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# Incompatible strategies in international mergers: the failed merger between Telia and Telenor

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**Abstract**

The aim of this paper is to explore the problems of incompatible strategies in international mergers. Studying a failed merger between the two state-owned Scandinavian telecom corporations, we examine how the parties' strategies were incompatible. We find that the parties' strategies were incompatible in three distinctive areas, and study how the companies tried to resolve these incompatibilities. Owing to national governance structures established to protect national interests, the parties were unable to resolve these strategic incompatibilities.

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## INTRODUCTION

On 20 January 1999 the two leading, state-owned telecom corporations in Norway and Sweden announced their intention to merge. The merger between Telenor and Telia was well received by leading analysts and the press. The *Financial Times* claimed that the merger would be a "jewel of communication", and said that this marked a new era for the telecommunication sector in Europe. The German *Handelsblatt* and the *Wall Street Journal* both stated that the merger had transformed two tiny local actors into a middle-sized European player. Eleven months later, in December 1999, the merger was off. This paper investigates how inability to resolve incompatible strategies created problems for this failed merger.

Strategic management scholars have suggested, but have failed to find, that mergers between companies in the same industry will outperform mergers between firms in distinctively different industries (Chatterjee, 1986; Lubatkin, 1983, 1987; Singh & Montgomery, 1987). These inconsistent findings have traditionally been attributed to problems of organisational or cultural fit (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Weber, 1996; Weber & Menipaz, 2003), in terms both of differences in themselves, and of the problems of managing these differences. However, the relatedness and the organisational fit literature have not taken into account that the merging parties may have different views on the strategic priorities of the merged firm. We ask the

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question of what happens when the merging parties have divergent views on how the combined resources for the merged firms should be deployed. Our findings suggest that although mergers may have a promising synergy potential, this potential may not be realised because the parties are unable to resolve incompatible strategies.

The literature on relatedness has often used the term ''strategic fit'' interchangeably with ''relatedness'', indicating that the strategies fit in related mergers. We argue that the use of strategic fit is a misguiding terminology in the literature, and that one needs to distinguish between compatibility in resources and compatibility in strategies. The firms may have complementary resources, indicating relatedness, but there may be multiple ways of combining these resources, reflecting the firms' strategies. Moreover, the merging firms may have compatible organisations, but this is not the same as compatible strategies. We propose that strategies are incompatible when the merging firms have divergent views on how the combined resources should be deployed in the merged organisation.

The dominating party's attitude and beliefs about superiority and inferiority towards the other party are one of the most important causes of merger or acquisition failures (Hambrick & Cannella, 1993). To overcome these problems and facilitate the synergy realisation, the M&A literature has suggested that mergers should be carried out in the spirit of equality or balance (Cartwright & Cooper, 1990; Schweiger, Csiszar, & Napier, 1994; Vaara & Tienari, 2003). However, the equality principle may also have some undesirable effects (David & Singh, 1993; Olie, 1994; Schweiger, Ridley, & Martini, 1992; Vaara & Tienari, 2003). We will show how the adoption of the equality principle can cause problems for resolving strategic incompatibilities.

In contrast to conventional wisdom in the strategic change and M&A literature (Balogun & Johnson, 2004; Meyer, 2006), the problem of implementing the merger and operationalising the strategic intent did not reside in middle management. Middle management has often been singled out as the primary locus for resistance to change (Biggart, 1977; Dopson & Neumann, 1998; Dopson & Stewart, 1990), and a frequent complaint of senior executives is that middle or operating managers fail to take actions necessary to implement strategy (Balogun, 2003; Floyd & Wooldridge, 1992; Guth & MacMillan, 1986). In the merger between Telia and Telenor, the forces resisting integration and hindering operationalisation of strategic intent were at the top, whereas the middle management played a much more constructive role in translating the strategic intent into new business strategies.

Strategic incompatibilities are likely to be more problematic in some situations than in others. The literature has suggested that M&As that cut across national boundaries are more demanding because of the different nationalities involved, and because there is a greater need for cultural sensitivity in resolving incompatibilities. When the merger is also strongly influenced by national political considerations, the problem of resolving strategic incompatibilities is likely to escalate (Bruner, 2005).

## RELATEDNESS AND STRATEGIC INCOMPATIBILITY

The synergy hypothesis proposes that acquisitions take place when the value of the combined firm is greater than the sum of the values of the individual firms (Bradley, Desai, & Kim, 1988; Seth, 1990a). Underlying the synergy hypothesis is the resource-based view of the firm (Barney, 1986; Wernerfelt, 1984). Drawing on Penrose (1959), the resource-based perspective proposes that the firm can be viewed as a collection of sticky and imperfectly inimitable resources that enable it to create competitive advantage. The synergy hypothesis assumes that the firm's unique and specialised resources are not costlessly appropriable by other firms, and also that there exist market frictions that prevent the firm from trading its stock of ''excess'' resources (Seth, Song, & Pettit, 2002).

In line with this view on resources, acquisitions are an important part of the business process of redeploying resources into more productive uses (Anand & Singh, 1997; Capron, Dussauge, & Mitchell, 1998). Through acquisitions, firm-specific assets housed within one organisation are merged with assets in another, thereby improving the combined productivity (Anand and Singh, 1997; Haspeslagh & Jemison, 1991). In domestic acquisitions the added value, or synergistic gain, has been shown to be derived from an increase in operational efficiency, an increase in market power, or some form of financial gain due to lowered bankruptcy risk or internal financing arrangements (Seth, 1990b; Singh & Montgomery, 1987). Owing to different types and degrees of friction across international markets, different sources of synergies are likely to underlie cross-border acquisitions (Seth et al., 2002).


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A critical dimension in unifying the firms' resources is their relatedness (Ahuja & Katila, 2001; Lubatkin, 1983; Singh & Montgomery, 1987). Strategic management scholars, economists and practitioners have argued that one of the main factors that differentiate successful M&As from the unsuccessful is the relatedness between combining firms (Chatterjee & Lubatkin, 1990; Schweiger et al., 1994). The underlying premise has been that related mergers and acquisitions should perform better than unrelated M&As, though, beyond some optimum, performance will decrease with increasing relatedness owing to too much similarity in resource bases (Ahuja & Katila, 2001; Collis & Montgomery, 1997).

Relatedness does, however, serve only as an indication of potential synergies. To realise synergies, the parties need to work out how the combined resources will be deployed in the merged firm. The discussion of how this value creation potential is to be realised has, however, been left largely to the organisational fit literature (Buono, Bowditch, & Lewis, 1985; Cartwright & Cooper, 1992; Larsson & Lubatkin, 2001). Though the literature on organisational fit addresses the practical impediments to value creation, this is concerned with incompatible organisational features, not *strategies*. More specifically, the literature has been concerned with intercultural friction between management (Datta, 1991; Shanley & Correa, 1992), organisations (Buono et al., 1985; Cartwright & Cooper, 1992; Larsson & Lubatkin, 2001), and nations (Morosini, Shane, & Singh, 1998; Very, Lubatkin, Calori, & Veiga, 1997; Weber, Shenkar, & Raveh, 1996).

