerger phenomenon.

The contributions of our thesis are both theoretical and empirical, where we will provide insights as to illuminate the previously uncharted waters of a demerger process. Wherein we strive to contribute to the understanding of the anatomy of a demerger, in order to provide indications for future research to be able to construct an exhaustive model of the demerger process. Empirically the study provides an increased understanding of the demerger process by presenting our finding in relation to our chosen case.

Within the purpose of this study, focus is on the pre-demerg and demerger phase due to the circumstances surrounding our case, who just recently concluded their demerger phase. Hence, the post-demerg phase is excluded from investigation in this study.

2. Theory

This chapter begins with the identification of factors as to why companies decide to demerge, where special focus will be given to which variables and/or motives that can be attributed as reasons for companies to choose to demerge. Then relevant theory pertaining to the different phases in a merger process is outlined; the pre-merger phase and merger phase. Thereafter, the presented theories are applied to a demerger situation. Since the purpose of the study is partly focused on communication, the theory regarding this is presented last since it is ranges over all phases where it is presented in a more logical manner. The chapter is concluded with a theoretical model of the demerger based on the presented M&A literature.

2.1 Reasons to demerge

The definition of a demerger is the dissolution of two previously merged companies and thus has to be preceded by a merger. A logical assumption would therefore be that, when two companies
demerge, one or both parties’ value being sovereign over staying merged, which in turn points towards the reason to demerge stems from a failed M&A (Thomasson and Janusonis, 2012).

Finding accurate variables explaining why M&A fail or succeed has been difficult, where King, et al. (2004) claims that the strategic and financial variables are not enough for explaining the post-merger performance. They suggest that, due to this fact, more focus should be on the non-financial variables. Although extensive research has been done within this area, the reasons why M&As fail is still poorly understood (Stahl & Voigt, 2008). Nevertheless, focusing on soft variables, such as culture and communication, have been highlighted by researchers as crucial variables in order to succeed with an M&A (Huang & Kleiner, 2004; Schweiger & Denisi, 1991; Waldman & Javidal, 2009). Furthermore, Schweizer and Lagerström (2013) discuss that reasons for companies to be threefold. Firstly, a demerger can have economical motives, where expected synergies have not delivered satisfactory results. Secondly, motives can also stem from organizational perspectives where focusing on the company’s core competences lead to a lower risk exposure. Thirdly, demergers can have managerial motives, which involve top managements prestige and personal involvements.

Furthermore, understanding what drives the motives is important to be able to further understand the reasons to demerge. As previously stated, strategic fit and organizational fit are two variables which often are attributed to the outcome of a merger process (Schweizer, 2007). In a demerger situation make these variables necessary in order to identify what aspect of a merger that failed, and in effect to reach its goals or obtain synergies.

2.2 Pre-demmerger phase

The first steps of an M&A process consist mainly of strategic planning of the necessary organizational change, preparing the transition of corporate culture and an open communication regarding the merger (Thomasson & Janusonis, 2012). A demerger is similar to a merger in the sense that both involve organizational change. When dealing with an organizational change adjacent to a merger it is highlighted by Sherman (2005) that the planning of the integration is one of the most important factors in order to attain a new successful business. Even though planning is of such importance Salame (2006) argues that it can take focus away from the daily
activities and affect the current business negatively. Nevertheless, the importance of the planning and execution of the integration is further supported by the results of an extensive study presented in the literature study by Calipha, Tarba and Brock (2010). When planning the integration it is argued that important aspects to consider are, what functions to integrate, along with the people since their natural response is to avoid change (Sherman, 2005). The definition of the pre-dememerger phase in this study is the period leading up to the closing of the deal. It is therefore assumed that during this phase an important ingredient for succeeding with the disintegration is the planning, which should consider people and how to disintegrate the company’s functions.

Pertaining to corporate culture Pritchett and Pound (1996) argues that employees need to witness the beneficial gains that the new culture provides. Managerial implications of this include the use of easily measurable results to stand as proof for this. When deciding which new model of corporate culture that will be used, there are three main routes to follow. First, management could weigh the two different cultures and choose the most appropriate one. Secondly, identifying both the cultures strongest aspects, which in turn would be incorporated into a new “melded” corporate culture. Thirdly, use a completely new corporate culture where neither of the old cultures is used as a base (The advisory board company, 1997). However, regardless of which route is taken the risks associated remain the same, where employees might feel dissatisfied or lack the notion of beneficial gains within the new culture (Pritchett & Pond, 1996). This often inevitable cultural change might lead to uncertainty (Hoare & Cartwright, 1997) and will most probably decrease the commitment to stay in the organization, and reduce the trustworthiness in the organization (Schweiger & Denisi, 1991). In accordance with this, Weber (1996) states that the greater the cultural distance between the merging companies the harder it will be to realize cultural synergies. During a demerger it can be argued that it is equally important to be thorough when choosing what culture to adopt in the new entity because parts of the old culture might have been obstacles which in turn, led to the demerger in the first place, especially if it was a cross-border M&A where cultural differences are more prevalent.

2.3 Demerger phase
In M&A literature, the merging of the two entities commences during the demerger phase, with the starting point being the announcement of the merger. Here the strategic plan from the pre-merger phase is being executed. Problems which arise during this phase concern the application of said strategic plan (Schuler and Jackson, 2001). Herein HR will face a multitude of difficulties regarding this phase. Due to the fact that both companies prior to the merge will have functions and positions that are similar in nature where possible redundancies will appear. Therefore prompting a candidate screening regarding where each employee should go, including possible relocations, also have to be considered. The operational aspects of the HR-division also starts, where structures, policies and culture need to be established (Schuler & Jackson, 2001).

The aforementioned issues regarding HR’s function is also assumed to be carried over to also affect a demerger process where like a merger the uncertainty of employees and their jobs might provide obstacles for an integration process as well as a disintegration process (cf. Applebaum et al., 2000). Employee and management turnover is also an area of concern where opposed to a merger process where positions and functions are fused, and employees have to be laid off, a demerger process dictates that the positions and functions will split between the two demerging companies. Consequently, posing a potential threat of losing experience knowhow and leadership skills in the process (Thomasson & Janusonis, 2012). We find further evidence of this where according to Marks and Mirvis (1992) as high as 50% of executives seek new job opportunities within a year of being acquired and 25% plan to change employer within a three year period.

A critical element in merger integration is the speed of the integration itself. Besides governed by the old saying “time is money”, a speedier integration will inevitably cost less. Angwin (2004) states that in accordance to other contemporary research, M&A constitute major organizational change which will if left unchecked will cause uncertainty amongst employees (Thomasson & Janusonis, 2012; Appelbaum et al., 2000). Further Angwin (2004) argues that sustained uncertainty can be seen as “one of the most corrosive elements” when it comes to integration. However, this can be avoided by focusing on a fast integration speed. A speedy integration will avoid both customer and employee uncertainty and will also strengthen a company’s image of being stable, whereas a too fast integration might be counterproductive and in itself cause
uncertainty and confusion (Angwin, 2004; Epstein, 2004; Schweizer and Patzelt, 2012). An integration period of a 100-days has reached consensus amongst practitioners (Angwin, 2004). This grace period is further supported in an article by Feldman and Spratt (1999). Moreover, according to Schweizer and Patzelt (2012) whom argue when a supervisor, during a merger, adopt a relational, inspirational and supportive leadership-style, employee commitment can be enhanced. Not only does this help the company to retain talented employees but this also drives their enthusiasm towards the merger and will in turn work towards it rather than against it (Schweizer and Patzelt, 2012).

