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# *Turbulent Skies*

- A Case Study of SAS Braathens

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## Abstract

- Title:** Turbulent Skies – A Case Study of SAS Braathens
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- Keywords:** SAS Braathens, mergers and acquisitions, employee behaviour, service quality, internal branding
- Thesis purpose:** The objective of this master thesis is to analyse employee behaviour in mergers and acquisitions in order to understand how opposing values might affect the delivery of desired service quality
- A second objective of this thesis is to create a case meant for learning situations based on the study undertaken
- Methodology:** The research has a social constructionism point of view in order to understand how employee behaviour is affected by opposing values. A combination of case study and history research design was chosen in order to study historical data from the early stage of the merger between SAS and Braathens. Data was collected from a database (Retriever) containing more than 5 million articles from the 21 largest and most important newspapers in Norway. More than 7000 articles were scanned through headline and abstract in order to find the most relevant information. An unstructured interview was conducted with pilots in cockpit by one of the authors on a SAS Braathens-flight
- Theoretical perspective:** Theory starts by explaining the human aspects and reactions in mergers and acquisitions. Further service management is discussed together with the importance of employee behaviour and alignment of values in service businesses. At last the definition and concept of internal branding is discussed in order to be seen in relation to mergers and acquisitions

**Empirical data:**

Case study of SAS Braathens conducted through a document study

**Conclusions:**

Opposing values affect employee behaviour through affecting and strengthening psychological effects. Opposing values hinder employees to deliver the organizations desired service quality due to anxiety, distress, anger and frustration. Internal branding explained as an effective tool in aligning values in mergers and acquisitions. Consistency needed to acculturate and align the organizational cultures

## **CASE:**

# **Turbulent Skies – Internal Conflicts in SAS Braathens**

## **Introduction**

As a recent graduate from Lund University with a masters degree in business administration, you have been accepted to a Junior Associate position at McKinsey & Company. For your first assignment you and your team are introduced to the Norwegian airliner SAS Braathens. The company has experienced what in the terminology of aviation would be called severe turbulence, where internal conflicts have caused problems for thousands upon thousands of passengers on several occasions. SAS Braathens have hired your company to help them out and with an educational background in marketing and strategy you are excited about the task that your team have been assigned to. Having had a part-time job in the services industry, you know how important it is to keep your customers satisfied, and you are well aware of the efforts needed to succeed in doing so.

## **Background of SAS Braathens**

Two airliners have dominated the Norwegian domestic market since the end of the Second World War. Braathens South American & Far East Airtransport AS (S.A.F.E) was founded by shipowner Ludvig G. Braathen, and SAS Norway, a part of Scandinavian Airlines, which was a merge between airliners in the three Scandinavian countries. Braathens was known for being the people's airline and had since its start focused on being perceived as friendly and quality-conscious, and enjoyed a good reputation both domestically and internationally. The cabin crew dressed in national costumes on Norway's national day, and commercials on TV displayed real employees helping out strangers in different situations in every day life with tasks that was related to the employee's position in Braathens. SAS was known for being the company for the business traveller and did not enjoy the same perceived characteristics as its competitor on the Norwegian market. Even though Jan Carlzon, who was named CEO of the SAS Group in 1981, to a large part managed to replace production orientation with customer focus, SAS was still known among most people for being the business traveller's airline.

**It is spring 2001.** Trondheim Airport Værnes is filled with the last sunrays for the day from the evening sun. Two Boeing 737s are parked wing tip against wing tip. Braathens' flight BU 145 and SAS' flight SK 1369 are both scheduled for a 19.20 departure for Oslo. This 737-model takes 120 passengers, but the Braathens flight has only 51 passengers, SAS' no more than 42. SAS wins the race for take-off and gets the first slot for the 55 minutes flight towards Norway's main airport. But, there is no winner this evening. Both companies lose money on the flight. "Unfortunately, this has become more and more common over the past years", says Braathens' station manager at Trondheim Airport, Stig Bjørnstad. "We have flown at the same time, wing tip against wing tip, and with planes only half full of passengers". The trend that Bjørnstad is referring to is representative for most destinations where the two companies operate the same routes.