What we are suggesting is that there is a missing link in the M&A literature between the assessment of resource compatibility and organisational compatibility. It is well known from the literature on international trade that comparative advantages can be exploited in a number of ways (Dixit & Norman, 1980). How a particular firm has chosen to deploy its resources to exploit its comparative advantage expresses the strategic choice of that firm. Because there are multiple ways in which these resources can be combined, the merging parties need to decide on which combinations they believe can best raise the productivity of the joint firm. If the merging parties have different and divergent views on how the resources can be best combined to exploit comparative advantages, then their strategies are incompatible. Incompatible strategies imply that it is not feasible for the merged corporation to choose both strategies simultaneously. To realise synergies in a merger, incompatible strategies therefore need to be resolved.

When the acquirer has the potential to enforce its strategy unilaterally, the question of resolving incompatibility becomes a question of whether the acquirer is willing to use its power. The main challenge in this mode is determinism, where "the acquiring company needs the courage of its convictions to impose its vision, and wavering on account of cultural sensitivity is likely to harm the task at hand" (Haspeslagh & Farquhar, 1994: 432). This is not to claim that acquisitions are easy to implement. Quite the contrary; many M&A scholars have discussed the difficulties when the acquirer enforces its power on the acquiree, leading to feelings of inferiority and alienation in the acquired firm (Hambrick & Cannella, 1993; Nahavandi & Malekzadeh, 1988). Nevertheless, since an acquisition provides clear lines of authority of one party over the other, strategic decisions can in principle be resolved through the hierarchy of the integrated firm.

When the situation is a merger between two equal parties, however, incompatible strategies cannot be resolved through the imposition of one of the parties' strategies. Neither party has the power to dominate the other, and to realise the value potential and bridge the incompatible strategies, the parties need to agree on a common strategic platform. Two different mechanisms for resolving incompatible strategies in equal mergers have been suggested in the M&A literature: letting the merger evolve into absorption over time, or transformation. The first suggestion implies that one of the parties becomes dominant over time, with the resulting opportunity to impose and implement its strategy. M&A scholars have argued that an equal balance of power is unlikely to be sustained over time (Hambrick & Cannella, 1993; Vaara & Tienari, 2003; Very et al., 1997), and that mergers between equal parties often turn into acquisitions.

Transformation implies that both firms change their strategies, and requires that both parties have a willingness to build a new firm from the two existing ones (Mirvis & Marks, 1992). This is, however, the trickiest of all combination types, and requires significant investment and inventive management. Mirvis and Marks say that transformation poses a sharp break from the past: "It involves both death and rebirth: Existing practices and routines must be abandoned and new ones discovered and developed" (p: 254).



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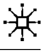


Whereas incompatible strategies are likely to be unproblematic in unrelated mergers and acquisitions owing to a low expected degree of integration, incompatibility in related mergers and acquisitions is more likely to hurt performance and result in failure. The reason is that incompatible strategies are likely to give different implications for how the operational synergies, in particular, should be realised. These are synergies that have a direct impact on how the organisational boundaries are constructed and deconstructed as a result of the merger (Haspeslagh & Jemison, 1991). Moreover, since there is a larger diversity of different resources that potentially can be combined in related M&As, there is a greater likelihood that there are more resources combinations in related M&As than in unrelated M&As.

Research on international M&As indicates that resolving strategic incompatibility can be particularly challenging when there are different nationalities involved (Calori, Lubatkin, & Very, 1994; Napier, Schweiger, & Kosglow, 1993; Schweiger & Goulet, 2005). Organisational changes required for value creation are more difficult to implement in cross-border M&As than in domestic M&As, largely because they are organisationally diverse from their acquirers (Napier et al., 1993). The fact that the firms are more organisationally diverse, and are represented by different nationalities, implies that it may be more challenging to work out how the resources of the merged firms should be deployed to put them into their most productive uses. This indicates that the awareness of (differing) strategic priorities may be lower in international mergers than in domestic mergers.

International M&As are also potentially more challenging because there is a greater need for cultural sensitivity in resolving incompatibilities (Morosini et al., 1998; Very et al., 1997; Weber et al., 1996). Therefore the control structure of the acquiring firm may need to be adapted to encourage synergy realisation (Calori et al., 1994). These control structures are often part of the acquiring firm's administrative heritage, rooted in the national culture of the home country (Calori et al., 1994), and indicating that they may be inert and difficult to change.

We also have indications that the challenges in solving incompatibilities may be more severe when the firms involved have political or public sector connections (Bruner, 2005). In fact, there have been a number of attempts recently where state ownership has inhibited cross-border mergers, both in France and in Italy. Tienari, Vaara, and Björkman (2003) claim that political actors and government officials play important parts in a number of cross-border M&As, but the research in this area is very scant.

In this paper we will focus on the inability to resolve incompatibility in corporate strategies. We differentiate Telenor and Telia's pre-merger strategies according to their different dominant logics (Prahalad & Bettis, 1986), their diversification strategies (Collis & Montgomery, 1997), and their location in geographical clusters (Krugman, 1994; Porter, 1990). A general dominant logic is defined as the way in which managers conceptualise the business and make critical decisions about resources. According to Prahalad and Bettis (1986), the dominant logic is typically influenced by the largest business, or the "core business", which was the historical basis for the firm's growth. In terms of diversification strategies, we will focus on the firms' product and geographical expansion into new markets. Finally, we will examine how the two firms are located in geographical clusters to gain from knowledge spill-overs and access to common pools of resources. Our understanding of corporate strategies is shared with Andrews (1980), who says that "Corporate strategy is an organisation process, in many ways inseparable from the structure, behaviour, and culture of the company in which it takes place" (Andrews, 1980: 24). In describing the pre-merger strategies, we will therefore also reflect on how the different strategies have different organisational implications.

## METHODOLOGY

This case study of a merger failure is unique in the sense that it reports from a failure to merge, which emerged as we were studying a merger process. The failed merger therefore falls into the category of accidental sampling (Pettigrew, 1990), and represents an extreme case of disintegration. There was no information about this outcome when starting to collect data. However, we are not concerned primarily with analysing why this case turned out to be a failure, but with exploring how a particular factor – incompatibility in strategies–created problems for the Telia/Telenor merger. The original aim was to explore and discuss the challenges faced in cross-border mergers, and to use the early phase of the merger to prepare grounds, and find relevant themes, for a large-scale case study. The key events in the merger are illustrated in Table 1.