As in with mergers the speed of the integration is one important aspect where the longer this process endures, the more focus towards the integration is taken from operational and daily activities, which may result in customer dissatisfaction and reduced results during said period (Thomasson & Janusonis, 2012). In line with Schweizer and Patzelt’s (2012) arguments, that a conformal leadership style will, according to their empirical evidence, drive enthusiasm, we assume that this is of equal importance within a demerger process as a tool to build employee commitment.

### 2.4 Communication

Argued by Applebaum et al. (2000) to be the most important aspect during a merger process, is communication, which also affects all the phases. Key challenges lay within addressing uncertainty and providing employees with a sense of safety. Applebaum et al. (2000) further states that effectiveness of the communication can stem from its quality, where “lean” messages such as emails and memos would be best appropriate for routine based information. “Richer”-forms of information would be appropriate when communicating non-routine based information, such as face-to-face communication (Lengle and Daft, 1988, in Applebaum et al., 2000).

However, Sherman (2006) argues that effectiveness in communication is determined by two variables: (1) importance and (2) who communicates it. Consequently, he stresses that priorities should be focused on information that affects the employees directly and that credibility from the person who conveys the information is important. Salame (2006) extends these concepts in her study, where she claims the importance of top management to be involved in the communication,
where clarity and regularity is paramount in order to guide employees through every phase of the M&A, is important in order to eliminate risks of misunderstandings, insecurity and rumor spreading. Although, in some cases of M&As, top management is hindered to speak about the merger during negotiations due to uncertainty or non-discloser agreements. In these cases where top management has to withhold information from its employees, they have to immediately make up for the lack in communication and focus on honesty, positive imagery and to be perceptive to employee feedback. This is to reduce “them and us”-logics and make the employees feel informed and involved (Salame, 2006).

However, Cartwright and Cooper’s (1990) study provides empirical evidence which implies that top management commonly fail to see the importance of the concerns and problems the employees feel whilst undergoing a merger, which in turn causes employee uncertainty (Schweiger and DeNisi, 1991). This concept is further built upon by Schweizer and Patzelt (2012) who claim that this will result in a decrease in employee job satisfaction and motivation, thus reducing their commitment towards the company.

Like mergers; demergers entail major organizational change, which affects all levels of a company and is a factor for employee uncertainty. The difference for a demerger is that instead of fusing into one new entity, the company is splitting up. In both cases lack of communication will inevitably lead to uncertainty of what the merger/demerger will lead to, which affects all employees.

2.5 Theoretical model

Concluding our findings from our M&A literature review, where we found indications, as to, what aspects of an M&A that could be applicable and important for a demerger process. From these findings we have constructed a theoretical model (see figure 1), which aims to visually present the important factors within a demerger process, which in combination with this studies purpose provides a platform on which we can analyze a demerger process.
3. Methodology

The theoretical and empirical contribution of the phenomenon demergers has so far been limited and this study therefore uses an exploratory approach. The purpose of this study is to gain a deeper insight into the unknown phenomenon and with that purpose a qualitative approach is preferable (Bell, 2006; Holme and Solvang, 1997). A qualitative setup leads to an approach where phenomenon are described before they are theorized (Kvale and Brinkmann, 2009) where focus lies on understanding the phenomenon and the process instead of the results (Merriam, 1994). Which is applicable in the case of the limited research of demergers.

Furthermore, since this study aims to investigate a process where questions answering what, how, and why are sought to be answered regarding demergers a case study is the best approach in order to get a deep understanding of the phenomenon (Baxter and Jack, 2008; Nyberg (s. 100), 2000). Using this approach enabled a deep insight into how the disintegration process was
conducted and *why* certain decisions were made, including decisions about *how* the internal communication was carried out during the process.

The choice of M&A literature as the theoretical platform in this study was due to the limited research within demergers. Using the M&A literature as a starting point for analyzing demergers was applicable since mergers and demergers both constitute of organizational change (*cf.* Hoare & Cartwright, 1997). The demerger was seen as the mirror image of a merger and important aspects of a merger was thereby assumed to be transferable to an organizational change such as a demerger (*cf.* Schweizer & Lagerström, 2013). Important aspects of a merger were thereby used to develop the theoretical model of a demerger in this study.

### 3.1 A case study

Due to the exploratory approach of the studying of demergers, a case study is applicable in order to enhance the understanding of the phenomenon (*cf.* Lundahl and Skärvad, 1999; Saunders, 2012). This is consistent with Bryman (1992) who argues that when analyzing organizational functioning, that previously have received little attention, case studies serve as a useful method for providing an understanding of the phenomenon. A case study can be based on a single case, which this study applies, or multiple cases. When studying a demerger with limited previous research the use of a single case study is applicable (*cf.* Yin, 1989 in Lundahl and Skärvad, 1999) since it gives a clear and deep understanding of the important aspects of the phenomenon demerger (*cf.* Lundahl and Skärvad, 1999). The investigation of a demerger involves looking at a managerial and organizational process where a case study gives the possibility to attain a complete and meaningful view of the characteristics in the studied phenomenon (*cf.* Yin, 2003a). A case study is further motivated when, within a managerial and organizational process, analyzing how the organization, and the individuals, was functioning and acting during the change (*cf.* Bell, 2006).
3.2 Case selection

To enable a study of the phenomenon, a suitable case satisfying the criteria’s described in this section had to been found. The investigation of a demerger in this study is based on the definition that a demerger has to be preceded by an M&A of two companies. This gives the chance to analyze the phenomenon based on the M&A theory and determine whether that theory can be used to explain the phenomenon of demergers. The demerger must have taken place a maximum of three years ago, which would reduce the risk of receiving skewed data due to an ununiformed view of the demerger among the employees, due to it happening a long time ago. The increasing chance that the employees, involved in the process, still work in the company further motivates this criterion. Furthermore, the time from the demerger up until now has to be more than a year in order to see the effects of the demerger on the organization as well as giving employees time to get some perspective on it. Following these criteria’s a suitable case was found, which was the demerger between Skandia AB (including Skandia AB’s subsidiary Skandia LIV) and Old Mutual that happened in March 2012. Old Mutual is an international insurance company from South Africa that expanded their international business by acquiring Skandia AB in 2006, which is a Swedish banking and insurance company with the geographical division Skandia Nordic. One of Skandia Nordic’s subsidiaries was the life insurance company Skandia LIV that is mutual owned, which means that all their clients own the company, and the deal is described in further detail in the section Empirical findings.