The competition on the Norwegian market is fierce, and has been so for a long time. Flying wing tip against wing tip with less than half full planes causes great losses to both companies. The result for the first quarter of 2001 shows a deficit of NOK 156 million for Braathens, more than 110 million more than the year before. Of the two companies, Braathens is the one that can less afford to lose money. Management realises that the company does not have the necessary foundation to continue, the overcapacity on the domestic market is just too great. There are only two options available, either bankruptcy or a sale of the company to the competitor for 55 years, SAS.

**1946.** It was about a year since the Second World War ended, and two new airliners were born. The Norwegian owned, and based, Braathens SAFE and Scandinavian Airlines Systems (SAS), which was a partly state-owned corporation with subsidiaries in the owner countries Norway, Sweden and Denmark. In the years to come the two companies developed quite differently, with Braathens being known as "the people's airline" while SAS being associated with the business travellers' choice. The two companies fought hard for the customers on the Norwegian domestic market, a fight that along with the cultural differences created a competitive and sometimes even hostile attitude between the groups of employees. The relationship between the pilots was particularly tense. Braathens-pilots did the job at a lower wage than the SAS-pilots who therefore called them "the Filipinos of the sky", and also "the knit jacket gang" because they in the eyes of the SAS-pilots came from a "home knitted" company without the same status. Braathens-pilots fired back with the nickname "the brown

shirts”, directed at the SAS-pilot’s khaki-coloured shirts that differed from the normal white ones.

**May 2001.** Braathens’ result from the first quarter was just as devastating as it had been for the past years. Neither Braathens nor SAS had earned a single krone since Norway’s main airport in Oslo opened in 1998. CEO Arne A. Jensen in Braathens was worried about his 5000 employees. He had done a lot to save money and keep the company alive despite the fierce competition in the sky. He had sold planes and leased them back again, and he had sold hangars and property. But, fighting the Scandinavian big brother was tough. Unlike SAS they did not have money coming from over the border to keep them floating – or rather – in the air. A fruitless search throughout Europe for new alliances left Arne A. Jensen with no other option for a new partner: The sworn enemy SAS.

Stig Bjørnstad was along with his Braathens-colleagues at Trondheim Airport shocked by the news: “Many of us were aware that something had to happen if the company was to survive. But, to be bought by SAS, and for us to cooperate with them, has been an unthinkable alternative. They have always been our sworn enemy.” But even though the employees were sceptic, promises to keep the Braathens-brand and a job guarantee for the 5000 employees, made both Bjørnstad and other Braathens-employees realize that this perhaps was not too bad. After all, they still had their jobs.

However, scepticism prevailed among customers and others. While most were concerned with the question of competition and the monopoly SAS’ acquisition of Braathens would create in the Norwegian market, associate professor Tor W. Andreassen at the Norwegian School of Management was worried about the outcome in terms of customer satisfaction. Worries that were based on the results from other mergers and acquisitions in Norway. “The threat is that Braathens loses its distinctive stamp in the process”, Andreassen said thoughtfully. “Then everybody has lost.”

**February 2002.** A few months had passed since the Norwegian Competition Authority approved the acquisition, and SAS and Braathens had until now worked fairly unaffected by the event. But, when the companies’ new and coordinated route programme was presented, fear rose among the employees who anticipated that large scale dismissals would be the result when the two companies split the country between them.

The news was received with great surprise by the Braathens-employees at Bergen Airport, news that added to the atmosphere of that rainy morning in the western part of Norway. “This is not what we expected to happen when we supported the acquisition, that they would split the country between them, and that SAS would integrate us in their company”, station manager Robert Rastad said with noticeable disappointment and fear in his voice. However, it was not only the Braathens-employees that were worried. Employees from both companies feared that they would have to fight a battle against each other when jobs were cut. Those employed in SAS felt, however, that they had a trump card: “We won the competition. We saved Braathens and therefore we have the first claim on the remaining jobs”, they proclaimed. It was a depressed tone among employees all over the country that felt the uncertainty. One SAS-employee said: “I am not surprised about what is happening, but I am very disappointed with the management that keeps information about what will happen confidential. We should get sufficient information so that we can plan our lives.” While SAS-employees worried about the newcomers from Braathens coming in taking their jobs, Braathens-employees on the other hand were disappointed and angry with what they saw as possible broken promises about job security given before the acquisition.