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**Table 1** Key facts of the Telia and Telenor merger failure

| *Date* | *Event* |
|---|---|
| November 1997 | The Norwegian Minister for Communication is informed about conversations on a possible merger between Telia and Telenor. |
| January 1998 | The Norwegian Ministry of Communication inform Telenor that they do not wish to proceed with the merger negotiations. |
| January 1999 | The Swedish and Norwegian Ministers announce the intention to merge Telia and Telenor. |
| March 1999 | The merger agreement is signed.<br>Announcement of top management team and localisations postponed. |
| April 1999 | Announcement of top management team<br>Announcement of localisations postponed |
| June 1999 | The business units present their business plans to the top management team.<br>The board members are appointed. |
| October 1999 | The EU Commission approves the merger on conditions.<br>The shareholder agreement is signed. |
| December 1999 | Telia sells its Norwegian telecom operations to Norwegian Enitel.<br>The Swedish chairman of the board uses his casting vote in the decision to localise the mobile business area to Sweden.<br>The deal is broken off. |

## Data Collection

The real-time data collection was conducted in the spring and autumn of 1999. Though participant observation (Jorgensen, 1989) is the main source of information, we also collected other sources of data, including interviews and internal documents, as is common in case studies (Yin, 1989). After leaving the site, we also collected external documentation. Finally, to get retrospective accounts we chose to conduct interviews with two of the most central actors in the process, from Norway and Sweden respectively, in mid-2004.

Participative enquiry emphasises that the people who are the focus of the research should collaborate as equal partners in the research process (Benington & Hartley, 2004). This paper builds upon such a collaborative research, combining an insider and an outsider perspective, with the second author as a complete participant, and the first author as a participant-as-observer (Burgess, 1984), though both Norwegians. The second author was a manager in Telenor at the time of the proposed merger, working in the corporate strategy department. She participated extensively in meetings between the two merging parties, and had access to the key merger documents. The first author, in contrast, was hired partly as a consultant, mainly to collaborate with the second author, and partly as a researcher.

The dual role as a consultant and researcher made it possible to study the merger negotiations in real time. The access to, and openness of, information was distinctively different being a consultant compared with a pure researcher, as also proposed by Gummesson (1991). In general, people were much more open, and access was given to all information requested. Without the participatory approach to the merger, it seems fair to say that access to study the failure of the merger would not have been gained. At the same time, however, it was important to be open about this dual role to the participants in the process (Checkland & Holwell, 1998), both for ethical reasons, and so as to be able to come back to the interviewees as a researcher later in the process. The downside of this dual role is related to disclosure of information. The original intention was to use the opportunity to learn from this phase and use this as input in studying the integration process. Hence, for all the internal information we have disclosed from the first round of interviews, we have explicitly sought permission to cite after the merger was broken off.

In addition to participating in meetings with key people in Telenor, including the CEO, heads of corporate staff and other key actors, the first author conducted 11 interviews with top and middle managers and consultants. Two of these interviewees represented Telia: one central line manager and one head of a corporate staff area. In Telenor, interviews were conducted with three top managers: one line manager, three central corporate staff managers, and two consultants who worked in close relation to the CEO from Telenor. Owing to the secrecy and delicacy of the process, these interviews were not tape-recorded. Moreover, the intention to publish was not communicated, and for ethical reasons we have therefore chosen not to cite from these interviews. Later, after the process had been cancelled, we interviewed 12 senior managers in Telenor to get a better understanding of the strategic processes in Telenor. Some of the insight and citations from these interviews are used to describe Telenor's strategic processes. We also chose to send an early draft of the paper to a head of staff to get his comments and reflections on our analysis. This proved to be very useful, and some of his reflections are also cited in the text.



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The collection of data from internal sources is somewhat biased towards Telenor, and it would have been desirable to have had more observational and interview data from Telia. However, we had just negotiated access to management in Telia, and the process of setting up interviews had been initiated, when the merger was called off. Nevertheless, to compensate for this flaw, and for not being able to use tape-recorded interviews, we chose two follow-up interviews in mid-2004, selecting two leading actors from Sweden and Norway central in the negotiations and integration process to reflect on what went wrong with the merger. To make the conversations as open as possible we did not give them access to our analysis before the interviews. These interviews lasted one and one and a half hour, respectively, and were both tape-recorded.

In addition, a number of internal and external documents were analysed. Internal documents include the shareholder agreement, memos made by key managers in the organisation, integration principles, status reports, the corporate strategy of the new company, and detailed estimates of the potential synergies. However, there are limitations to the use of these documents, and to the extent we have been able to cite some of these documents we have sought permission in each individual case. Our external sources include government and parliamentary press releases, reports and debates, and media coverage. We have chosen to make substantial use of the last source to support our conclusions. Because Telia and Telenor were state-owned companies, there was much more public debate than would normally have been the case with the merger of two private companies, and the media coverage over the nine months the merger lasted was substantial. Moreover, by knowing the story from the inside, we are more able to select citations from the vast database that have face validity. The strength of using the media coverage as an important source of evidence is that it is publicly known, and other researchers can therefore reconstruct the story we tell in this paper. The newspaper sources used in this paper consist of two Norwegian papers – *Dagens Naeringsliv*, the leading business paper, and *Dagbladet*, one of the two leading tabloids – and two Swedish newspapers – *Dagens Industri*, the leading Swedish business paper, and *Svenska Dagbladet*, a major daily newspaper.

### Data Analysis

The first phase of analysis of our data was, as is common in qualitative research, conducted simultaneously while collecting data in the field. By applying a participatory research approach, we engaged in intense discussions and reflections as the merger proceeded, building up an emergent understanding of what was happening in the process. We observed how the positive spirit of integration deteriorated, in particular in the top management and the board of directors, how the parties lost confidence in one another, and how they failed to reach key decisions because they were locked into national battles.

The second phase of the analysis was to explore possible reasons for the failure on a broad scale, and a book chapter was published from this work. In this phase we added the external documentation to our data and looked for themes emerging from the data. Then we started to sharpen our analysis, focusing on a few major factors emerging from the data that seemed to create major problems in the merger. We came up with two factors: the inability to resolve incompatible strategies, and problems of equality. The latter factor is explored in other papers by the authors. The next step was to compare these emergent findings using insights from the M&A literature. This comparison of emergent concepts, theory or hypotheses with the extant literature involves asking what it is similar to, and what it contradicts, and why (Eisenhardt, 1989). Eventually we built up a story-line on showing the data and telling a story to make sense and link up with theory (Golden-Biddle & Locke, 1997).

## INCOMPATIBLE STRATEGIES IN THE FAILED TELIA/TELENOR MERGER

In this section we explore how the strategies of Telia and Telenor were incompatible, and show how the firms' pre-merger strategies substantially influenced their respective views on how resources should be deployed in the merged corporation.

### Description: Corporate Strategies in Telia and Telenor

Telenor and Telia were regarded as a good strategic match for many reasons, outlined in the bills forwarded to the Norwegian and Swedish parliaments.[1] First, the two companies had dominating positions in the telecom markets in their respective country, and this relatedness in markets was viewed as very favourable by leading analysts. Both companies were present in the same product markets, and both were ahead of their competitors in the mobile, fixed and Internet markets. Furthermore,


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the companies had similar historical backgrounds, being former monopolists in a regulated regime. They faced similar competitive challenges defending their strong position, and in changing their strategic agendas to survive in a deregulated market. On the day of the announcement of the merger deal, the new chairman, Jan Stenberg, commented to the Norwegian financial newspaper *Dagens Naeringsliv*:

> He (Jan Stenberg) claims that the merger between Telia and Telenor will give substantially higher synergies than any other merger with a large competitor. The reason is geographical proximity, very similar organisations, and the same strategic priorities. (*Dagens Naeringsliv*, 21 January 1999)

Despite these similar organisational histories and complementarities in resources, the two firms embraced different strategic priorities in 1998. The evolution of the corporate strategies in Telenor and Telia can be traced back to the way the two corporations chose to respond to the technological change and deregulation of the telecommunication market in the late 1980s and early 1990s. In Telenor, the expectations of a changed competitive climate were met by developing a new dominant logic for the deregulated business areas. A substantial part of the company, which was selling hardware and communication services to corporate customers, was separated from the regulated business to prepare for a more competitive market. New ventures were spun off into autonomous entities, giving the business managers a very large degree of control over their own businesses. The most prevalent examples of this policy were the mobile and Internet ventures. In addition, Telenor made several acquisitions in new areas, such as information technology.