3.3 Data collection

Data can be collected in many different ways and in this section the methods used for collecting the data in this study is explained. The data can be divided in to primary and secondary data, which will be described further in the following sections.

3.3.1 Secondary data
Secondary data was used to complement the primary data and it was collected electronically from Skandia and Old Mutual’s websites and annual reports as well as newspaper reports. The secondary data was used to get a better understanding of the companies, Skandia and Old Mutual, and their respective background but also the external, to the public, communicated
reasons behind the demerger. Additionally, the data was used to get an overview of the merger and demerger in order to get insight into the relationship between Skandia and Old Mutual. This enhanced our understanding of the case before entering the interviews, which improved the quality of the interviews where relevant follow-up questions could be asked. At the interview with TM Finance, slides from meetings during the demerger were received along with slides about lessons and experiences learned during this time.

3.3.2 Primary data
The primary data is the data collected primarily for analyzing the phenomenon demerger (cf. Saunders, 2012). The primary data has been collected through both personal and telephone interviews with additional follow-up questions through e-mail and telephone. In this case study the interviews were important in order to collect relevant data regarding the demerger (cf. Yin, 2007). The interviews were semi-structured where the questions altered from being specific to more open ended in order to have an open discussion with the interviewees about the phenomenon. With an open discussion, the reasons behind decisions, attitudes, and opinions can be understood, which further motivates the use of semi-structured interviews (cf. Saunders, 2012). The interview guide was structured according to different time periods, from the merger with Old Mutual in 2006, through the merged period (2006 - 2012), and then ending with the demerger and the present post demerger period (2012 - present). Within each time period, more detailed questions were asked (see Appendix.). The first interviews with DIV Law, TM Finance, and TM Operations followed the same interview guide but for the following interviews the interview guide was modified to focus more at the respondent’s area of expertise, excluding the time period up to the merger 2006. Before each interview an email, including the theme for the interview, was sent to prepare the interviewee for the interview (see Appendix). The interviews were recorded with the interviewees’ approval and this enabled the interviewers to focus on the discussion and asking additional questions (Bell, 2006).
3.3.2.1 Choice of interviewees

Table 1: Respondents

<table>
<thead>
<tr>
<th>Area of expertise</th>
<th>Level of position</th>
<th>Involvement in process</th>
<th>Referred to as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Top management</td>
<td>Merger and demerger</td>
<td>TM Finance</td>
</tr>
<tr>
<td>Operation</td>
<td>Top management</td>
<td>Demerger</td>
<td>TM Operation</td>
</tr>
<tr>
<td>IT</td>
<td>Top management</td>
<td>Merger and demerger</td>
<td>TM IT</td>
</tr>
<tr>
<td>Communication</td>
<td>Top management</td>
<td>Demerger</td>
<td>TM Communication</td>
</tr>
<tr>
<td>Law</td>
<td>Top management</td>
<td>Merger and demerger</td>
<td>Advisor Law*</td>
</tr>
<tr>
<td>Law</td>
<td>Division</td>
<td>Demerger</td>
<td>DIV Law</td>
</tr>
<tr>
<td>Business control</td>
<td>Division</td>
<td>Merger and demerger</td>
<td>DIV Business control</td>
</tr>
</tbody>
</table>

The first interviews were done with managers in top management that had insight or been involved in the demerger process, TM Finance, TM IT, Advisor Law, and DIV Business control even in the merger with Old Mutual (See Table 1). Interviewing managers was of importance in order to get an overview of the process as a whole and the underlying reasons and objectives behind strategic decisions. In the choose of managers there were a diversity in responsibilities, area of expertise, and employer during the demerger (Skandia AB and Skandia LIV) in order to get a deeper understanding of the aspects of the demerger they found important. Interviews with employees on division level were done in order to get a more thorough view of the demerger. From these interviews the strategic decisions, planning, and communication could be analyzed and how the plans actually were interpreted and executed. Furthermore, all the interviews were conducted at Skandia’s headquarter in Stockholm and lasted for about one hour except for the interview with DIV Business control, which was done over telephone and lasted approximately half an hour.

3.4 Data analysis

The interviews were conducted in Swedish and transcribed in a way that no detailed and important information was neglected; the quotes were later translated to English. Transcribing simplified the process of presenting the empirical data since the researchers could read and re-listen to specific parts of the interview. Hence, minimizing the risk of wrong interpretation of the

* Law advisor to top management. Received this interview spontaneously when interviewing TM Finance and TM Operations since he/she was interested in our investigation.
The empirical data was presented chronologically in accordance to a time perspective and was built on statements made by the interviewees. While conducting the interviews all the interviewees gave a generalized view of the demerger where deeper insights were given to their specific area of expertise. This enabled us, through triangulation, to construct a clear image of the process as a whole where the respondents’ statements often augmented and complemented each other, while in some cases contradictions were noted. In the analysis, the empirical findings were analyzed in regards to the theoretical model and M&A literature covered in the theory.

3.5 Quality of the study and limitations

When having a qualitative research approach, in which a case study is used, generalizable conclusions regarding the results cannot be drawn (Holme and Solvang, 1997). Though, this study cannot be generalized to include the whole population of demergers it still contributes to an area of limited research by addressing important aspects of a demerger, which can be used as a benchmark when investigating other demergers. The interviews questions for collecting data were constructed to shed light on the phenomenon demerger and get a deep understanding of the same by creating questions in regards to the theory. Even though the collected data in some aspects cannot be explained by the theory since this area of research is fairly new, it has been analyzed in regards to the theoretical model as much as possible in order to maintain validity. Addressing those aspects in the section Future research further enhanced the validity of the study. Along with a case that happen recently, which enhance the possibility of getting an accurate view of the demerger.

The study only concerns the demerger from Skandia LIV and Skandia AB’s perspective and thereby only concerns opinions from one side. The statements and data received from the interviews would not necessarily been in line with Old Mutual’s opinions regarding the demerger, which might give a distorted view of the demerger. Furthermore, the interviews collected were only done with top management and division management since they were the ones responsible for the planning and executing of the communication, which is what this study aims to investigate. The execution of the communication therefore only gives the perception of how well-informed top managers considered the communication and not how the rest of the
employees interpret it, which might give a skewed view of how it was executed. Though, the risk of receiving wrong data about the communication was limited by triangulation of several of the interviewees’ statements regarding the communication. Additionally, two of the interviewees showed employee surveys with high satisfaction, which further reduce the possibility of skewed data.

4. Empirical findings

We will in this chapter present the results of our empirical investigation. First we will give a brief case background in order to build a foundation as a perquisite for further understanding of the case.