It was late April, but despite the shine from the spring sun, it was not a bright day. A couple months with uncertainty had passed before the bubble burst. SAS’ decision to lay off 1000 employees in order to coordinate SAS’ and Braathens’ ground service personnel stroke Braathens-employees hard as all 800 of them would be fired. The employees in Braathens realised that they would suffer hardest from the merger, and employee representative Peggy Hessen Følsvik was not pleased: “First of all this is a breach of promise. It is beyond my moral comprehensions about how to treat your employees”. At the same time ground crew worker Kurt Kemi was helping a plane to its gate. He was fronting a commercial from Braathens on national TV these days, being the helpful Braathens-employee that helped people with parking their car on the street. “I find it strange that they still send this commercial” he said, reluctant to see his own face on TV any longer representing the company which he would be fired from. To a question from a journalist about whether SAS was setting about with what had been speculated at for a long time - to turn the two companies into one, lay off people and remove competition - VP of information in Braathens, Anne Grete Ellingsen, said: “You would have to ask SAS about that.”

Just a couple weeks later at Oslo Airport: Furious Braathens-employees sent an anonymous fax to the Norwegian newspaper Dagbladet claiming that they had requested former colleagues now working in travel agencies or as decision-makers in companies, to work as moles for them directing travel outside of Braathens and SAS. The aim was to cause as great losses as possible. “The initiative is a confirmation that our people feel so badly treated that they are willing to do anything”, employee representative Peggy H. Følsvik said. “People are sick and psychologically exhausted from uncertainty and hard work. SAS’ management have to take the responsibility.”

As time went on tension grew between the employees in the two companies, who regularly found themselves attacking each other through media. Employee representatives in both companies reported about unhealthy competitive spirit and hostile behaviour between the new colleagues in the SAS corporation. “We have never spoken before. We are raised to scowl at each other. We have the competitive spirit fastened in our spinal cord and now we use our employers to outdistance each other”, Peggy H. Følsvik said thoughtfully.

## **From engagement to marriage - becoming SAS Braathens**

Early in 2004 it was clear that the speculations from two years before were coming true. The two companies would become one under the name SAS Braathens. But this was not without complications. The employees of the two companies had worked under different conditions of appointment for almost 60 years, with pilots and cabin crew from SAS raising the highest wages. Also, SAS-pilots had a seniority system that they guarded with their lives and did not want their colleagues from Braathens to take part in. “Its importance exceeds everything” one SAS-pilot said. “It’s even more important than your wife and children.”

Becoming colleagues in the same corporation was a serious challenge for the former competitors, but starting working side by side proved to be much tougher. It was especially among the two pilot groups that tensions and evil blood from earlier years was waken up. One SAS-employee said: “I have heard our pilots say that 80 per cent of the Braathens-pilots are not good enough to fly in SAS.” An experienced Braathens-captain on the other hand said that the SAS-pilots had been living on another planet and that they wanted to continue doing so,



referring to their organizational culture. “All we want is equal pay for the same job done”, he said. The pilots in SAS were generally older and had more flight hours than their colleagues from Braathens, and were disgusted by the thought that their first officers could end up sharing cockpit with a Braathens-captain that was younger and less experienced. “It is not good, we have to avoid this at all cost. It can be dangerous”, an SAS pilot representative said. The disagreements between the pilots were so great that the new company was established with pilots from the two companies refusing to work together, forcing SAS Braathens to fly with captain and first officer with backgrounds from the same company.

A tension existed as well among the cabin crew-personnel who started working side by side under different conditions of appointment, but as one stewardess said: “I have shouted and I have cried – at home. But at work we try to be professional.”

**It is April 2006.** SAS Braathens has experienced what would be called severe turbulence in aviation terminology over the past months. Or, even worse – they have almost crashed. At the crew room at Oslo Airport pilots and cabin crew rest before the next flight. Terje Nielsen, leader of the union organizing the previous Braathens-employees says that new disputes have erupted. Employees from the two organizations seldom sit together. “Most people still identify with either SAS or Braathens”, Nielsen says. Five years after the engagement and two years after the marriage when they became one in SAS Braathens. “You automatically side with ‘your own’”. “We were old enemies and the merger has been marked by that”, he says. Examples of bullying have also occurred: “They have called us both “the Filipinos” and “the Poles of the sky”, Nielsen says. Braathens-stewardesses have also been harassed by SAS-pilots accusing them of having got their education by mail order, indicating that only SAS provided the new company with competent cabin crew members.