The implication of this strategy was that Telenor at the time of the merger was the centre of innovation in telecommunications in Norway. The innovations either happened in-house or were acquired through the means of M&As. Telenor was not part of a geographical cluster, but had internalised the knowledge spillovers from related businesses. In its plans to move its head office in 2001, Telenor chose a location that could house all of the entities in Telenor, but which did not contain a cluster of related activities from firms outside Telenor.

The mobile and Internet divisions were regarded as the company's most prosperous and high-status entities, with the largest potential for international expansion. Telenor had expanded its mobile business into the Far East, Eastern Europe and Russia, running a large portfolio of companies with minority stakes. The plan was to continue this strategy, but Telenor needed more financial leverage to fulfil its ambitious plans. In one of its comments on the merger, *Dagens Industri* reflected on the ambitious plans of the new corporation:

> Take Wednesday's interview with the head of the mobile communication business area, Arve Johansen (from Telenor), with *Svenska Dagbladet* as an example. Here he claimed that the mobile business had an investment need of NOK 300 billion [25 billion] over the next three years. An amazingly high figure. This corresponds to the value of Telia Telenor in January before the merger [2 November 1999].

At the time of the merger, Telenor also planned to establish a stronger position in the Nordic market, and acquired a major stake in the second largest mobile operator, Sonofon, in Denmark. Telenor had also tried to enter the Swedish mobile market a number of times, but with limited success. Moreover, Telenor had a Nordic TV-distribution business. The historical core business, the traditional fixed net telecom business, was regarded as a low status, domestic cash cow with limited potential for future growth, or as one key manager in Telenor described it: "The last person turns out the lights". As such, Telenor saw little potential in international expansion in the fixed business and was critical to Telia's plans to establish a stronger foothold in this market in the Baltic region. Moreover, Telenor was also very sceptical of Telia's plans to become an international carrier in the wholesale market for fixed net (see below). A leading actor from Telenor explains:

> Marianne Nivert (head of fixed net in Telia and in the merged Telia Telenor) had a strong belief in becoming a leading carrier operation. We strongly disagreed with this view.

In line with its internationalisation strategy, Telenor strategic processes were very option-oriented. In comparing the strategic processes, a leading actor in Telenor explains:

> We had very different opinions on what strategic processes are … We were not concerned about having a very stringent plan. Our focus was to have a basic strategic direction and a running agenda … We felt that the Swedes were lagging behind with their focus on making corporate plans which are implemented accordingly.

Telia's corporate strategy, in contrast, was very much influenced by the largest and most powerful



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business, the fixed net, which was the historical basis for Telia's growth. A manager from Telia said in an interview with the first author that the corporate strategy served mainly as the support for the fixed net operations. The management in Telia believed that innovation should be managed from the centre of the corporation, implying a single dominant logic, and that the fixed net should be revitalised through new technological innovations.

In Telia, the mobile and Internet entities were integrated into the corporation, sharing activities across business units. Neither the Internet, nor the mobile entities, were in charge of distribution and sales, and the parent directed coordination and sharing of resources between business units. A leading actor from Telia says that ''the mobile business used to be quite independent, but was captured in this (infrastructure of fixed net) in the end''. A manager from Telia said that it consisted of two corporate cultures: a traditional telecom culture rooted in the fixed net, and an industrial culture pursuing new growth areas, where the former was by far the most dominant and influential.

Internationally, Telia's ambition was to use its strong position in fixed net in the domestic market to take positions in neighbouring countries, and to establish a position as one of the world's leading international carrier operations in Europe and the US. Marianne Nivert (from Telia), head of the fixed net division, claimed that the new company was going to be one of the leading international carriers between the US and Europe. She stated to *Dagens Næringsliv* (21 April 1999):

> This market is estimated to be worth SEK 300–1000 billion [40–130 billion] in a few years' time. We intend to be one of the largest operators and offer our capacity to other suppliers.

In the other businesses, Telia worked towards expanding, gaining a strong foothold in the Baltic states and, according to leading actors in both Telia and Telenor, Telia was very sceptical towards Telenor's expansion in the Far East and in Russia, in terms both of its portfolio strategy, and of the distance. A leading actor says:

> It is not a good idea to invest as a minority shareholder in Vietnam. These are portfolio investments with little synergy potential.

Telia did, however, share Telenor's expansion plans to become a dominant actor in the Nordic mobile market, and had made an unsuccessful attempt to acquire major stakes in Denmark, but succeeded in Norway through building up a greenfield operation. In contrast to Telenor, Telia's strategic processes were centrally governed, very thorough, and based on an objective of taking full control of its international investments. This difference was particularly striking to the second author, who coordinated the strategic processes in Telenor and compared the scant corporate level analysis in Telenor with the vast documentation in Telia.

Compared with Telenor, Telia had the benefit of being part of a strong cluster of telecom activities in Kista, where Ericsson, one of the world's leading telecom hardware producers, is located. This closeness to Ericsson was vital to Telia, and many central managers in Telia had a former career with Ericsson. According to a leading Swedish actor close to the process, Telia regarded this cluster as the centre for innovation, and claimed that it would be wrong not to use this advantage of access to external knowledge in the new corporation. The major differences in the firms' pre-merger corporate strategies, and their organisational implications, are illustrated in Table 2.

### Interpretation: Related, but Incompatible

The description of the two corporations in the bills forwarded to the Norwegian and Swedish governments illustrates that the two telecommunication corporations had very similar and compatible resources, and a high potential for synergy realisation. As the merger process proceeded, however, it became increasingly clear that although the two merging companies had similar historical backgrounds, and faced the same competitive challenges, their plans for realising synergies were based on fundamentally different corporate strategies.

One area in which the parties identified substantial scale economies was in their domestic markets, where Telenor and Telia could increase their operational efficiency in the fixed net and mobile operations (Seth, 1990b; Singh & Montgomery, 1987). Because the parties had overlapping functions in the mobile market, the parties were prepared that the EU Commission could require a divestiture in areas where the parties would gain too much market power. The result of the process in the EU Commission was that Telia's mobile operation in Norway was sold in December 1999.