4.1 Case background

As mentioned in Case selection, the case study involved three actors: Skandia AB, Skandia LIV, and Old Mutual. In 2006, Old Mutual decided to acquire the Swedish insurance firm Skandia AB for a price of 6.5 billion dollars (see figure 2), in line with their global expansion strategy. The bid by Old Mutual was seen as hostile and the board discouraged the stakeholders in Skandia AB to accept the bid. During the time after the bid there were disputes within the board whether to accept the bid or not but the bid was finally accepted in March 2006. The merge entailed all of Skandia AB’s subsidiaries worldwide and it would put Old Mutual in a leading position within the insurance and banking sector. The cooperation lasted until March 2012 when Skandia LIV acquired Skandia NORDIC, a geographical division within Skandia AB, from Old Mutual for 22.5 billion SEK. Following statements from the respondents, the time after the demerger from Old Mutual was successful where expected synergies were attained.
The integration of Skandia AB in Old Mutual

After the merger between Old Mutual and Skandia AB an extensive integration of all Skandia AB’s worldwide subsidiaries started. Old Mutual’s strategy was to take each subsidiary in Skandia AB and integrate it into a suitable location within Old Mutual’s group of companies. The integration of Skandia AB’s numerous subsidiaries into the most logical location in Old Mutual was a tedious but necessary process. This was clearly stated by TM Finance as something causing inefficiency who said that “Having a group of companies within a group of companies is immensely ineffective and serves no purpose.”. One of the major problems causing the delay in the integration was the demand of approval from regulators and authorities in the countries Skandia AB’s subsidiaries were located as well as from the authorities in Old Mutual’s home country, South Africa. The result was that the integration of Skandia AB in Old Mutual was not completed when the decision to demerge came in 2012, 6 years after the merger between Old Mutual and Skandia AB, which can be exemplified with the following statement from TM Finance: “In the deal where Skandia LIV bought Skandia NORDIC, there was a special deal regarding a foreign subsidiary in Skandia AB since the integration with Old Mutual still was not completed six years after the merger.”.

Figure 2 - A schematic view of the merger and demerger

4.2 The integration of Skandia AB in Old Mutual
Old Mutual had a strategy, which besides integrating the subsidiaries was focused on centralization of IT and Finance. The plan of centralization regarding IT was to move all IT, besides the IT division at Skandia LIV, to a global hub in South Africa, removing the hub in the Nordics. TM Finance mentioned that Old Mutual started relocating Skandia AB’s subsidiaries’ IT functions to the global hub in South Africa during the integration process but Skandia AB’s Nordic division, including Skandia LIV, was put last in the queue. This was due to three factors according to TM Finance: the language barrier, the size of Skandia AB’s Nordic IT division, and the mutually owned (by the insurance holders) Skandia LIV. Due to the mutuality, Old Mutual was not allowed to fully control Skandia LIV since it was owned by its insurance holders. The discrepancy of Old Mutual and Skandia LIV’s loyalty towards different stakeholders created a complexity. Skandia AB as a profit maximizing company under a large global and publicly traded insurance company (Old Mutual) focused on shareholder return. Skandia LIV, a mutual insurance company, acted on behalf of its majority shareholders: the insurance holders whom all equally owned the company. The consequence for Old Mutual was that they could not do anything that was not in the full interest of Skandia LIV and their insurance holders, which was clearly stated by TM Finance; “The constellation of having an AB-company as owner of a mutually owned company is associated with several complexities and this became even more complex when the AB-company had a foreign owner.”. Old Mutual had to prove that, when planning new business deals or new products, they did not steal money from Skandia LIV or that it affected Skandia LIV’s insurance holders negatively. The decision making thereby became difficult and time consuming, which led to lack of synergies from the merger and as TM Finance expressed it; “Everything took a lot of time and value could not be generate from deal between Skandia AB and Old Mutual.”.

4.3 The demerger between Old Mutual and Skandia AB

The friction between Skandia LIV and Old Mutual led to investigations regarding how to generate synergies following the merger with Old Mutual. TM Operations mentioned that prior to the demerger Skandia LIV investigated a solution to the conflicts between the mutually owned Skandia LIV and Old Mutual. A reconstruction of Skandia LIV to a demutualized insurance company with dividend was investigated but was shut down since Länsförsäkringar, a mutually owned Swedish insurance company, had posed the same strategy and was refused by
Finansinspektionen (Swedish Financial Supervisory Authority). TM Finance mentioned that the only remaining solution then was the rare opportunity for Skandia LIV to buy its parent company Skandia AB.

4.3.1 Negotiation
The board on Skandia LIV realized that the insurance holders would not benefit from the integration with Old Mutual and the board therefore proposed a separation to Old Mutual’s board in October 2011. The proposal was that Skandia LIV wanted to buy the Nordic division, Skandia NORDIC, which was the parent company, from Old Mutual and completely decouple from them. TM Operations mentioned that the proposal was met with skepticism from Old Mutual almost verging on dismay, where a subsidiary (Skandia LIV) commonly does not acquire their parent company (Skandia NORDIC). Despite the boards’ negative attitude towards it, they decided that they wanted to hear what Skandia LIV had to offer; who was given a 30-day deadline (until December 15) from Old Mutual to present a deal for the demerger. After the given 30 days were announced a due diligence process was initiated and since Old Mutual is a publicly traded company, Skandia LIV had to follow non-disclosure agreements. This meant that Skandia LIV was prohibited from inquiring employees, in Skandia AB and Skandia LIV not involved in the due diligence, for figures needed for the evaluation.

Furthermore, Skandia LIV needed an approval from Finansinspektionen regarding this deal since Skandia LIV wanted to use the insurance holder’s money to finance the acquisition. Skandia LIV therefore had several discussions with Finansinspektionen regarding how they would generate money to pay the insurance holders back. TM Operations mentioned that along with these discussions negotiations with Old Mutual regarding the deal were tough and time consuming. The main argument for the deal was the conflict of interest between Skandia LIV and Old Mutual. Additionally, Skandia LIV saw potential generation of cost and revenue synergies by creating “one Skandia” since Skandia AB and Skandia LIV had a conflicting vision during the merger with Old Mutual due to the mutuality. This was in line with what TM Operations said regarding the importance of this deal; “The most important thing in this deal was to create “one Skandia”, to create one shared vision with one top management, one governance, and one volition”.

Following the negotiations, the planning and preparatory work within the pre-dememerger started. Further progression of the demerger process can be follow by the constructed timeline in figure 3.

4.3.2 Pre-dememerger
This phase started with the signing and announcement of the demerger December 15 2012 between Old Mutual and Skandia Nordic, which was meet by celebration from the employees at Skandia Nordic and Skandia LIV. The work of planning the new organization and how to disintegrate from Old Mutual started during the pre-dememerger phase. TM Operations mentioned that an important strategy during the planning in the pre-dememerger phase was to create “one Skandia” that would solve the previous conflict of interests between Skandia Nordic and Skandia LIV. The plan was to clearly communicate to the employees that this was the start of something new and the history of Skandia LIV and Skandia Nordic was in the past. Actions by top management in Skandia LIV were taken to empower what they communicated by planning a top management with employees from both Skandia LIV and Skandia Nordic, aiming at a 50/50 representation.