The turbulence internally in the company has caused a full stop for thousands upon thousands of passengers, leaving them stuck at airports waiting for planes that would never take off. Strikes and illegal actions have become more or less synonymous with SAS Braathens to people, making them swear that they will never fly with them again. During an incident in January 35.000 passengers experienced what can happen when many pilots call in sick at the same time. An illegal action among former SAS-pilots trying to resist certain organizational changes created chaos all over Norway. While their colleagues were sick, the former

Braathens-pilots worked as hard as they could to keep as many planes as possible in the air, asking their colleagues to come back to work.

Norwegian, SAS Braathens' competitor on the Norwegian market, experienced an all time high on Oslo Stock Exchange due to the incident, and has maintained its listed price since that. Simultaneous SAS Braathens' largest corporate customers warned that they would reconsider their contracts with the company. CEO Petter Jansen confirmed that the incident added to a series of episodes damaging the SAS Braathens brand, and that continuing conflicts in the company would be so serious that it could lead to discharges. "During the past days alone we have lost close to NOK 100 million. Discharges can be a result", he said. But, an employee representative confirmed that the SAS-pilots did not fear becoming unemployed as a result of their actions. "People will fly no matter what happens with SAS Braathens, so there will be a uniform available for them in another company anyway", he said.

The incident in January was followed by a strike among the cabin crews in April, leaving management utterly frustrated and worried. They had warned what could happen with the company if they experienced more trouble. Why were the employees more interested in fighting each other and feathering their own nests than contributing to the best for the company? At least it looked like that was the agenda. Management felt they had done things properly. After all they had set hairy goals and hired a new HR-manager with success from sports management. Bjørge Stensbøl, the former chief of Olympiatoppen, stated on a culture seminar in 2004 that "this thing with cultural differences – it will not be a problem." He was headhunted to SAS Braathens much because of Norway's 122 Olympic medals during his time in charge of the Norwegian Olympic teams. "The integration process has been a total disaster", one employee said. "We had two seminars with management present- that was all. The rest was up to ourselves to figure out."

At the Norwegian Customer Satisfaction Index for 2006 SAS Braathens ended last of the 164 companies measured.

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SAS Braathens would like to learn from what happened during the process of merging the two companies SAS and Braathens. They want your assessment on how employee behaviour

can have been affected by opposing values among employees and psychological issues related to the merger. Further they would like to know how opposing values among employees may have affected the employees' ability to deliver the desired service quality. At last they would like to know, acknowledging that they have experienced internal conflicts, how it is possible to create the desired employee behaviour in mergers and acquisitions. The chairman of the company has a background from economy and law, and has just briefly heard about the concept of internal branding. She wonders whether it could be a useful tool in this situation.

# Table of contents

<b>1. Introduction</b> .....	<b>1</b>
1.1 Background .....	1
1.2 Problem discussion.....	2
1.3 Objective .....	4
1.4 Delimitations .....	4
1.5 Thesis outline .....	5
<b>2. Methodology</b> .....	<b>6</b>
2.1 Choice of case .....	6
2.2 Overall approach .....	6
2.2.1 <i>Philosophical issues</i> .....	6
2.2.2 <i>Method</i> .....	7
2.2.3 <i>Research strategy and design</i> .....	7
2.2.4 <i>Reflection on choice of design</i> .....	9
2.3 Practical approach .....	10
2.3.1 <i>Data collection</i> .....	10
2.4 Creating a case .....	12
<b>3. Theoretical approach</b> .....	<b>13</b>
3.1 The human aspects of mergers .....	13
3.1.1 <i>Psychology in mergers and acquisitions</i> .....	14
3.1.2 <i>Four stages of integration</i> .....	19
3.2 Service management.....	20
3.2.1 <i>The service concept</i> .....	20
3.2.2 <i>The role of employees in service firms</i> .....	21
3.2.3 <i>Factors influencing employee satisfaction</i> .....	23
3.2.4 <i>The desire for alignment of values</i> .....	24
3.2.5 <i>Management's role in service firms</i> .....	26
3.3 Internal branding .....	26
3.3.1 <i>Definitions</i> .....	27
3.3.2 <i>The process of employee branding</i> .....	30
3.3.3 <i>Perceived organizational support</i> .....	36
3.4 Theoretical framework .....	37
<b>4. Empirical discussion</b> .....	<b>38</b>
4.1 Managerial conflicts .....	38
4.2 Social conflicts .....	41
4.3 Opposing values and internal conflicts.....	44