Telenor and Telia had chosen fundamentally different strategies in their international diversification strategies. Both parties were seeking new



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**Table 2** Incompatible strategies and organisational implications

| *Strategic area* | *Description* | *Organisational implications* |
|---|---|---|
| Dominant logic | Telenor: Diverse logics<br>Telia: Single logic | Telenor: Decentralised organisation<br>Telia: Centralised organisation |
| Diversification strategy | Telenor: Mobile into the far East and Eastern Europe<br>Telia: International carrier into Europe and the US and fixed in the neighbouring countries | Telenor: Portfolio management based in minor stakes<br>Telia: Full control |
| Localisation in geographical clusters | Telenor: Independent, self-contained operations<br>Telia: Part of geographical cluster | Telenor: Localisation of business independent of existing geographical cluster<br>Telia: Localisation of business dependent on geographical cluster |

market opportunities (Seth et al., 2002) as the growth in their respective domestic markets was limited. Apart from possible diversification benefits, the synergies in combining Telia and Telenor's international operations were limited. However, because both companies had ambitious expansion plans, the merged corporation could not raise the financial means to pursue both strategies. As the merger process proceeded, it became evident that what the respective parties wanted from the merger was more financial leverage to expand in their prioritised areas. Hence there were no signs that the parties intended to change their international strategies as a result of the merger. Quite the contrary, each party expressed scepticism towards its respective merging partner's international strategies. Telenor was critical of Telia's plans to become an international carrier, and to expand its fixed net operations into the Baltic region, and Telia was sceptical about Telenor's mobile expansion in Russia and the Far East. Furthermore, their historical approaches to internationalisation were fundamentally different. In Telenor the approach was option-oriented, taking minor stakes in building up a portfolio of activities. Telia's approach, in contrast, was based on having full control of its operations, not making investments in a hurry. Based on this analysis, we will therefore claim that this was one of the areas where the two firms' strategies were incompatible.

The second area where the corporate strategies of Telia and Telenor were incompatible was their location in a geographical cluster. Telenor was an independent, innovative and self-contained corporation, where knowledge spillovers had been internalised, and at the time of the merger there were plans to integrate all the parts of Telenor into a new head office in Oslo to further utilise this advantage. In contrast, Telia was highly dependent on the telecom cluster in Kista, Sweden, with knowledge spillovers from the telecom firm Ericsson in particular. Its future strategic plan to create a strong Nordic telecom cluster was fundamentally linked to this localisation. For the corporate strategies of Telia and Telenor these differences had fundamentally different implications for localising the business headquarters, and in particular for the mobile operations. For Telenor it was important to localise the businesses in areas where Telenor's innovative capacity could be maintained, and the managers of Telenor feared that they would lose key personnel in a relocation. In other words, they claimed that there were mobility barriers in the corporation's human resources. For Telia, its dependence on the geographical cluster in Kista meant that a re-localisation was highly undesirable. Again, there were no signs that the parties were willing to change their pre-merger strategies as a consequence of the merger, and, as we will show, resolving this area was one of the key problems of the failed merger.

Although Telia and Telenor both had diversified portfolios, the way they chose to organise these businesses, and their plans for future expansions, reflected their different dominant logics (Prahalad & Bettis, 1986). At the time of the proposed merger, Telenor consisted of a number of very independent business units with different dominant logics. In contrast, Telia pursued a single dominant logic where the fixed net represented the core in Telia's corporation. As for the two areas above, there were no indications that the parties intended to change their dominant logics as a result of the merger. However, whereas the above areas were apparent,



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and hotly debated through the merger process, this was an area in which the parties seemed to be unaware of their organisational diversity, and, as such, it illustrates the challenges involved in detecting strategic incompatibilities in cross-border mergers.

## THE FAILURE TO RESOLVE INCOMPATIBILITIES

Although Telia and Telenor had incompatible corporate strategies, these strategic differences could in principle have been resolved through the strategic discussions in the top management team. As we will show, however, the governance structures established to protect and preserve the national heritage made it very difficult for the parties to agree on a corporate strategy for the merged corporation.

### Description: How National Governance Structures Made It Difficult to Agree on a Corporate Strategy

The international context of the merger implied that the merging parties needed to create new governance structures that could unleash the synergy potential. We will show that instead of facilitating the process of bridging the two corporations' strategies, these governance structures cemented the national boundaries, making the parties unable to agree on a common strategic platform. After 11 months strategic issues were still unresolved, and the parties chose to break off the merger. The emergent merger failure is illustrated in Figure 1.

***Establishing national governance structures.*** Telia and Telenor have been part of the national heritage in Sweden and Norway since the establishment of national telecom corporations in the middle of the 19th century. At the time of the merger announcement both Telenor and Telia were state-owned corporations. The owners' concern seemed to be to secure national control over the joint corporation, protecting this national heritage. This was particularly important taking into consideration the past history of the two neighbouring countries.[2] In the Norwegian parliament several politicians expressed their concern of being taken over by the Swedes. This is illustrated by the following quotation:

> We (the Socialist Democratic Party) are sceptical to a merger… The day it (Telenor) is merged, we lose control… It will be like SAS "Svensk alt sammen" (altogether Swedish). (From meeting in Parliament, 22 January 1998)

To get acceptance in the Norwegian Parliament, the principle of equality was a prerequisite. The Norwegian government's proposition to Parliament (59, 1998/99) stated:

> The merger and governance of the new corporation shall be based on equality and balance between the parties.

For Telia's owners and top management the equality principle was more like window dressing; accepted initially to get a merger deal with the Norwegians. In the Ministry of Industry's proposition to Parliament it was said (Proposition 1998/99:99):

> To facilitate the merger between Telia and Telenor the parties have agreed that the first CEO shall be nominated by the Norwegian state.

Over time, Telia's top management had an inherent aim to take over Telenor. According to a leading actor in Telenor, Telia's grand strategic plan was to be part of a larger Nordic constellation with the major Swedish and Finish telecom hardware producers and the telecom operators. Before entering into a merger with Telenor, Telia had come a long way in discussing merger plans with Sonera, which was the major telecom corporation in Finland. A Swedish actor close to the process said that this was the preferred solution for key managers on Telia's top management team. The merger with Telenor was thus regarded as a (side-) step on the way to a larger Finnish-Swedish constellation, and after the merger between Telia and Telenor was broken off, Telia merged with Finish Sonera in 2002. A key actor on the Norwegian side said:

> The choice was to try to make the best of it, and this was to take over Telenor, get rid of the Norwegians, dominate and make it Swedish. (2004)

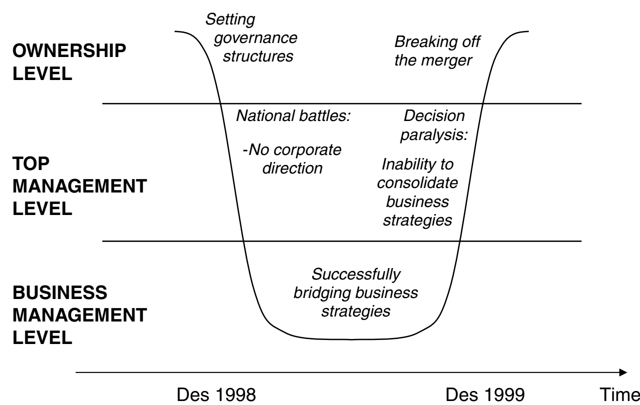


**Figure 1** The emergent failure.


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The political owners did not seem concerned over the more overriding strategic questions, but perceived this as the task of the management of the corporations. In a speech to the Norwegian Parliament on 3 February 2000, the prime minister explicitly stated that the responsibility for the joint corporation's strategy had not been a political issue:

> We all agree that it would have been desirable to settle the localisation of business units before the deal was signed. However, this was not a negotiation matter for the owners at any point of time. The reason is that the localisation of business units is linked to the corporation's organisation, and as such is an important part of the corporation's strategy.