During the pre-dememerger phase the planning of the disintegration project was initiated focusing on the disintegration between Skandia Nordic and Old Mutual. The disintegration project was aiming at investigating and planning what functions that needed to be disintegrated from Old Mutual. The disintegration project was a sub project to the integration project created for planning and developing strategies for the integration of Skandia Nordic and Skandia LIV after March 21 2012. TM Finance mentioned that even though the deal was not completely done until

Figure 3- Timeline of the demerger including dates of important events.
March 21 2012 and the work with Old Mutual had to go on as usual but the motivation decreased and fewer tasks were done. The disintegration project was focused mostly on IT and Finance according to TM Operation.

4.3.3 Demerger

The separation from Old Mutual then came to be focused mostly on IT. Hence, why TM IT was put in charge to lead the separation team from Skandia’s point of view. The work regarding the separation began with identifying what needed to be separated, both IT and other functions, from Old Mutual. The identification resulted in an overall separation project including subprojects depending on which function the separation team was focusing on. The constellation of the separation team, having a core team of 4-5 people, fluctuated between 6-9 people depending on the function focused on. This was in line with how TM IT expressed it; “When working on the financial separation, employees from the financial divisions were members of the separation team.”. The separation of Finance went fast compared to IT since Finance was less integrated than IT and the remaining separation focus on IT, which led to a separation team with technical managers. The people chosen to be included in the separation team were elected naturally based on the competences they possessed and additionally a legal representative was constantly a part of the team due to the Transitional separation agreement (further on referred to as TSA).

The TSA, a comprehensive and detailed agreement, was a key factor for making this work smoothly and it was refereed to during the whole separation process (is not finished yet, 2014-01-15). The TSA included what was going to be separated and how to separate it along with what to do if unpredictable situations appeared during the process. The ground that this work laid out made the disintegration process smooth (even though it is not completed yet) and by the use of the TSA, long discussions and arguing was avoided. This was clearly exemplified by TM IT’s description of the work; “… the journey with the separation has been smooth but it is hard work and long hours behind it even though tedious arguing back and forth has been avoided.”.

Furthermore, the communication through meetings between the head of IT and his counterpart at Old Mutual mostly involved to structurally following the plan of the integration, which was based on the TSA. Both parts agreed upon doing this process as quickly as possible since
separations otherwise become tedious and TM IT described this as an advantage for making decisions quickly and speed up the whole separation. This was expressed by TM IT as “This was an advantage in those situations where things were put on its edge and a choice of path was necessary.”. Additionally, criteria’s regarding how the separation should be handled was stated from the beginning, which included financial regulation in the projects both parts where active as well as criteria’s for when a project could be seen as complete and successful.

4.3.4 Communication
Early on in the process, Skandia LIV’s CEO realized the importance of having a clear and broad strategy for their communication pertaining to the demerger. Negotiations for the demerger had started around October of 2011 and the communication executive for Skandia LIV was engaged early on in the process. TM Communication was like all the others, whom were involved in the negotiation and due diligence phase prohibited from sharing any information about what project they were working on.

TM Communication started a six to seven week period of extensive work in order to produce an adequate communications strategy. The first step was to produce governing principals of what messages and statements should include and strive to achieve. This document, which would govern all of Skandia LIV’s communication, was concluded on one separate sheet of paper. Which the CEO later would remark upon during their yearly assembly of 2012: “Our communications executive came up with a communication strategy which was one(!) page long, and it held all the way”.

During the pre-dememerger phase TM Communication began producing communication materiel and the different operational implications. This strategy would entail to tackle the communication on a wide front; internally this meant producing memos, posts on the intranet, filming interviews with key personas. Externally; press releases, meetings and marketing material for both small and big clients was produced.

Further, TM Communication stated that Skandia’s communication was meticulously planned where they had specified time, places in what mediums information would be presented and
towards what stakeholders. TM Communication stressed that the most important part of their communication was the internal communication; it was also where they put most of their efforts. Most notably of the internal communication tools where Skandia’s intranet, which favorably already was shared by both Skandia NORDIC and LIV, on the intranet were “facebook”-like functions where employees could comment, like or dislike published news items, this gave the communications division indications of how the news were received. They also produced informational videos within a format the called “Skandia Live”, where they would interview employees who held positions, which was relevant for explaining where the company currently was in the integration and disintegration process.

In addition the communication plan also included a very active role by their CEO who traveled around to the different offices in the Nordics to show his support and make himself personally available for questions regarding the demerger with Old Mutual and imminent merger with Skandia NORDIC. These steps were taken in order to clearly show all the employees that the CEO was supportive and involved in the demerger and following merger to the new and improved “One Skandia”.

An extensive risk analysis named “What if?” was conducted where potential risks and hazards were scrutinized and assessed. These risks were tackled both proactively and reactively depending on their nature. In this analysis they identified potential external risks such as negative publicity from the press, partly fueled by the deal itself or by an anonymous disgruntled employee, where in both cases Skandia had previous experience of dealing with, surrounding their management bonus-scandal of 2003. Internally the risks included how they tackled employees not feeling included or uncertain of what was happening or the how communication between Skandia NORDIC and LIV could go wrong.

The response to the communication was, according to the TM communication, met with positive remarks, where he/she stated “…even the union-representatives were satisfied with our communication, and that is not something that happens every day” (meaning that it is union representatives job to scrutinize every detail of the company’s actions). TM Communication also points at the results of the employee surveys, which were made in close proximity to the
announcement of the demerger and again one year later. The surveys investigated overall employee happiness but had special sections regarding the demerger and the communication surrounding it, the results of the first survey concluded that the employees were greatly satisfied with the communication pertaining to the demerger and that the happiness even increased in the following survey, a year later.

5. Analysis

5.1 Reasons to demerge

The main issue that led to Skandia LIV’s bid on Skandia NORDIC was the problems related to the conflicts of interests that arise with the merger with Old Mutual. Fundamentally these conflicts had its roots in the legal and organizational structure. Both Skandia NORDIC and Skandia LIV were working towards maximizing shareholder value but Skandia NORDIC’s majority shareholder were Old Mutual and in effect their shareholders, whereas Skandia LIV acted in favor of their clients, which because they were mutually owned is their majority shareholder. These differences in shareholders caused internal friction between the two companies (NORDIC/LIV). This led to loss of efficiency, where meetings and agreements were time consuming and frustrating for both parties. This in turn led to Skandia NORDIC and LIV instead of working together, were opposing each other. Moreover, focus was then taken from operations and customers and was replaced with bureaucracy and an inward focus instead. These factors led Skandia NORDIC and LIV to realize neither organizational nor managerial synergies. This is in line with arguments regarding motives that cause M&A failure and what is proposed by Schweizer and Lagerström (2013). Seeing as Skandia NORDIC was producing good financial results during the merged time with Old Mutual, thus no economical motives for the demerger could be implied. Consequently, in accordance with King et al. (2004), where he states that Soft variables (culture and communication) are better aspects when it comes to explaining the performance during the post-merger phase, which would further support the claim of the non-existent economical motives driving the demerger.

