The role of corporate culture in mergers and acquisitions – the case of Swedbank

EF0703 Bachelor Thesis in Business Administration
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Abstract

- **Title**: The role of corporate cultures in merger and acquisitions - the case of Swedbank.

- **Course**: EFO 703 Bachelor Thesis in Business Administration.

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- **Keywords**: Merger and acquisition, Corporate Culture, Swedbank.

- **Purpose**: This paper focuses on the role of corporate culture in mergers and acquisitions, since the culture is one of the most important issues that can influence the success or failure within companies that go through the process of merger and acquisitions. Therefore the purpose is to find out what is the importance of corporate culture in a merger and acquisition context. It deals with the strategies that companies use when they have post-merger cultural problems. The study of the success story of Swedbank’s acculturation by collecting empirical data with the support of the theoretical framework on the post-merger problems, will give a wider overview on the corporate culture as a driving force in the merger or acquisition context.

- **Methodology**: The thesis was based primarily on a case study of Swedbank, retrieved through the qualitative method. The study was supported by a theoretical framework of earlier research and theory, in order to present an accurate and decent piece of work.

- **Findings**: This study finds that there is no unique strategy for companies to implement in all M&A processes. Each case is different and therefore different set of strategic rules could be applied. The case of Swedbank shows that this bank has used a pattern of steps in the integration process like: change of values, change of management and amalgamation process. The corporate culture was eventually created through combination of the above stated steps and emerging strategies that come over time.

- **Originality/Value**: This paper provides practical implications through the case of Swedbank on the corporate cultures of companies that want to enter into merger or acquisition process. By comparing earlier research and theory with the processes of Swedbank, it aims to provide solutions to companies that face these specific challenges.
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1. Introduction

This thesis deals with the importance of corporate culture in a merger and acquisition context. It is about the different strategies, tactics and ideas that are involved in the entire process of M&As, particularly the merger Swedbank went through so as to gain understanding and some perspective on the chosen topic.

1.1 Background and motivation

More and more literature scholars stress out the importance of the culture in the process of mergers or acquisitions. The culture is what drives the changes within the organizations. It is subjective but deeply incorporated into everyday activities. In particular the focus in this paper is on corporate culture, which can be described as values and beliefs that are shared among the employees. The corporate culture is the one that gives the character of the company. Since it’s driven by employees and the management it can easily result with positive or negative consequence. That is why we have chosen to explore corporate culture in particular. Therefore, inspired by the power of the culture, this paper points out how important the corporate culture is, as character of the company and how do companies face the post-merger cultural problems.

The different motives that companies have when they enter into the process of a merger or acquisition might easily be influenced by the culture. It is never easy to incorporate the proper corporate culture so that the merger or acquisition could work. This is why we attempt to answer the question regarding the choice of best practice by companies that face such problems.

Corporate culture is still a very new concept in mergers and acquisitions, and many companies in the past haven’t given it much importance. Now, it is becoming more and more apparent to companies as they realize that it is a vital factor somewhere in the M&A process equation. Whether it is a make or break factor in a merger or acquisition (Schraeder, Self & Dennis, 2003), or simply something that needs to be dealt with when applying change to the culture of the organizations. The knowledge gained through this thesis will provide adequate understandings to companies that have any desire to enter into a merger or acquisition in the future. It can provide them with a new perspective to what aspects of the process are important and must be considered.

Even though mergers and acquisitions are important strategies companies use to achieve diversity and growth and to access new resources, the percentage of failure of such M&A activity has increased over time. A literature review by Hunt (1990) indicated a 50% failure while similar review by Marks and Mirvis (2001) indicated 75%. This increasing high rate of failure has been explained as the post-merger integration problems concerning mainly on culture of the acquiring and acquired firms and the organizational structure. The study of the success story of Swedbank’s acculturation by collecting empirical data with the support of the theoretical framework on the post-merger problems, will give a wider overview on the corporate culture as a driving force in the merger or acquisition context.
1.2 Goal and aim of the thesis

Mergers and acquisitions generally refer to the consolidation of companies. A merger of companies refers to establishing partnership between companies i.e. when two companies join to form one. An acquisition on the other hand, is when one company purchases another company but no new company is formed. In the process of mergers or acquisitions, companies face many problems since they have different structures, different consumers with different needs, and one of the most complex differentiations are the cultures within the two companies. As a result of these problems a lot of the M&A companies fail to establish proper corporate culture and fail to accomplish the desired goals.

Most of the mergers or acquisitions between two different companies face conflicts regarding the corporate culture. The corporate culture itself represents the values, beliefs, symbols and rituals that companies develop over time. All of these signs have been accepted from the employees and as a result represent the character of the company. The corporate culture can define the rate of the business and in most cases plays a crucial role of the success or failure of the business. The rituals or beliefs can be very different between the companies that want to enter into a merger or acquisition process together. As a result the post-merger stage is even more challenging than the pre-merger one.

According to Armstrong (2003) corporate culture represent the pattern of values, beliefs, norms and attitudes that are incorporated in everyday employees activities. These signs might not have been articulated but shape the ways in which people behave and how they finish their job. Corporate culture which is considered as the “social glue” offers effective communication and mutual understanding, significantly increasing the efficiency of the organization.

The aim of this research paper is to find out the importance of corporate culture in a merger and acquisition context. Also, there is an aim to obtain knowledge from the theory about the different strategies companies utilize concerning the corporate culture along with what the best practice was for Swedbank that helped to deal with the post-merger cultural problems.

1.3 Problem specification

There are several aspects to be considered in a merger and acquisition process, one of the most important as stated above is the corporate culture of the two companies. The empirical data obtained about Swedbank will be supported by the theoretical framework so as to provide in-depth analysis to the research questions:

1. What is the impact of corporate culture on merger and acquisition process?
2. What strategies are adopted by companies when dealing with corporate culture in the merger and acquisition context?

3. What was the best practice that Swedbank chose, to deal with cultural problems: they merge the culture, they continue with the work with different culture or they develop completely new corporate culture after the process of merger or acquisition?