To ensure national balance on the board of directors, four representatives were appointed by the Norwegian state, and four by the Swedish state. In addition, four employee representatives, two from each company, were appointed. Moreover, the chairman of the board was to be elected every second year, and the two countries were to take turns in appointing him or her. Furthermore, the shareholder agreement had a paragraph restraining the chairman's power in casting his or her vote. This paragraph, which was also known as the "Judas" paragraph, stated that, for a number of decisions, the majority had to include at least one member appointed by the Norwegian and Swedish states, respectively.

Apart from appointing the first CEO from Norway, the owners decided that the first chairman was to be Jan Stenberg from Sweden, and that the head office was to be located in Stockholm (in Sweden). The concerns for national representation also marked the choice of the top management team. Leading actors from both the Swedish and Norwegian sides stressed that it was important to have a balance between the two partners to obtain legitimacy in both countries:

> The balance had nothing to do with whether it was a large Telia or a small Telenor; it concerned the makings of an integrated corporation with an equal number of Norwegians and Swedes. (A leading Swedish actor, 2004)

> It was important to look after the basic balance considerations necessary to preserve the legitimacy. (A leading Norwegian actor, 2004)

Apart from the CEO, the top management team consisted of six managers from Sweden and six from Norway. To balance the Norwegian CEO, two Swedes were appointed as vice presidents. The equal distribution of power was also present in the business units, where former Telenor managers were put in charge of seven business areas, and former Telia managers six areas.

***National battles in the top management team.*** As a result of keeping a large number of business areas, 13 top managers were appointed on the top management team. One manager in Telia described the top management group as a sounding board consisting of a number of people with divergent interests, where people not belonging to the top management group ran in and out of meetings to voice their opinion. A divisional executive from Telenor stated:

> It was a terrible horror show where all the worst sides of everyone were revealed in an ungodly mix … It became like an absurd theatre to be present at these shows at the top management meetings in Telianor [the merged company].(1999)

The difficult strategic questions were postponed time after time. Telia's top executive, Stig-Arne Larsson, claimed that the parties jumped into the technicalities of the merger before deciding on the strategic issues. "We did not use enough effort to sort out the expectations and the goals for the merger" (*Dagens Næringsliv*, 18 December 1999). As a consequence of the new company's lack of strategic platform, strategic decisions became very controversial and difficult, and were constantly postponed.

One example of a problem that became difficult to resolve because of incompatible corporate strategies was the localisation of the business units. This decision was postponed time after time. The localisation of business units was first to be announced on 22 March 1999, and then on 15th April. However, this remained unresolved until December 1999. Under the heading "Telia/Telenor merger hits bumps in the road", *Dagens Industri* (18.03.99) wrote:

> Norwegian demands regarding the location of the head offices of several key divisions have caused frayed nerves in the Telia camp. The Norwegians want the mobile telephony, Internet business, as well as catalogue operations to be managed from their country. Several of the Telia managers find these demands to be totally unacceptable.

The other two key areas that were left unresolved were the decisions on what the primary corporate strategy should be for the new corporation, and which areas should be prioritised for international expansion. This implied that the management had to choose whether the corporate structure was to be centralised or decentralised, and how to expand its



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international operations. Should the joint corporation expand its mobile operations in the Far East, based on Telenor's pre-merger strategy, or should the expansion be based on Telia's fixed net pre-merger strategy, with expansion into neighbouring countries and a full-scale international carrier business?

***Making successful business strategies.*** In the business units, divisional heads were appointed in April 1999. Each business unit was put under the control of managers from the firm that had championed that business more strongly before the merger. Thus managers from Telenor were made responsible for the mobile, Internet, TV/satellite, installation services, media and catalogue, and international portfolio investments, and managers from Telia were made responsible for the fixed net, networks, business and private markets, system integration, financial services, and international carrier. In the process that followed, these managers consistently chose the business strategy of their former organisation. This implied, for example, that the mobile business put forward extensive plans to continue the internationalisation in the Far East, but with considerable more financial power than had been possible in Telenor. In the fixed net, the plan was to develop this business into an international carrier business, transforming this into a large-scale operation.

When each business unit started drafting its business plan, the employees from the "subordinate" firm found that the plans of the business unit's managers were more ambitious than those of their pre-merger unit. During this process, employees in each business units quickly found common ground. As opposed to the corporate level, where the national boundaries seemed to be sustained and even reinforced, national priorities did not seem to hinder integration at the business levels. Rather, the different business strategies pursued by the different divisional heads seemed to gain acceptance across corporate borders. An illustration of this is the fact that a number of the employees in Telia chose to leave Telia after the break-up, and started to work for Telenor. At the end of December 1999 most of Nextra's (Telenor's Internet business) 28 employees in Sweden came from Telia. One of Telia's former managers gave the reason why:

> Olle Waktel does not want to return to Telia as his employer. Telenor has for a number of years chosen to run its Internet business differently than Telia. He is tempted by working in a more independent operation. At Telenor the Internet operations are organised in an independent company, whereas Telia has chosen to incorporate Internet into to the other business areas. (Dagens Industri, 23 December 1999).

After handing in their business plans in June, the divisional executives awaited feedback from the top management to get on with the integration process. However, the integration process in the business areas was stalled, owing to lack of signals from the top management.

***Decision paralysis in the top management team.*** A number of business managers stated their frustration over the lack of signals as the business plans went back and forth between the business and corporate management. It was clear that not all of the plans could be pursued, because of financial constraints and strategic incompatibility, but the choice was left in the open. Typical statements revealed in internal documents were: "A poor decision (by the top management) feels better than nothing now". "The top management is not leading the corporate direction-setting". The second author wrote in an internal document in November 1999 that "There are unclear signals on strategic direction, both geographically and product-wise. The business areas cannot fulfil their plans".

Simultaneously, the debate on the location of business areas intensified. The business area that created most friction between the parties was the mobile communication unit. The two parties argued that the new mobile entity should be placed in Norway and Sweden, respectively. The Norwegians claimed that Telenor had a much more successful history of selling mobile communication and a market competence built up over a number of years. Telia, on the other hand, argued that localisation in Sweden was much more attractive owing to the cluster of telecom and IT companies around Kista in Sweden. At one point, Telenor suggested a solution whereby the managers of the business units were left to decide. However, this suggestion did not receive support from Telia's managers.