However, investigating both organizational and managerial motives, certain interesting conclusions can be drawn. Because of Skandia LIV’s mutuality, which caused friction and
therefore impeded Skandia NORDIC’s ability to efficiently operate internally within Old Mutual’s group of companies, indicated that the demerger was driven by both organizational and managerial difficulties. Underlying reasons pertaining to drive the motives were, as stated in the theory section of this study, conceptualized by the level of strategic- and organizational fit (Schweizer, 2007). Skandia and Old Mutual had achieved a high level of strategic fit, where Skandia’s global reach would complement Old Mutual and that combined was augmenting both companies’ business offers, providing broader and more diverse investment alternatives to their clients. The problems with the merger would rather facilitate within their organizational fit. These problems are often caused by conflicts within organizational and cultural practices (Schweizer, 2007), which in this case, were especially prominent. In effect, this meant that the introduction of Old Mutual’s more short-term revenue prospective would put pressure on Skandia LIV and their more long-term oriented strategies due to them being mutually owned. Similarly, the organizational structure that created the conflicts of interest was an insurmountable obstacle in order to achieve organizational synergies, which in accordance with M&A theory would explain why Skandia and Old Mutual would chose to demerge.

Furthermore, the organizational complexity also led Old Mutual to focus their integration activities on Skandia’s international subsidiaries and started to integrate them first. This left Skandia NORDIC and LIV last in queue to be assimilated into Old Mutual’s organizational structure. As stated by Angwin (2004) concerning international speed and its effects, which truly facilitated pertaining to Old Mutual’s integration actions. Because Old Mutual chose to integrate Skandia NORDIC and LIV last, they grew uncertain and felt that issues at hand (conflict of interest) was neglected. This led to decreased commitment shown by Skandia AB when Old Mutual chose to integrate certain parts of their organization; namely IT. Integrating the IT division was part of a project which aimed to incorporate all of Old Mutual’s subsidiaries into a global IT structure, which would be situated in South Africa. Not only was the commitment low due to the slow integration speed but also because the integration work conducted by employees at both Skandia NORDIC and LIVS’s IT divisions would result in their own lay-offs due to the centralization. This led to employees leaving Skandia, which later gave rise to problems in daily operations for Skandia AB’s IT department.
Concluding why Skandia LIV decided that their position was not favorable for them and in effect the insurance holders, which led them to approach Old Mutual’s board with an offer. Drawing from provided theory; the demerge might have been avoided if Old Mutual had chosen to address the more complex issues, the conflicts of interest, between Skandia NORDIC and LIV first when starting their integration.

5.2 Disintegration

The lack of integration within Skandia AB during the merger with Old Mutual was something that Skandia learned from since the expected synergies were not generated. Consequently, Skandia did an accurate planning, beginning early in the pre-dememerger phase, of the integration and disintegration that would be initiated after the closing March 21 2012. It has been noted that the disintegration needed to be conducted within two different areas, covering hard disintegration of functions such as Finance and IT, as well as soft disintegration such as corporate culture. A deeper analysis of the two areas of disintegration is conducted in this section.

5.2.1 Hard disintegration

Before planning the hard disintegration Skandia began with identifying the functions integrated with Old Mutual, which was IT and Finance, IT being the most integrated function. The hard disintegration of Old Mutual and Skandia Nordic was planned thoroughly during the pre-demerger phase where the end result was a comprehensive and detailed document (TSA), which served as a foundation during the whole disintegration process. It is argued in Calipha, Tarba and Brock (2010) that planning is one of the most important factors for succeeding with integration, which also showed being of importance in disintegration. Furthermore, the plan (TSA) that was developed for the disintegration was according to TM IT built up by what functions that needed to be disintegrated and when, which determined the flow of the disintegration process. This is in line with what Salame (2006) mentioned regarding important factors that should be included in an integration plan, which are reasonable timeframes and goals as well as systems and organizational processes. However, Salame (2006) mentioned that a negative effect of the planning of integration is that it takes focus away from the daily activities, which it also did during the planning of the disintegration. TM Finance mentioned that during the planning in the pre-demerger phase the motivation to continue doing the tasks given by Old Mutual decreased.
But, whether it affected the current business negatively or not is not within the scope of this study and would therefore need further investigation. Even so it can be argued that the planning of an integration and disintegration include the same aspects but the plans serve different goals, integration and disintegration. Sherman (2005) argues that planning is an important factor for succeeding with the integration, which indicates to be similar regarding the successfulness of a disintegration.

Furthermore, the planning was done to improve the chances of conducting a fast disintegration from Old Mutual. A tedious integration can lead to dissatisfaction and reduced commitment among employees as stated by Angwin (2004) and for the same reason it can be argued that a slow disintegration can lead to employee dissatisfaction and reduced commitment, which can be avoided by an accurate planning. Consequently, it can be argued that the disintegration has been fast since indications from employee surveys and remarks from several of the respondents, which proved the employees’ high commitment and satisfaction toward Skandia, during the disintegration. According to TM IT the disintegration project ran smoothly, without any major discussions and drawbacks, which was according to plan, stipulated in the TSA (Transitional Separation Agreement). Furthermore, Schweizer and Patzelt (2012) argue that a fast integration ensures the commitment of employees, although when top management adopts a supportive, relational and inspiration leadership style the level of commitment can be enhanced. In our case, this would be prominent in line with Skandia’s communication strategy, which served to promote and active role by their CEO.

5.2.2 Soft disintegration
As mentioned by TM Operations, since one of the main reasons for the demerger was the opportunity of creating one united Skandia it can be argued that the planning of soft variables was of great importance. This is relevant since King et al. (2004) argues that the explanation why M&A fails/ succeed can be determined by soft variables. The short-term culture that Old Mutual had was not something to build the new Skandia on, where the change of corporate culture could be related to the disintegration derived from the shortsightedness in Old Mutual’s culture. However, as argued by Schweiger & Denisi (1991), culture change might lead to a decrease in commitment to stay in the company and trustworthiness in the same. A cultural change occurring
during a demerger could therefore lead to loss of commitment, satisfaction, and reduced trustworthiness in the company. Although, this was not something that happen in the demerger between Old Mutual and Skandia Nordic where results from employee surveys showed great satisfaction among the employees and all respondents mentioned the positive attitude the employees expressed during the disintegration.

Moreover, the strategic planning of disintegrating Skandia Nordic from Old Mutual including the decision to put TM Finance from Skandia Nordic as a CFO in the new Skandia could be seen as an important act in achieving a successful cultural change. This showed that the conflicts of interest were a thing of the past, and the new and united Skandia would now move forward. Other acts along the same strategy were the aim at a 50/50 representation between Skandia LIV and Skandia NORDIC within Skandia’s new top management. Moreover, if certain functions within the new organization would have duplicate employees, prompting redundancies, employees at Skandia LIV and Skandia NORDIC were given the same chances of obtaining the position. As Pritchett and Pound (1996) states, employees want to witness the potential beneficial gains from the cultural change. We therefore argue that disintegrating from Old Mutual’s corporate culture is not a beneficial gain per se but rather a beneficial gain in the sense of disintegrating from something unbeneﬁcial. Schweiger and Denisi (1991) argue that cultural change might decrease commitment to the organization but we argue that a cultural change, well planned and executed, can serve as a tool for building commitment. Furthermore, one should note that a critical factor for making this cultural change successful might be that the cultural change went from Old Mutual’s Anglo-Saxon culture to a fully Swedish culture involving two Swedish companies (Skandia LIV and Skandia NORDIC).