1.4 Limitations

Although the topic of culture in mergers and acquisitions is complex and not easy to define, the choice has been narrowed down to specifically discuss the corporate culture and how companies dealt with it, in particular to the case of Swedbank. The focus is on explaining how the post merger corporate culture was created, what is new and how did Swedbank manage to do it.

2. Methodology

The process of finding the suitable method for this thesis was a long and grueling experience. Due to the topic pertaining largely to corporate culture, the best approach was the qualitative method, as it is a concept that can derive in-depth perspectives of the how and why and not just the what, where and when. This is quite vital for the type of concept that is concerned with behavior, values, attitudes and beliefs. The best choice, in regards to the topic is to have a good and in-depth case study. The focus is on Swedbank, a bank that was created as result of a merger.

The point of carrying out a case study on Swedbank, actually began with a completely different starting point. The first step was to find companies willing to give interviews, which would be the basis of the empirical data. Several companies located in Sweden were contacted, that had been through a merger or acquisition in the past 10-20 years. The companies that were contacted were AstraZeneca, ABB, TeliaSonera, Packet Front, IFF, AlfaLaval, Tieto, Nordea, and Swedbank. From these companies, Swedbank and Nordea were the only companies that replied with a positive answer, but there was a need for a third company to obtain enough data to thoroughly explain the topic. A decision was made to contact a company in Macedonia NLB Group, but it became evident that they would not be able to support the research with an interview as there are some laws preventing them from doing that. While this happened, Nordea informed us that they were still in search of the appropriate person who would be able to answer our questionnaire pertaining to the corporate culture and changes occurred during the merger process. Swedbank was able to refer to the correct person in the position to respond to our interview. Therefore a phone interview was
conducted so as to get not only the answers, but also provide us with the opportunity to interpret the answers.

After consulting and discussing, a decision was made to carry out a case study solely on Swedbank due to the retrieval of an interview and the fact that a large amount of information was available on the internet regarding the merger and corporate culture. So, now the focus was completely shifted on to Swedbank. The authors have made the interview with semi structured questions so that the interview is open and more information could be retrieved. The interview was made 11th of May over phone with the deputy director of human resources at Swedbank. All questions were structured so that the answers could refer in dept to the research questions (The questions used for the interview could be found in the appendix).

The secondary data began by meticulously searching the website of Swedbank. Much information was retrieved from the annual reports, the interviews of the President and CEO of Swedbank back in 1997 and the current one which were published on their website along with the website section titled “About Swedbank”. These sources of data provided the majority of the empirical data that aided in producing a competent piece of work. Much of the information was also from journal articles and books referred to the chosen topic retrieved from the databases of Mälardalens Högskola. Beside these databases Google scholars was used giving even broader literature review.

Therefore an important detail must be considered about the thesis and its accuracy. The thesis begins with the theoretical framework, including what different researchers have contributed to the importance of corporate culture in M&As, after the case study of Swedbank is analyzed. At the analysis section the findings of the case study are described and explained. At the end a conclusion is given on the overall topic and the research questions.

Diagram 1: Flow of the thesis

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Theoretical framework

Case study

Analysis

Conclusion
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Source: own diagram
3. Theoretical framework

The goal, as stated above, is to see how companies may face post merger corporate culture problems. Many studies have contributed in attempting to find a regular pattern that companies should follow when they face such problems.

The 1970s and 1980s, are the periods that have been characterized by many as an era of "merger mania." We are now beginning to see and understand the results of those mergers and acquisitions that occurred. Some of these mergers were made with a short-term goal of profit making based on and selling of its assets while others were based on strategies. These strategies included selecting a merger over the internal development of a new product or service. Others felt a need to increase their market share, and a merger with a competitor seemed the easiest way to become more competitive in the firm's industry. Still other firms diversified into new industries in order to avoid the cyclical downturns of a single industry (Afsaneh & Malekzadeh, 1993).

In order to understand what are the strategies that companies use to deal with corporate culture problems, what is the best practise they use and what is the impact of corporate culture on merger and acquisitions we firstly need to understand:

- Why M&As occur
- The relationship between M&A’s and corporate culture
- What factors influence M&A processes
- What do various researchers advice about post-merger integration problems

3.1 Merger and acquisition concept

To gain a decent understanding of the way mergers and acquisitions occur and how corporate culture is affected within a company, it is necessary to understand the basic concepts and terms. Mergers and acquisitions must be seen as two separate terms, since both are different in meaning. According to Coyle (2000), a merger, defined in a narrow sense, emphasizes on the size of the two companies. The sizes of the companies must be quite similar, which then are combined resulting in one business venture, with all their resources included. On the other hand, Schraeder and Self, refer to Borys and Jemison’s (2003) definition, that mergers basically consolidate two organizations and become one single organization. Acquisitions refer to a company being acquired or taken over by another company where the acquirer has control (Schraeder, Mike & Self 2003). Whereas Coyle (2000) states that when the acquiring company gets control of the business operations and assets or the acquired company’s stocks is when a takeover occurs. There are several other factors that can help make a distinction between a merger and acquisition, for example it is a merger when, of the two companies, neither is said to be the acquiring party or acquired party. Also, it is when the structure of the
management of the business is set up with both of the companies taking part in the process (Coyle 2000).

Although there is difference between the mergers and the acquisitions in sense of corporate culture same problems could appear. Therefore we choose to not distinguish between these two terms when it comes to corporate culture.

Types of mergers as described by Weston and Weaver (2001) are horizontal, vertical and conglomerate from an economic perspective. Horizontal mergers are when both companies are involved in the same kind of business operations. Vertical mergers refer to production operations that are taking place in various phases. When two companies that are involved in a merger are from dissimilar businesses, then it is called a conglomerate merger.

According to Coyle (2000), there are two types of acquisitions; either it is full or partial. A full acquisition refers to when the acquiring company acquires all the assets of the acquired organization. Partial acquisition is referred to as the acquiring party gaining a certain amount of control, usually it is more than 50 %, but is less than 100%.

### 3.2 Mergers and acquisitions’ motivations

Before explaining the research questions and trying to find an answer about them, it is good to understand why mergers and acquisitions happen. M&A activity has become very common nowadays, with the financial and growth aspects in focus. Survival may be the primary reason as to why M&As take place, since it is the survival of the fittest in today’s extremely fast and competitive business world.