***Breaking off the merger.*** The key problem of the voting procedures in the shareholders' agreement came to light when the question of the localisation of the mobile business was brought to the board after many unsuccessful attempts to reach an agreement in the top management. As mentioned above, the agreement between the parties contained a "Judas" paragraph, which stated that,


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for a number of decisions, the majority had to include at least one member appointed by the Norwegian and Swedish state, respectively. *Dagens Industri* (11 December 1999) wrote:

> The wording in the deal between the two owners inhibits the board of directors to act in the company's best interests. According to the agreement a qualified majority is needed to get the most important decisions through. And as long as the owners have a right to appoint six board members each, then every important decision will need to be interpreted by a "court" in Denmark. This makes the board's tasks impossible.

From the board of directors, the decision was to place the mobile communications unit in Sweden. After a lengthy meeting on 8 December 1999 the board was split along national lines, and the Swedish chairman of the board used his casting vote to break the tie, and tilt the decision in Telia's favour, localising the mobile business in Sweden. However, by doing so he violated the memorandum of agreement between the two parties, claiming that at least one of the Norwegians would have had to vote in favour. According to the Swedish Minister of Industry this clause was included in the Norwegian proposition to the Norwegian parliament, but not included in the shareholder agreement.

As a result of this vote the Norwegians chose to break the deal, and the merger ended in a process where the political owners each blamed the other party for the break-up:

> Through public disagreements the management of the corporation was unable to administer the Swedish and Norwegian capital in a professional manner. As representative for the Swedish owner this was unacceptable. (The Swedish Minister of Industry in the debate in the Swedish parliament following the break up on 20 December)

> We were convinced that both parties had the same understanding of the shareholder agreement, and would act accordingly. As known, this did not happen … We signed the deal, but the other party did not follow up. In the end we saw no other alternative than to dissolve the corporation. (The Norwegian prime minister's speech to Parliament, 3 February, 2000)

According to the Minister of Industry in Sweden, Björn Rosengren, it all "became too much of a national match between countries" (*Dagens Naeringsliv*, 17 December 1999). In the Swedish Parliament on 20 December 2000, a representative from the Moderate Party said:

> The development since January bears resemblance of a soap opera … itchy-fingered politicians have caused chaotic business operations. The large losses in terms of costs and lost opportunities have to be born by the taxpayers and the employees.

## Interpretation: Incompatible Strategies and National Governance Structures

According to the M&A literature, it is more challenging to resolve incompatibilities in international M&As owing to the need for cultural diversity (Morosini et al., 1998; Very et al., 1997; Weber et al., 1996). What we argue in this paper is that strategic incompatibilities are more difficult to resolve in international mergers between equal parties, because the governance structures established to maintain national control makes it difficult to agree on overriding strategic issues.

As opposed to the corporate strategies, these governance structures were not linked to the past histories of the respective corporations. Nor were they control structures that were rooted in the administrative heritage of the home country (Calori et al., 1994). Rather, they were established with the explicit purpose of protecting the heritage of the two corporations in an attempt to avoid one corporation being completely overtaken by the other. The problem for Telia and Telenor was that there was no overriding mechanism for resolving issues where the parties had incompatible views.

In our interviews and conversations with the management in Telenor, in particular, we raised the question of how the joint corporation would resolve the different strategies of the two corporations. The common response to this question was that Telia and Telenor were going to create something new. Requests for a clarification of the content of this new strategy, however, were never met. According to Mirvis and Marks (1992), and Zaheer, Schomaker, and Genc (2003), transformation is the trickiest of all combination types, and requires significant investment and inventive management.

In the case of Telia and Telenor, a transformation approach would have required a top management team that could work together, being creative, pursuing common interests, and being able to set aside their current strategies. The greatest challenge in this respect would probably have been to define the content of a strategy that was sufficiently different from the two current strategies to be accepted by both parties and realistic enough to be met. At the top management level, the equal power distribution (Vaara & Tienari, 2003; Zaheer


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et al., 2003) seemed to cause this tension and inability to choose transformation as the resolution strategy. At the level of the owners, this became impossible, because the shareholder agreement included no conflict resolution mechanism.

The other way of resolving incompatibilities would have been to let the other party become dominant over time. This is not uncommon in equal mergers (Hambrick & Cannella, 1993; Vaara & Tienari, 2003; Very et al., 1997). In most mergers, governance structures that split the former corporations are regarded as inefficient, and change after some time in the integration process, as described in the merger between four Nordic banks (Vaara & Tienari, 2003). Over time it is likely that the composition of the top management would change to a smaller team, with more coherent views on corporate strategies. The shareholder agreement could, however, also sustain the inefficient governance structures for as long as the corporations were state-owned.

As opposed to the corporate and owner levels, the heads of business areas chose a dominance resolution strategy, where one of the parties could unidirectionally enforce its strategy (Pablo, 1994). The ease with which the dominating party can enforce its strategy will, however, depend on how attractive the other party finds the strategy of the dominating party. In line with M&A research on cultural integration (Nahavandi & Malekzadeh, 1988, 1994), which indicates that the mode of acculturation will be dependent on how attractive the culture of the acquiring firm appears to the acquiree, our findings indicate that the process in the business units went much more smoothly than expected, because the party with least power was attracted to the strategy of the dominating party. The ease of operationalising strategic intent at middle management level is, however, contradictory to the literature on middle management, both in the M&A field (Meyer, 2006) and in the field of strategic change (Balogun, 2003; Balogun & Johnson, 2004).

This ease of operationalising strategic intent can be linked back to the different status of the business units. The mobile and Internet units in Telia realised that merging with Telenor could release them from the tight grip of the fixed net, giving them considerably more control of their own businesses. On the other hand, the relatively low-status fixed net in Telenor saw their opportunity to become more powerful through entering into an alliance with Telia. In the interviews they expressed the view that this alliance gave them an opportunity to increase their internal status and to take an active part in the technological evolution.

Resolving incompatibility at business level does, however, not imply that the incompatibility at corporate levels disappears. To us, as observers, it seemed that the top management group hoped that these issues would be resolved once the business operations started to work out the business strategies. The relative ease of the strategic process in the business units lured the corporations into believing that there was indeed a good strategic compatibility. Although the management of Telia and Telenor hoped that the positive integration process at business level would put the strategic process back on track, this only delayed the need for clarification of corporate strategy at the top.

The problem, of course, was that the strategies pursued at business levels did not add up. The fixed net was pursuing Telia's corporate strategy with a high degree of centralisation, and fixed net as the anchor of the organisation. The Internet and mobile communications, in contrast, followed Telenor's way of organising its activities, with independent business units fully in control of their own value chain. The dominant logics of Telia and Telenor were not compatible, but strategic direction was not given from the top management.

Moreover, the joint corporation could not afford to follow all the expansive business plans, and there were also conflicting strategies as to where, and how, the new corporation should expand. In addition, although there was a seemingly perfect strategic fit between the merging parties, this fit did not account for the underlying conflicts in corporate strategies. Hence there was a need for clarification from the top management as to how the strategic incompatibilities at corporate level should be resolved.

Contrasting the case with evidence from the M&A literature, which predicts that the equality principle facilitates the realisation of synergies, we find that the adoption of the equality principle in the failed merger between Telia and Telenor hindered the synergy realisation. Instead of facilitating the corporation between Telia and Telenor, the equality principle was operationalised in a way that hindered the resolution of strategic incompatibilities. The equal representation and voting procedures at the board level, and the equal balance between Telia and Telenor in the top management, implied that there was no overriding resolution mechanism to solve disagreements. Because the


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two corporations had fundamentally different views on how the resources should be deployed in the merged corporation, the strategic incompatibility remain unresolved until the merger finally was broken off.