5.3 Communication

M&A theory clearly states the paramount importance of communication for a merger, notably in our case more regarding the internal communication, which as a tool was able to address and counteract employee uncertainty. Skandia’s communication division had from the outset incorporated the concerns regarding employee uncertainty through their risk analysis named “What if?”. This prepared the communications division for problems that could arise, and gave rise to their flexibility when handling eventualities. The precautions taken by the communication
division are clearly congruent with proposed theory of both Applebaum et al. (2000) and Salame (2006), whom both stress the importance of a well-planned communications strategy. This claim gains further validity from the results of the employee surveys which pointed towards and overall success for the communication during the demerger/merger.

Furthermore, by diversifying what mediums Skandia LIV used for conveying their information (memos, intranet, Skandia Live etc.) gave them an extensive reach in their communication. This can be exemplified by looking at Skandia Live, where they chose to interview employees that would be, at the time, relevant for what actions were taken in the on-going merger/demerger process. Consequently, Skandia Live aimed to present non-routine messages that would be adapted depending on where Skandia was in their merger/demerger process, this use of a “rich” communication outlet would as stated by Lengle and Daft (1988) be an efficient mean of communication. Another example of Skandia’s use of “rich” formatted means of communication was the active role of which their CEO played in their communications strategy. It can be argued that because he as CEO has a high degree of credibility within the firm, the fact that he showed personal commitment towards the merger/demerger process would provide the employees with the adequate information given by a credible source (cf. Sherman, 2006). The CEO’s visits to the local offices around the Nordics provided clarity, where employees had the chance to directly confront the CEO with their thoughts and concerns. However, it is arguable if it meant any forms of regularity, which stated by Salame (2006) to be two important factors. However, Skandia LIV’s other parts compensated the lack in regularity from the CEO in their communication strategy, where their meticulously planned communication strategy included where/when and why information would be communicated and to what extent. A reason that Skandia LIV’s CEO’s active role can be attributed to the communication strategy’s success could be found in the fact that Skandia LIV avoided the communicative-“pitfalls” stated by Schweizer and Patzelt (2012), where job satisfaction and motivation were remained high due to the adaptation of their communication and its wide spectra of outlet-mediums.

However, an aspect which the theory does not address, due to above cited articles being at the latest 2006, is that during 2012/2013 companies now have broader and improved platforms on which they can interact with their employees, through social-media like intranets, thus increasing
accessibility of information. In our case this is prominent through Skandia’s “facebook-like” intranet, where comment sections, like and dislike buttons has turned a classically one-way information stream into a two-way stream, where employees easily can express how they feel towards news-items and messages published within the intranet. This outlet for employee feedback could result in employees feeling informal and involved, thus the inclusion would reduce “them and us”-logic which is argued by Salame (2006) to be important.

The authors suggest that this dramatic increase in how employees and management can communicate, through social media platforms, might have been one of the important factors for the success of Skandia’s communication and in effect making employees feel well informed about the current situation. Although, we in theory can find explanations that would provide indications towards the communication strategy’s overall success, we find a gap that fails to address the, now important, role of social media-like intranet platforms that has changed the way communication between management and employees are able to communicate.

5.4 Conceptualization of findings

Concluding our theory section, and in accordance with our purpose, we constructed a theoretical model, which aimed to visually present what aspects of M&A theory we argued could be used to explain aspects within a demerger process.

Regarding the reasons to demerge, we can conclude that the theoretical framework for “why M&A’s fail” are in line with our findings pertaining to the reasons to demerge, where the overall notion point towards an overestimation in the effects of obtainable synergies. This leads to a discrepancy between what goals that are set in the outset of a merge and the outcome, which
drives motives that make companies, go separate ways, and commence a demerger process. Furthermore, during the pre-demerger phase, it has been noted that in our case, planning the demerger has been important as means to ease the transition, to avoid the demerger phase taking too much time from the daily operations. We find further indications that M&A theory regarding planning being compatible with a demerger situation.

Similarly, pertaining to the demerger phase we saw, in our investigated case, that the transition of corporate culture would have positive effects on the demerger process in terms of building commitment. Which expressed in theory rather suggest that change of corporate culture often leads to the contrary, dissatisfaction and loss of commitment. Thus, we illuminate a gap in M&A theory and how it could be applied to a demerger process.

Regarding communication we have found that quantity of information does not necessarily avoid employee’s uncertainty when undergoing organizational change, rather it is the quality and in what way management uses communication that will dictate the success of the communication. Our findings support a congruent view between how Skandia LIV varied not only, to whom the information concerned, but also through adapting the communication in regards to the medium they conveyed it with. This would be a successful tool in order to build employee commitment towards the demerger process.

6. Conclusions

In this study’s purpose we set out to investigate how well M&A theory could explain the demerger phenomenon, our focus has been surrounding the reasons that facilitate a demerger and that of disintegration (integration) and communication. We conclude that our main findings indicate that building commitment towards the demerger has been of paramount importance, and was the key success factor in the case of the Skandia and Old Mutual demerger. The reasons surrounding this are linked to the importance of having the employees on “your side” when entering a process of organizational change. M&A theory express that top management often fail to acknowledge this but because of Skandia’s very extensive and well planned demerger process, the organizational change was smooth. Contrastingly the employees completely embraced and worked towards realizing the goals of the demerger.
Consequently, factors which built this commitment could in our case be derived and categorized into two distinct factors of success, namely; How Skandia used their communication and how the employees perceived the new “united” Skandia would be beneficial for both them and the company.

As stated in the analysis, Skandia was very cautious and exhaustive when planning their communications strategy. This would prove to be to the foundation of the communications success, pioneered by TM Communications, the planned strategy would aim to counteract all forms of potential employee uncertainty, and congruent with contemporary communications theory regarding integration within M&A’s, meet all requirements. The result was that all the employees felt included in all steps of the disintegration, where no questions were left unanswered. It can also be argued that because top management showed such transparency and attentiveness to feedback, the effect was further enhanced.

Commitment is also believed to stem from the employees perception that the cultural change that was taking place would be beneficial for them in the sense that it would eliminate all forms of conflict of interest between the two companies. This would enable them to instead of opposing each other work together. Which had not been the case during the merger period with Old Mutual.