Merger or acquisition may happen because of many reasons. Some companies merge because they can have better experience and knowledge if they work together in the same area and as result can be dominant on the market. Many times it happens because of financial security. Generally M&A occur for the following reasons:

- New/improved products;
- Higher market share;
- Knowledge;
- More consumers;
- Better management team;
- Better technology

Intention of merger according to Afsaneh and Malezadek (1993) could be due to:

- Gain market share and eliminate competitors;
- Expand to other related fields to capitalise on strength;
- Gain access to valuable resources of suppliers or customers;
- Diversify into other areas where opportunities exist.

Beside the fact that the goal of many merger or acquisition companies is the financial aspect, they still need to be well aware of the impact of the culture.
According to Sherman and Hart (2006), mergers and acquisitions speed the process of either growth of companies or decline, and they are an important part of the economy especially because of the fact that “companies are able to provide returns to owners and investors.” They also go on to mention that mergers and acquisitions aid organizations in outgrowing their competition and at the same time the companies that are not so strong start to decline and eventually die. Reasons that companies are drawn to acquisitions are due to the economic gain and value creation. In the history of corporations and corporate activity, the authors point out that the way of conducting and the reasons for mergers and acquisitions have changed from being hostile acquisitions where it all was about the money and economic benefits, to the focus shifting to growth and mergers. In agreement are authors Vu, Shi and Tanby (2009) that in reference to a number of experts state companies’ purpose is to go for “this common strategy that leads to rapid growth and enhanced value”.

On the other hand, Nalbantian, Guzzo, Kieffer and Doherty (2005) go on a bit further and state the motivation behind acquisitions are due to the fact that companies want to gain the advantages of scale and scope of economics through acquiring a complementary resources and skills or capture an important technology, distribution, arrangement or competency. The creation of economies of scale seems to be what most experts believe is the main motivation behind the mergers and acquisitions (Burand, 2005).

### 3.3 Post merger conflicts

According to DeNisi & Shin (2005) there are several facts that can create negative psychology in the members of an organization. First members feel that they have lost sense of control during the M&A. They also can feel uncertainty about keeping their jobs and hence the future. He also mentions the feel of threat concerning the group values, social identity and the structure of the organization.

Naturally the acquirer who is the most of the time the dominant party in a M&A tends to impose cultural changes on the other. It is noted if the acquired firm’s rigidity to change and its level of need to preserve its culture can increase the level of conflict (Nahavandi & Malekzadeh, 1988). Haunschild et al (1994) states that rigidity to change culture by the acquired firm can lead to unfair treatment between the members of the two organizations while favoring members with their own organization.

Expanding further, Nahavandi and Malekzadeh (1988) also indicates the consequences of the need to preserve the organizational culture by the acquiring firm for a successful merger. He mentions the importance of the necessity to change the acquirer’s culture in order to create a new shared organizational culture. The rigidity to do so can demonstrate unnecessary domination and superiority by the acquirer. The acquired firm is likely to resist such attitudes leading to increased post-merger conflict.
3.4 The relationship between the M&A and Corporate culture

When discussing the connection between corporate culture and M&A’s, it is evident that researchers tend to look at the strategies and processes of the two in relation to each other. As Burand (2005) states, since there are no dominant companies in a merger, it is not known which culture would eventually take over the merged company, but one culture would have been dominant over the other culture in order for the merger to be successful.

Since there are so many factors to this relationship, Braksick (2007) discusses the fact that there are no two corporate cultures that are the same due to each company with its own ways of operating and its own unique background and history. This difference is enhanced by the fact that certain aspects change such as the leadership and management, and even the objectives. All this tends to alter the behavior and attitudes of the employees which makes it not as predictable as it should be and disorientation occurs to the characteristics of the cultures that played an important part before the merger in the success of the companies.

Another researcher seems to agree with the previous set of ideas and states that there are sure to be differences in the two cultures with the possibility that there might be conflict regarding the cultures. The author mentions that despite their being no conflict of cultures, the differences would still have to be managed or else it would end up affecting the employees and the way they interact with each other (Biljsma-Frankema 2001).

Gaining a competitive advantage is one of the objectives of M&A’s and the key to that is integrating the culture so that certain factors will thrive like “mutual trust and co-operation”, which will as a result make the company stronger internally. This strength can be used to take advantage of opportunities as well as diminish the threatening aspect of the company’s environment as referred to by several experts (Bijlsma-Frankema 2001).

Therefore we can see that each author argues that there is strong relationship between M&A’s and corporate culture. This relationship can be used as advantage if companies know how to deal with it, otherwise it will be negative for both companies no matter if they are into merger or acquisition process.

3.5 Factors that influence corporate culture in M&As

Culture, particularly corporate culture is an essential part of a company. Subjective culture is the focus of this research, which include the beliefs and values shared within the organization and among the members (Schraeder, Mike & Self, 2003). It can be described as the personality of a company internally, and when two companies come together, the personalities might have to go through some kind of modifications.

There are several factors that could affect the way a merger or acquisition might proceed. These factors include cultural compatibility, the management styles of the CEO, the reporting relationships and decision making aspect within the higher management relations, the goals of the two companies that they want to achieve through the merger or acquisition and even
how well the business systems of the two companies go together (Schraeder, Mike & Self, 2003).

Therefore knowing which factor is influencing the process of merger and acquisitions companies may face post merger corporate culture conflicts easier, otherwise they will end up solving the problem on more difficult way or even lose the merger contact. So, basically as we can see further, factors that can influence these processes can be used when companies want to construct their post merger or pre merger cultural strategy.

### 3.6 Management and Strategies for Post-M&A Integration

Once the organizations have come together in through either a merger or acquisition, change is expected to happen in one way or another. For example, the employees of a company are expected to adapt to each other, or both come together to form a completely new culture. Other changes might include the adoption of the culture of major organization of the two, or even let the two cultures exist autonomously. Depending on the type of acquisition, the company that has been acquired can either be incorporated or changed so much that it gains a completely new identity or it could be left as it is to operate on its own. This demonstrates the fact that change is inevitable in the M&A process. The question is how they go through these changes after the process has been completed, what strategies are used and how the decisions are made. Other queries involve how much change occurs, what is the impact on the employees, and what are their reactions to the change.