## CONCLUSION

The merger between Telia and Telenor represents the most extreme case of a merger failure, where none of the potential synergies were realised, and where the merger costs were substantial. Though one might argue that these kinds of failure are relatively rare, incompatibility between the merging parties' strategies is likely to be a potential problem in a number of related M&As. Whether the joint corporation is able to resolve these incompatibilities is dependent on the principles used to set up the governance structures for the merged corporation. Our research also suggests that the problems of resolving strategic incompatibilities escalate in cross-border M&As, and when the merging firms are strongly influenced by national political considerations. Contrary to our expectations, the problems of resolving strategic priorities were at the top of the organisation, not at the middle management level.

Findings in this paper suggests that M&As with good organisational fit and good resource complementarity can still run into problems if there is strategic incompatibility. The firms may have complementary resources, indicating relatedness, but there may be multiple ways of combining these resources, reflecting the firms' strategies. In the merger between Telia and Telenor there was a high degree of relatedness, but there were also a number of ways in which the merged firm's resources could be deployed. Though the firms seemed to have a good organisational fit, in particular at the middle management level, this did not resolve the problem of strategic incompatibility.

Based on the Telia/Telenor case, we propose that strategic incompatibility can be defined as *divergent views between the merging parties on how the resources should be deployed in the merged corporation*. We find that the parties' views are substantially influenced by their pre-merger strategies, some of which are apparent to the other party and some of which are not. As organisational fit, strategic compatibility is not always easy to capture, and requires understanding of the less apparent strategic features, such as the dominant logics. In the Telia/Telenor case it took some time for the partners to realise the extent to which their strategies were incompatible, because their strategic focus was limited to proximity in products and markets.

However, divergent pre-merger strategies do not necessarily imply strategic incompatibility for the merged corporation. This depends on the effect of the merger on the pre-merger strategic priorities. Strategic priorities can be abandoned in the search for better strategies, as was the case at the business level, or they can change to become compatible, as was the case with the Nordic mobile strategies, or they can change but still be incompatible, as was the case with the Norwegian mobile operations and the Swedish international carrier operations, or, finally, they can remain the same, as was the case with the dominant logics. The lack of focus on strategic incompatibility in the literature, and in practice, may have had some unintended consequences. There seems to be a misinterpretation that relatedness is the same as strategic compatibility. The fact that the term "strategic fit" is used interchangeably with "relatedness" in the literature makes this interpretation even more viable.

In line with Marks's (1999), Larsson and Lubatkin's (2001), and Weber and Menipaz's (2003) research on cultural incompatibilities, we argue that incompatible strategies are *not* a problem in and of themselves; rather, the problem lies in the challenges of realising potential synergies. We find that Telia and Telenor were not able to realise synergies, not even at the business level, before these incompatible strategies were resolved. Owing to national governance structures, however, these incompatible strategies were not resolved.

What made the strategic incompatibilities difficult to resolve was the expectations of equality, both in representation and in voting procedures at the board level, and of equal balance between Telia and Telenor in the top management. The M&A literature has suggested that equality in mergers provides learning and understanding, and is symbolic in the sense that it conveys to the employees that members of both organisations will be treated fairly and with respect (Schweiger et al., 1994). However, the equality principle may also be problematic in disregarding the achievement of productivity and efficiency (Vaara & Tienari, 2003), discriminating against merit (Schweiger et al., 1992), and resulting in large top management teams (David & Singh, 1993; Olie, 1994) constrained in their ability to pursue further integration (Vaara & Tienari, 2003). Findings in this paper add to this two-sided view of the equality principle, suggesting



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that equality was a prerequisite to get acceptance for the merger amongst the national owners, but that the operationalisation of the principle hindered the realisation of synergies. The equal voting procedures and equal representation at the top level of the organisation threw the board and top management into a decision paralysis, where strategic incompatibilities remained unresolved.

National governance structures based on equality are, however, not uncommon in cross-border mergers and acquisitions (Bruner, 2005; Vaara & Tienari, 2003). In some mergers these national governance structures are allowed to last longer than in other mergers. In Shell, for example, nationalities still have an impact in the choice of board members and CEO. What made the Telia/Telenor case even more challenging was that, on top of being an international merger with expectations of equality, the two corporations were also state-owned. In the Telia/Telenor merger, key decisions had to be accepted by the Swedish and Norwegian governments, as owners, and therefore were subjected to a different logic and public scrutiny. These owners were obliged to focus on preserving the interests of the respective countries, and may have used the shareholder agreement to protect these interests.

Research on strategic change and M&As has suggested that merger processes are particularly demanding for middle managers, who are squeezed between the demands of implementing merger strategies they do not make or influence, and the expectations, aspirations and fears of subordinates (Balogun, 2003; Balogun & Johnson, 2004; Buono & Nurick, 1992). Moreover, middle managers may also have conflicting views on how merger strategies are to be operationalised (Floyd & Wooldridge, 1992; Guth & MacMillan, 1986; Meyer, 2006). The top management, on the other hand, are assumed to have both a desire and the willingness to work towards a collaborative venture. The merger venture between Telia and Telenor suggests otherwise. While the middle management in the two corporations quickly found common ground across the national boundaries, and succeeded in agreeing on strategic plans, the process of setting a new strategic direction stalled at the top level. This suggests that we need to distinguish more carefully between strategic compatibility at the corporate and business levels, and to question our notion that in mergers the middle management level represents the key problem in implementing strategic plans.

This paper is only a first and suggestive step in exploring how strategies are incompatible, and how these incompatibilities may be resolved. This is especially true considering that this paper is based only upon a single case study. Future studies should include both mergers and acquisitions, and should also include domestic as well as cross-border combinations. Moreover, future studies should take into account corporations that are owned by the state, and corporations that are not, to see whether nationalism in state-owned corporations is more prevalent than in privately owned corporations.

For managers planning to merge, there may be a number of lessons from this merger. The first lesson is that when strategies are incompatible, the management should try to resolve these incompatibilities as early as possible. Without resolving incompatibilities, realising synergies will be very challenging. However, strategic incompatibilities may not be easy to discover on the surface. As for cultural fit, management needs to investigate the corporations thoroughly early in the process, focusing not only on the business strategies, but also on more subtle characteristics in the corporate strategies, such as the dominant logics, and location in geographical clusters.

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## NOTES

[1]The Swedish governmental bill no. 99, 1998/99 and the Norwegian Parliamentary bill no. 58. 1998/99.

[2]To understand the relations between Sweden and Norway, we need to look at the historical sentiments between the two counties. After having belonged to Denmark for 400 years, Norway entered into a union with Sweden in 1813. Throughout the 19th century the Norwegians struggled for independence, and at the turn of the century the struggle against being dominated by the Swedes intensified. However, it was not until June 1905 that the Swedish King accepted a disbandment of the union between the two countries.



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