6.1 Theoretical contributions

This study mainly contributes to the limited research area of demergers by conducting a case study of a recent demerger. The main contributions are surrounded by the reasons companies chose to demerger and important factors to consider when the demerger process unveils as well as how these factors work together. The influence on the academic literature of the reasons to demerge and important factors, such as communication and corporate culture, has been derived from the M&A literature in order to find a valid explanation. Summarizing, this study contributes with an understanding of reasons leading up to a demerger and important factors for increasing employees’ commitment during an organizational change that could be helpful in building a theoretical model for a demerger.
6.2 Managerial contributions

The lack of research within the area of demergers is limited and the managerial contributions can therefore have an essential impact. This study contributes with problems in the cooperation between two companies that occur and can result in the chose to demerger. The importance of building employee commitment in a demerger is highlighted. This study describes important factors in the surge for attaining high employee commitment, which were the communication and the employees interpreted how the beneficial gains from a cultural change.

6.3 Limitations and future research

Firstly, as stated in the method section, we only study one company, thus only investigating “one side of the coin”, a more nuanced picture and interesting factors that could contribute to a deeper understanding of a demerger process could be learned from investigating Old Mutual how they perceived the demerger, and what factors which influenced them.

Furthermore, when conducting the theoretical review regarding M&A theory, we have only found suggestions and indications of what might be plausible to apply to a demerger process, although our findings include indications we argue that a more extensive study of the anatomy of a demerger has to be conducted. Consequently, an analogous argument would be that similarly as doctors have to learn human anatomy before they could treat their patients, one must understand all the components of a phenomenon to be able to analyze and draw general and overall conclusions.

Causality is also an aspect which this study has a difficult time to prove. As stated before, we can only give indications of what was true for our case and hypothesize how our findings can be applied

6.4 Future research

Our case has not produced any new groundbreaking evidence that the demerger phenomenon would be totally divergent and unexplainable by M&A theory. However, an interesting discrepancy within communication was found, caused by theoretical framework we applied.
Where the theories and articles produced were at the latest published in 2006, we therefore argue that, due to technical advances, the theories might be incomplete and outdated in some aspects. Notably, where social media platforms was not well-developed in 2006 and have since then been institutionalized as a means of communication within companies. This might lead our framework not encompassing the effects of the increased duality in corporate communication, where the information streams and barrier for employees to communicate with management is lowered could mean that different communication strategies would have to be adopted. In our case however, we found that this might actually have augmented the communication as a tool to build commitment but as we only have investigated one case, however, we cannot conclude if this possesses any causality. Moreover, hypothetically one can argue that the increase in the availability of information will increase the need to filter out information that employees do not find relevant. Further, this might also lead to employees demanding higher quality from the communication. Theoretical implications of this would therefore lead to the increase of how companies communicate mentioned by Sherman (2006) and prompt indications that the effects of social media platform could be and interesting aspect to further investigate pertaining to communication in change management.
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APPENDIX

Intervju guide
Vi har valt att använda ett semistrukturerad intervjuformat, där vi på bästa möjliga sätt vill tydligöra själva demerger processen och vad som kan legat till grund för detta. Fokus under intervjun kommer att vara vid upptakten till demergern (”mellan”-perioden) och själva demerger processen, där de arbiträra fälten är ämnade för att skapa sammanhang och ökad förståelse för tidigare nämnda fokusområden. Intervjun är upplag temporalt där vi, som en process, vill belysa anatomin av fenomenet demergers och framförallt disintegrationsprocessen över tid.

Upplägg

Presentation
- Kort: Berätta om dig själv
  - Vad har du för utbildning?
  - När började du på Skandia?
  - Var du med i både mergern och demergern?
- Hur länge har du jobbat på Skandia?
  - Vad innebär din nuvarande position inom Skandia?
  - Har du haft andra roller inom Skandia
- Hur har du varit engagerad / delaktig i merger / demerger processerna?
  - Kort: Hur tycker du personligen att dessa har fungerat?

Merger

Motiv till merger
- När den tillkännagavs; Vad var attityden hos ledningen / de anställda?
  - Initietta attityder? Ändrades de över tid?
- Vad var de uppsatta målen med merger:n? (För Skandia / OM)

Merger Processen
- Hur sköttes processen?
  - Om Ja: Hur valdes dessa?
  - Om Nej: Vilka fick ansvaret för demerger:n?
- Tror du att det skulle underlättta arbetet ifall en sådan grupp hade tillsatts? / Underlättades arbetet av att ni tillsatte en sådan grupp?
  - Ev. problematik i processen?
- Underliggande problematik som följer med till demerger:n?

“Mellan”-perioden

Samarbetet
- Hur såg samarbetet ut?
  - Operativt: hur fungerade det fortlöpande arbetet?
    - Integrerade funktioner? (Vilka?/Hur integrerade?/Var de motiverade?)
    - Planerades/ Startades det några projekt ämnade att integrera verksamheterna?
  - Strategiskt: Hur stort inflytande hade OM på era mål och strategier?
    - Hur mycket påverkade det Skandia / Ditt ansvarsområde?
    - Fick ni någon insikt för OM:s långtgående strategiska mål med samarbetet och hur detta skulle genomföras?
    - Hade ni förslag / åsikter om hur detta skulle skötas?
  - Kommunikation: hur sköttes denna mellan Skandia och OM?
    - Var bristande kommunikation en bidragande orsak till demerger:n?

Demerger

Motiv till demerger
- På vems initiativ började diskussionerna kring demerger:n?
  - Vad var den/de bakomliggande motiven till demerger:n?
  - När började diskussionen? (Hade Skandia/ OM diskuterat detta intern innan, kom det som en överaskning?)

Samarbetet
- Hur såg samarbetet mellan Skandia och OM ut från och med att diskussionerna började tills dess att beslutet kom?
- Hur såg kommunikationen ut under denna tid?

Disintegrations processen
- Hur såg disintegrationsprocessen ut?
• Hur planerades densamma i förväg?

• När kommunicerades demerger:n internt/externt?
  o Hur kommunicerades detta?
  o Hade ni en strategi för hur detta skulle kommuniceras?/ Hur planerades kommunikationen i förväg?
  o Vad var de anställdas attityd till demerger:n?

• Hur såg disintegrations processen ut?
  o Tillsattes en grupp för ändamålet?
    ▪ Om Ja:
      • Hur valdes personerna till gruppen?
      • Hur många och vilka var med?
      • Vilket ansvar hade dem?
      • Vilken bakgrund hade dem?
      • Vad var gruppens övergripande uppgift?
      • När tillsattes gruppen och när ”upplöstes” den?
    ▪ Om Nej: Vilka fick ansvaret för demerger:n?
  ▪ Tror du att det skulle underlättat arbetet ifall en sådan grupp hade tillsatts? /
    Underlättades arbetet av att ni tillsatte en sådan grupp?
  o I vilken ordning disintegrerades funktioner? Var vissa funktioner extra känsliga?
  o Med bakgrund av den tidigare merger:n, kände ni att ni hade erfarenhet som ni kunde applicera på denna process?
  o Var det några funktioner som prioriterades?
  o Vilka åtgärder togs för att bibehålla den operativa verksamheten och effektiviteten under demerger:n?

Post demerger

• Hur ser det ut nu?
  o Skulle du säga att ni är helt självständiga från OM?

• Har demerger:n inneburit något specifikt negativ / positiv?