#### 3.6.1 Strategies for post-merger integration

Many great researchers have contributed to the company’s attempt to solve the post merger problems that may occur. As we focus our research on what is the best practice that companies use to solve the corporate cultural problems, is good to note what Philip Atkinson has done for this particular question. Philip E. Atkinson (1990) in his paper “When cultures collide” after careful analysis and research concluded that companies have to follow certain pattern of four stages. According to him the first stage is the stage of preparation and cultural review. Although this stage is quite challenging and difficult to achieve, he suggests that as soon as companies that enter into M&A process face the need of cultural analysis and understanding of other company’s culture the sooner they will solve the upcoming problems. The sooner the companies understand the working habits, beliefs, the moral, loyalty the better they can collide and work in future. The second stage is the stage of communication. If a decision has been taken the sooner this decision is released between the employees the better results the company will have. Atkinson suggests that companies need to have group of systems together with feedback system so that the results of decision making have better understandings among employees from both companies that merge or acquire one another. The third stage is the stage of creating new standards. He suggests that it is best companies to set new standards that can fit both companies so that problems that emerge after the merger process are solved or even not appear at all. The last stage is the stage of developing and training the top team. Since the top management is crucial for decision taking he suggests that
it is best practice if companies can change their work habits and adopt it to the newly based situation.

Earlier studies concentrated on research on strategic fit of the two companies on post-merger performance. Strategic fit has been described as the strategic compatibility of the acquiring and acquired firms’s operations (Haspeslagh & Jamison, 1991). However strategic fit has only been a part of the problem in achieving desired goals after a merger. Emphasis on people dimension, a new trend which merged in 1980’s focused on consequences of negative psychological behavior of the members on the performance of the firm as a whole.

According to Berry (1984) four modes of acculturation can be identified. He states by using these modes firms can adapt to each other and therefore avoid conflict. In mergers the characteristics of the two firms will determine which mode of acculturation will be beneficial. He describes them as:

a) **Integration**: In this mode of acculturation, members of acquired firm want to preserve their own culture but assimilate the two structures. That is the members of the acquired company maintain many aspects of beliefs and culture but at the same time willing to be integrated in to the acquirers structure.

b) **Assimilation**: In this mode of acculturation, the acquired firm adopts the culture of the acquirer. This is likely in a situation where the acquired firm has not been successful in the past and the members of the organization believe their culture and practices hinders the performance.

c) **Separation**: This mode of acculturation involves keeping firm’s culture and practices separate from the dominating group. This is likely in a situation where members of the acquired organization refuse to assimilate with the acquirer and want to remain totally separate from the acquirer but stay under the financial umbrella of the acquirer.

d) **Deculturation**: Is a situation where members of the acquired company not only do not value their culture but also do not want to assimilate into the acquiring company.

It can be pointed out that when two companies merge, absorption of one’s culture by the other is not the only mode of acculturation but rather depends on the way the two companies implement the merger.

According to the research carried out by Chatterjee, Lubatkin, Schweiger and Weber (1992), “the strategic management approach” and “the behavioral approach” help understand the result of mergers when combined. Their research states that the evidence gathered from the results suggests investors favor compatibility between the top management cultures of both companies rather than incompatibility. Another suggestion is that cultural fit should be given just as much importance as managers do to strategic fit.

### 3.6.2 The role of the management in M&S’s and corporate culture

Other researchers suggest that the most important part of the integration process when M&A occur is the amalgamation of the management. If one company has good strategy for the management then it increases the percentage of succeeding in the merger process.

In a study conducted by Kavanagh and Ashkanasy (2006), it is evident that leadership has an enormous part to play when dealing with mergers. Managers must have specific skills when
dealing with a merger, such as “change management” and being able to communicate well, in order to “manage the merger process effectively”. The three strategies that the management can utilize during the merger are, immediate, incremental and indifferent. The study also points out the four steps that need to be taken by the top management:

1. To choose one of the approaches to change to both “manage the merger” and “develop a new culture”.

2. To be able to communicate effectively with all members of the organization, so as to keep everyone updated on the steps that will be taken and the end results that will be expected.

3. To choose partners that are not as significant and then the more important ones for enough time of “consultation” and “justification”.

4. To be optimistic and be aware of the fact that change is about people and their emotions, which includes recognition for their “contributions” and “justifying” of their departure.

There are different perspective on the role of the management and implies that they need to follow a three-level model. These three steps are related to the three threats to organizations’ performance:

1. To create a clear structure that will work accordingly to the external environment.

2. To manage the internal environment of the organization by integrating the cultures.

3. To manage the employees by making sure that there is commitment in the way they do things to new structure and culture (Bijlsma-Frankema 2001).

The three most important concepts concerning the management and their strategies that have been found are culture fit, strategy fit and acculturation, when it comes to M&As.

So, as we can see there are many strategies that companies may choose from. In the next section we focus on a successful merger- the merger of Swedbank. Swedbank has its own set of strategies when it comes to corporate culture. It is similar and at the same time different from many researches’ suggestions. Therefore it is good to see how companies in reality actually deal with post merger problems.

**4. Empirical data / Case study – Swedbank**

**4.1 Background and history**

During the merger and acquisition processes, companies feel the pressure of changing. The management needs to decide to either make out different sets of organizational goals or continue with the same strategies even after the merger or acquisition. No matter which strategies the management has chosen, to form a different corporate culture or continue with the existing one, future goals must be clearly set so that the employees understand the values
and the overall character of the organization. Once the goals and values have been set, the organizations can go through corporate culture alignment.

Nowadays the number of banks that merge or one acquires another has been in increasing trend. Mergers or acquisitions in banking industry, as most other industries have similar intentions i.e. higher market share. According to Salieo Carmelo (2002) the main reason why banks merge is because the active bank will have high income as result of services it offers, therefore it will want to offer its facilities to the customers of the passive or target bank. As result the main bank will have more customers and both banks will have more income. In the acquisition case if both banks have high amount of loans compared to the total assets, but the acquired bank have negative loans also, one reason for the acquisition could be the acquiring bank to improve the portfolio of the acquired bank by decreasing the negative loans.

In general when two or more banks merge they could become the main player in the market when it comes to customers and offers of loans. Therefore as the other industries, financial industry has the same motives when it comes to mergers or acquisitions. Although we know the aim of merger and acquisition of banks, we need to also consider the important implication of corporate culture in the success or failure of it. We need to find out what the best strategies are that are used to accomplish the goal of a successful merger.

Our chosen company that has been in the process of a merger is Swedbank- a successful Swedish bank. Swedbank’s history dates back to 1820 when the first savings bank was founded in Gothenburg by Eduard Ludendorff, an immigrant from Germany. Later on, in 1915, the formation of the first agricultural bank in southern Stockholm happen, which was the result of a decision the Swedish parliament had taken. Although the agricultural banks were for the farmers and providing them with credit, there was still another aim, which was to promote saving. This goal was shared by both agricultural banks and savings banks, which is one of the things that made them seem so similar. Their corporate structures were also quite alike when both had established central banks back in 1956.

When inflation occurred back in 1990, along with the decline of the economy, the union banks (formerly called agricultural banks) and savings banks began to open up ways to gain profits, and establish kinds of corporate structures. As result of the merger of 12 agricultural cooperative banks Föreningsbanken AB was formed in 1991. One year later 1992 a merger between 11 regional saving banks formed Sparbanken Sverige AB. In the year of 1997 a merger between these two banks took place forming FöreningsSparbanken (nowadays Swedbank), which meant that there were about 5 million customers gained along with numerous branches. In 2005, FöreningsSparbanken acquired Hansabank, which marked the expansion in the Baltic region. FöreningsSparbanken changed its name to Swedbank in 2006. In 2007, Swedbank acquired Ukrainian TAS-Kommerzbank. Nowadays Swedbank has 9, 5 million retail customers and over 550 000 corporate consumers, with 381 branches in Sweden and 390 branches outside Sweden (History of Swedbank, n.d.).

Swedbank also had an attempt of merging with SEB another really successful Swedish bank. Unfortunately this was banned by the European Commission, because they would destroy the competition on the market and be the biggest bank in the region.

As we can see Swedbank has a lot of experience in mergers and acquisitions most of which are successful. However this research is focusing on the forming of Swedbank and how the
Swedbank aims to provide “help to people and businesses to be financially sustainable”, and has a clear focus on the customers’ needs and its relationships with the customers so that they are able to accomplish the goal of having “the most satisfied customer in the industry.” The bank works towards doing that through attempting to simplify things for their customers and provide exceptional service (Facts about Swedbank, n.d).

4.2 Swedbank’s strategy of corporate culture in the merger process

Swedbank as stated above was created as result of a merger between two Swedish banks Föreningsbanken and Sparbanken Sverige. The aim of this merger was building a new much more competitive bank on the market of Sweden. With the merger both banks will have more customers, increased branched network in Sweden, increased level of effectiveness etc.

Having in mind that both banks are from Sweden and have similar corporate cultures i.e. similar values, believes and goals, the management did not expect too many differences and therefore did not prepare beforehand for the corporate culture aspect of the merger. As our interviewee had explained, they focused on the employees. It was of great importance for them to show the future plans to their employees. The merger was based on the assumption that both companies were similar but they later on, realized that the corporate cultures were in reality quite different. Reinhold Geijer President and Chief Executive Officer at the time of the merger (1997) stated that having in mind that both banks have essentially the same view of the market and role of the management they expected that the merger would develop quite easily and successfully. Realizing in the later process that there might be cultural differences, they decided to go with a set of goals that would aid them in the integration process (Annual report, 1997).

According to Mr. Staffan Ivarsson the deputy director of human resources at Swedbank, although in a political sense it was a merger of equals, in reality it was more of an acquisition like ¾ to ¼. Beside the fact that Sparbanken was bigger bank at that time and it looked more like an acquisition in sense of influence, the management of both companies decided to create new culture that can fit both companies and be in correlation with the goals of the newly created one. They decided to create new culture beside the fact that at the beginning it seemed like there are no differences among the corporate culture of the both companies, but during the process, it became more evident.

Therefore the first step of the process of the merger was to set goals for the first year of the merger. According to the annual report at 1997 the first step that the banks took is reaching the internal goals, which in that time were at least 80% of the employees’ time to be focused on creating values. Creating values for themselves and creating values for the customers and the bank in general was part of the internal goals. The goal was to set trainings and investments for the employees so that they can feel like one big family, sharing the same values and goals. So, the aim was a new bank to be created, a bank that has the same work routines and operations achieved through the same core values (Annual report, 1997).
The second step was amalgamation process between Sparbanken and Föreningsbanken. The amalgamation was created through three processes legal, integration and commercial process. The three processes are shown in the following figure:

Figure 1: Amalgamation process

Source: FöreningsSparbanken, group overview.

The first process i.e. the legal one was for the formal agreement among the banks. It was focused on the offer and the approvals from both bank’s general meetings as well as the consent of authorities.

The second process the integration was the most important one. In this stage the banks started the preparations for the values, the philosophy and objectives that will be accomplished in the future. During this stage, Sparbanken and Föreningsbanken started to realize the differences and similarities within the corporate cultures. This stage was crucial for the banks to decide that they will set goals and values that will be in correlation with both and will represent the newly formed corporate culture of the merged bank. After this process the strategies of market, products and offers were established. Therefore the new structure and organization was formed (FöreningsSparbanken, group overview, n.d.).

The last process was the commercial one which was in fact the implementation of the newly formed values and goals of the merger.

After this second step of amalgamation the banks took on the third step. After the amalgamation process in sense of values and goals both banks decide to go with structural changes. The integration among the two banks was influenced from the management also. It was of essential importance that FöreningsSparbanken (Swedbank) maintain and continue developing its competences and business professionalism with emphasis on customer satisfaction. The knowledge, the willingness and the ability were set as main goals that this
The operation of the organization was based on satisfying local needs. Mainly the organization was constructed with decentralization of the functions. The decentralization included two main levels: board of directors and collective units and subsidiaries. The collective units will be responsible for day to day activities while the board of directors consisted of skilled individuals will be responsible for the general business. Through this type of structure the bank succeeded in creating more interconnections. The relationship between the members is easier since each subsidiary is quite independent and there is no big difference among the employees in a sense of responsibility and importance. The main idea was to create work environment where each employee is of equal importance and is highly satisfied with his/her work. This helped the bank to structure its values, beliefs and goals.

According to Mr. Staffan, although the top management was mainly influenced by the savings bank people and as a result the management style of Sparbanken was dominant still in general they incorporated both cultures and both management styles, creating new flat organization, where employees will feel equal. So, the corporate culture and overall the merger strategy of Swedbank was followed in three steps. The first step is creating values, the second step is the amalgamation process and the last step represents the management changes.
As most of the mergers, Swedbank had also clashing moments during the process of integrating both corporate cultures. According to our interviewee, Mr. Staffan due to the fact that they were quite introverted as an organization during that period, dealing with reconstructing, laying off people helping them take a decision, the bank started having problems like aligning the IT systems, and there were different levels of service for the customers between people coming from different banks. So the different levels of satisfying the customers decreased the consistency of the bank and as a result they lost customers and motivation for employees.

Overall many changes occurred among the banks during the process of merger. They came up with creating new a corporate culture, setting new values and goals with primary focus on satisfaction of customers. Although the banks had different corporate culture, different ways of interaction with customers, still they managed to create new culture that will be in correlation with both banks.

### 4.3 Swedbank’s present corporate culture

The corporate culture of Swedbank is complex, based on satisfying customers and building a picture of themselves as a reliable and user friendly company. According to their official politics Swedbank is working hard to accomplish the following corporate culture goals:

1. Creating corporate culture that helps each person’s strength to increase;
2. Offer positive work place and open inclusive corporate culture and

The main character of the company through corporate culture is based on helping and serving people and businesses having qualitative life, through motivated and reliable employees.
According to their annual report in 2009 Swedbank is built on sustainable, long-term relationships with customers with corporate culture that is distinguished by open communication, a desire to make even the very complex understandable, strong personal commitment and great responsibility to the community (Annual report, 2009).

In order to accomplish these goals Swedbank is organizing different trainings for the employees. Mainly they are building its character or corporate culture by creating employees who feel good as prerequisite for satisfying customers. They are creating corporate culture and climate where the employees are willing to put the maximum effort of working and satisfying their customers.

Swedbank’s values are based on helping people achieve their financial security and sustainability. According to the annual report (2009) the corporate culture is reflected through the believing in a traditional banking model focused on close customer relationships. Swedbank’s employees are attentive to customers’ wishes and act accordingly. The focus is put on customer’s needs.

The values of Swedbank are reflected through four main core goals (About Swedbank, 2009):

1. **Openness**
   - Always open for fresh and new ideas and
   - Honesty
2. **Care**
   - Helpful, service-minded and warm
   - Building of strong long-lasting relationships
3. **Sustainability**
   - Make it sustainable, financially, environmentally and socially
4. **Simplicity**
   - Bring clarity to complexity
   - Make banking easier.

Through these four core values Swedbank are mainly focusing on serving their customers. Creating services easy to use by bringing clarity to complexity, they are positioning themselves as user friendly bank. On the other hand, the bank is also focusing on its employees offering different training programs and creating a relaxed and positive environment. By this they are creating long lasting relationships between the customers and employees. Therefore we can conclude that the corporate culture of this bank is open and based on building relationships with the customers through satisfying them and its employees.

According to Michael Wolf the president and CEO of Swedbank the key point for success is focusing on the main goal and mission which is constant meetings between the customer and bank advisor. Through the thousands of every day meetings Swedbank creates its values and builds its corporate culture. Making the costumer feel confident and secure about its financial position and the services and systems of the bank, the comprehensiveness becomes an asset of the corporate culture. Every employee should have responsibility for the failure or success of the business they are running (Annual report, 2009).
Swedbank’s goals of being able to maximize profits and have the image of a company that everyone desires to work for, is reflected in its stated values. It shows that their employees are their biggest asset and their commitment is quite valuable. Swedbank emphasizes the employees need to have a good balance between work and their lives. Individual motivation is what they state is the key to the growth each employee will achieve in their future (About Swedbank, 2009)

In order to succeed and progress, the employees are also offered training, which at the end of the day also benefits the bank. Providing employees with international opportunities is another one of Swedbank’s ways to increase competency within the bank (About Swedbank, 2009).

In 2004, Swedbank was awarded the “The Competency Company of the Year” award, which reiterates the fact that investing in their employees is a big part of their strategy to achieve the desired objectives. According to Mr. Staffan Ivarsson, main idea is to understand the “economics of human capital and human interactions” and what changes need to be made in order to improve the performance of the organization. Due to these changes and values in 2008, Swedbank was given the title of being the most popular employer in the financial industry of Sweden (Swedbank competency development, 2004).

5. Analysis

There is no doubt a successful merger and acquisitions can bring value to the acquirer as well as to the acquired organization. At the same time, it is more likely if as much importance is not given to corporate culture of the two organizations, as to the finances of the two organizations, M & A will fail. It is noted no matter how difficult it is to make M&A a success, it still remains the most used weapon when growth strategies are discussed and implemented. Unless a perfect “marriage of business cultures” is achieved, mergers can end up as an expensive failure. Since there are no two organizations with same corporate culture, even if they are both in the same industry, after the merger, it is important to get the correct balance of the two cultures of two organizations in order to succeed and achieve their corporate goals as a whole.

5.1 Strategies that dealt with the management

According to the four steps pointed out by Kavanagh and Ashkanasy (2006), Swedbank evidently applied two out of those steps, which is what we were able to retrieve from the empirical data. The first step mentioned by Kavanagh and Ashkanasy (2006), that Swedbank initially took when the merger process took place was managing the merger by creating common values, goals and objectives. The developing of a new culture was not done overnight, but rather came as a result of the way Swedank chose to manage its merger. The fourth step proposed by Kavanagh and Ashkanasy (2006), was apparent as well when
Swedbank offered compensation to its employees that it chose to dismiss, with personal deals and financial options. The process although with a negative connotation, was handled with optimism by helping to provide a secure future full of opportunities.

As Bijlsma-Frankema (2001) presents the three level model, the first step was to create a clear structure according to the external environment, which consists of its competitors. It is apparent that Swedbank created a clear structure (Fig. 2) that enabled Swedbank’s ability to compete. The next step was to manage the employees and internal environment by integrating the cultures, and Swedbank initially chose to align the cultures. Although, later on Swedbank realized that integrating would be a better choice in the long run. Swedbank attempted to bring in commitment as a value to its employees by creation of common goals and objectives, which is part of the third step of the three-level model. Further on, what strengthened the commitment of the employees were the external events such as, the proposed SEB merger.

5.2 Strategies for post-merger corporate culture

After carefully studying the way Swedbank went through the merger and according to our interviewee’s responses, there seems to be no clear way of having to deal with the corporate culture apart from the fact of wanting to align the cultures. This was only based on the belief that there were almost no differences between the two banks’ cultures, which later on turned out to be far from the truth. It is also apparent that out of the four modes of acculturation according to Berry (1984), integration is what truly took place. Swedbank’s merger was described in its truest sense as an acquisition; the savings bank acquired the union bank. The main beliefs and culture remained instilled within Swedbank whilst also assimilating the two cultures. So, the acquired firm, in this case Föreningsbanken was willing to integrate into Sparbanken’s structure, with the leadership and management of Sparbanken quite dominant.

Philip E. Atkinson (1990) suggested four stages for cultural integration. The first stage is the stage of preparation and cultural review, the second stage is the stage of communication, the third stage is the stage of creating new standards and the last stage is the stage of developing and training the top team. Swedbank followed similar pattern when developed its own strategy for the merger process. Both banks at the beginning prepared for the merger although as we saw not enough, afterwards new values were created, then the amalgamation happened followed by three processes and at the end the management has changed. Therefore the case of Swedbank shows that they also put an importance on the creation of new standards and new culture as the third Atkinson’s stage. The last Atkinson’s stage of creating and developing a team is very important for Swedbank too. We can see that through the investments on trainings for employees.

Therefore whenever companies merge or one acquires another, there has to be changes on the corporate culture. Kavanagh and Ashkanasy (2006) as Philip E. Atkinson (1990) have pointed out that the communication is key element for success of merger or acquisition. Both banks Föreningsbanken and Sparbanken have also used the power of communication and therefore succeed in creating new corporate culture.
It is clear one strategy which is used and found successful in acculturation of merger of two organizations might not be the best strategy for another merger. For example some organizations, depending on to what extent the acquirer decide to get involved in the management of the other, might decide to let the acquired company follow the norms, believes they practiced before, letting the two cultures work side by side. On the other hand some acquirer might decide it is best if the acquired firm change the culture to be congruent with its own. It could be even possible that some companies may not be able to pin point what method they have adopted i.e change the culture or let two cultures live side by side, as it may not be so straightforward to clarify and answer. Relating this to Swedbank, even though the managers initially thought the culture of the two banks were quite similar, after the merger the Sparbanken’s culture was more dominant than the other. The impact of this culture clash on employees, which the managers thought never existed, was evident. This could have hindered, achieving company strategies and goals of the organization as a whole. To overcome this situation and to be successful a new culture that suits both organizations was slowly but surely encouraged and implemented.

5.3 The end result of Swedbank’s corporate culture

As mentioned earlier, when the merger occurred between Föreningsbanken and Sparbanken to form Swedbank, the initial impression was that due to the corporate structures being similar and the goals and objectives, the culture would have to be the same as well. This is not a fact, due to the evidence that no two companies are the same if they are operating in the same environment. It is clear that when two companies are able to survive in the same operating environment, they must differentiate to some extent. Also, the backgrounds and activities always differ in one way or another as it relates to two separate entities. Swedbank’s aim for the cultures of the two banks was alignment. This was easier said than done, as is obvious from the answers Mr. Staffan Ivarsson provided us with. The merger process itself involved the departure of about 3000 employees, which increases the difficulties and brings gloom to the atmosphere of the bank. Even though, there were personal deals that were made, it still does not change the fact that the colleagues that Föreningsbanken and Sparbanken’s employees had been working with for years had to leave due to a merger.

At present, it seems that due to certain events taking place, such as the proposed SEB merger, and with the passing of time, Swedbank finally got to the point where a completely new culture was created. Although there are still some savings bank traits that have maintained throughout, due to the leadership and management of Swedbank belonging to the savings bank area. The sharing of a common goal, to be completely focused on the customer, was also part of the process that brought both banks together to form Swedbank and its culture. Therefore we can conclude that the choice of best practice for Swedbank was divided into three processes: creating values, the amalgamation and management changes.
6. Conclusion

The main purpose of this thesis was to present the Swedbank merger success story and discuss their process of acculturation and the effects on corporate culture. Their strategies were highlighted as well to provide a better understanding of the different processes that have taken place. Corporate culture in itself is a vital aspect of a company and determines the types of operating activities that will take place as it has a deep connection to the employees of the company. The M&A process, on the other hand, have its motivations and goals, which must work in synchronization with the culture of the company, so as to make it a smoother ride for the future. Therefore the impact of the culture is on employees, the goals and overall the future of the company.

The second research question was focusing on the strategies that companies use when enter the M&A process. The case of Swedbank shows that the strategy was developed over time following a pattern of three main steps: creation of values, management change and the changes in the amalgamation process. Many researchers as stated above suggest similar steps for companies to deal with post-merger cultural problems. Hence, companies can follow certain rules but can also create their own unique rules to deal with such problems.

So, the analysis of the corporate culture within Swedbank in the merger context, show that it was evident that the culture had great impact on the employees, the goals of the company, its future plans, on the management and to the whole organization. Culture is deeply embedded within every organization, and Swedbank is no exception to that fact. Therefore on the question “what is the best practice that companies use to deal with cultural problems: they merge the culture, they continue with the work with different culture or they develop completely new corporate culture after the process of merger or acquisition” we can say that the best way is to create new culture, a culture that will be accepted from both companies. However we can also say that each company is a case of itself so not always a new culture is required. Each company has its own set of strategies to be used for the merger or acquisition but most of the researchers and as the case study shows, companies need to have good communication, well defined values and good management.

No matter what one’s plans are prior to the merger process, the goals must be set in place and translated through to the employees so as to ensure the decrease in difficulty when dealing with the cultures of the two organizations. Swedbank had plans of alignment, which did not exactly follow through, but due to the common goals and objectives, the new culture was created.

Future studies for the corporate culture in merger and acquisition context could be focused on more case studies and therefore a model of patterns could be created. Due to the limited amount of time and the willingness of in depth analysis this research was focusing only on one case study.
References


Appendix

A) Questionnaire used for interview

The original questionnaire is a bit different to the questionnaire made with Swedbank due to the fact that it was an open interview and questions need to be adjusted to the particular case.

1. Do you feel that the organizational culture played an important role in the merger or acquisition process?

2. What type of organizational structure does your company have?

3. What type of organizational structure did the other company have?

4. Did your company planed any strategies related to organizational culture in the pre merger/acquisition stage? If yes, what were the strategies and did they help? If no, then why?

5. What strategic considerations have been taken in the M&A process? If you have used special strategies what were those?

6. Did you adopt the other company culture or you let them exist side by side or did you create a new culture and why and how did you choose to do that?

7. What was the company aiming to achieve through the choice they made regarding the organizational culture?

8. How has the management been changed after the merger or acquisition?

9. How did the employees react on the other company organizational culture? Did you refuse or accept the differences in the culture?

10. If you have left the two cultures live side by side, how do you integrate the operations after the merger, taking into consideration the fact that both companies have different organizational culture?

11. Did you encounter any problems regarding the organizational culture to both companies? If yes then what were those problems? If no, why do you think there were no problems?

12. If there was cultural clash in your company after the M&A process, how did the culture clash affect the performance of your organization?
13. What were the main differences in the culture (referring to ethics, shared values, beliefs, norms, working habits…)

14. To what extent do you think the corporate culture of a merger resembles the organizational and national culture of its parent company?

15. What suggestions will you give to companies that want to enter into merger or acquisition regarding the organizational culture?

Thank you for your time. 😊

B) Interview with Swedbank

1. First of all, what were you aiming to achieve through the merger of Sparbanken and Föreningsbanken? We were trying to achieve profitability, and since there were many similarities in the two banks. Making it more efficient was also a primary reason. Basically, the main reason was efficiency.

2. Were there any notable differences between the cultures (attitudes, beliefs, experiences and values of the employees) and organizational structures? Yes, we had to work on the culture a lot, and although in a political sense it was a merger of equals, in reality it was more of an acquisition like ¾ to ¼. There were not any notable differences in the beginning, but during the process, it became more evident.

3. Do you feel that the corporate culture played an important role in the merger or acquisition process? Yes, very important, you must take into consideration before going into a merger or acquisition.

4. Did your company plan any strategies related to corporate culture in the pre merger/acquisition stage? If yes, what were the strategies and did they help? If no, then why? Aligning the culture, thorough work on the culture, employees need to understand the needs in the future. It was important to be more efficient, all employees needed to understand where we were heading for the future and building the culture for the future. It was based on the assumption that we were quite alike, which was not how it turned out to be. As during our journey, it became evident that we were quite different depending from what entities we started from (Sparbanken or Föreningsbanken).

5. What strategic considerations have been taken in the M&A process? If you have used special strategies what were those? N/A

6. Did you adopt the other company’s culture or you let them exist side by side or did you create a new culture and why and how did you choose to do that? You can actually say that of course when we were working together, closing down the branches, in the long run it kind of aligns to each other. The real thing happened when it was announced plans of a new merger in 2001 winter, when they announced that the plans of the new merger between Swedbank or Foreningssparbanken and SEB, the proposed
merger was that finally failed in September due to EC didn’t allow due to the fact that we would be due to being turned down by the European Commission. During that merger period we got really aligned. It was kind of an outside enemy, in this case SEB, aligned the people within Swedbank, made people come together and they felt yes we are Förenignssparbanken. Having six months of merger, discussion aligned people more than 3 years or more of working together.

7. **What was the company aiming to achieve through the choice they made regarding the culture?** Answered in a previous question.

8. **How has the management been changed after the merger or acquisition?** It was for me coming from the savings bank part, I can’t say it changed because it was still very influenced by the savings bank people. The top management remained the savings bank people, and the management style of the savings bank was dominant.

9. **How did the employees react on the other company corporate culture? Did you refuse or accept the differences in the culture?** It was a real hard time because first of all this was a merger for driving down the costs, being more efficient, 3000 employees had to leave during this process which was quite tough, even for the colleagues who were remaining, even if we did it in a very positive way. We didn’t lay off anyone, it was more like personal deals with people and giving them opportunities if they were quite old to have an early retirement. If they were younger they could have a high school education paid by the bank or start their own business. WE gave the 3000 employees good opportunities for the future, but they were still leaving. We were having problems with duplicating the IT systems, so people had quite a hard time in that process.

10. **If you have left the two cultures live side by side, how do you integrate the operations after the merger, taking into consideration the fact that both companies have different organizational culture?** N/A

11. **Did you encounter any problems regarding the culture to both companies? If yes then what were those problems? If no, why do you think there were no problems?** Previously answered in another question.

12. **If there was a cultural clash in your company after the M&A process, how did the culture clash affect the performance of your organization?** Due to the fact that we were quite introverted as an organization during that period, dealing with reconstructing, laying off people by helping them take a decision. Aligning the IT systems, and there were different levels of service for the customers between people coming from different banks. We lost customer focus and our customer satisfaction, that had been. Also the motivation and empowerment had gone down over those years.

13. **What changed?** We focused on customers and building empowerment and the turning point was the negotiation with SEB in 2001 because we saw that we had this joint project for plans of merging the banks in all areas, we saw that we from Swedbank were quite good in all aspects compare ourselves to the big competitors like SEB. We came out no. 1 in the merger aspect even if we were turned down. We are quite strong.

14. **What were the main differences in the culture (referring to ethics, shared values, beliefs, norms, working habits…)** N/A
15. What suggestions will you give to companies that want to enter into merger or acquisition regarding the corporate culture? Be aware that it is very important and it is harder to deal with than you can imagine.