4.4 Reactions to internal conflicts .....	47
4.5 Formal external promises .....	49
<b>5. Analysis .....</b>	<b>50</b>
5.1 Psychological aspects in mergers and acquisitions .....	50
5.2 Trustworthiness .....	52
5.3 Communication .....	53
5.4 Decrease in employee satisfaction.....	53
5.5 Effect on service quality .....	55
<b>6. Conclusions .....</b>	<b>58</b>
6.1 Opposing values and employee behaviour .....	58
6.2 Opposing values and service quality .....	59
6.3 Internal branding and service quality .....	61
6.4 Managerial implications .....	64
6.5 Suggestions for further research.....	65
<b>References .....</b>	<b>iii</b>

# 1. Introduction

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*The introduction chapter provides the reader with the background of the thesis. It also presents the objective of the thesis together with the underlying problem discussion. At last delimitations and a thesis outline are presented.*

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## 1.1 Background

Mergers and acquisitions have indeed become a key component of many corporate growth strategies. Even though the world has seen many examples of successfully carried out mergers and acquisitions, the overall results of these efforts are mixed. According to Fairfield-Sonn, Ogilvie and Delvecchio (2002) a company being merged with, or bought by, another organization, may be a traumatic event in the lives of individuals. Turbulence of different kinds that may come as a result from the changes that occur in the employee's organization is often associated with declined job satisfaction, and the way the employees are treated in the process may affect the internal audience's future level of commitment to the organization. The organizational cultures might mean a lot to an employee's identity and hence the loss or change of this culture might affect the job satisfaction. Psychological issues are likely to occur in such organizational changes and provoke an actual employee behaviour which differs from the customers' expectations created through external corporate communication.

Fairfield-Sonn, Ogilvie and Delvecchio (2002) further state that the impact of organizational commitment and job satisfaction is important because it correlates with key organizational outcomes such as absenteeism, turnover and performance, which in turn have a great impact on organizational effectiveness and financial performance. The connection between attitudes and performance is very much dependent on the organizational commitment, which again reflects the degree to which the employee identifies with the organization. This identification with the organization may be challenged by the implications of mergers and acquisitions,

resulting in a weakening commitment to the company and hence a gap between desired employee behaviour and actual employee behaviour.

This knowledge is especially important for companies in service related industries where the organization is so dependent on its employees to be able to deliver the brand promise to the customers. According to Andreassen (2001) personnel that are unmotivated because of internal uncertainty will not perform at their very best in contact with the customer – the so called moment of truth. This will, according to Andreassen, lead to reduced customer satisfaction and hence reduced future customer loyalty.

Carrying out mergers and acquisitions is a challenging and difficult task. Not only are there two different company cultures that are forced into the process of becoming one. In many cases the organizations involved have been competitors in the same market, and the employees are used to having a competitive attitude towards each other. When Scandinavian Airlines System (SAS) bought Braathens in 2001 the two companies had been sworn enemies in the Norwegian market for more than 50 years. Flying wing tip against wing tip to the same destinations at the same time and racing to be first for de-icing and take-off, the two company cultures had a truly competitive and almost hostile attitude towards each other.

When the acquisition of Braathens became public in 2001, Andreassen (2001) commented that he was afraid that the result of melting together these two very different corporate cultures would be low customer satisfaction. Numerous internal conflicts have caused trouble for thousands upon thousands of passengers of SAS Braathens since 2001. At the 2006 measure of customer satisfaction among Norwegian consumers conducted by the Norwegian School of Management BI, SAS Braathens came last of the 164 companies measured.

## ***1.2 Problem discussion***

The changes made in merged or acquired organizations do affect the humans that constitute it. As the performance of the organization depends on the employee's presence and consciousness it is of utmost importance to understand how the employees are affected by these changes.

A merger usually creates cultural clashes which disrupt the employees' daily routines and responsibilities in their organizational positions. This makes the employees stressed because of uncertainty about changes and fright of job loss (Seo and Hill, 2005). Conflicts may arise in the tension between the opposing values the cultures bring with them from their past. In too many cases these values are not integrated properly with each other, either because of poor management or because these values simply are not compatible with each other.

These conflicts evoke psychological issues in the minds of the employees and lead to behaviour that is inconsistent with the desired brand image the organization wants to communicate. Therefore it is our interest to understand how the employees' behaviour is affected by the opposing values that usually are present in a merger or acquisition.

Unwanted or not favourable behaviour can damage and jeopardize an organization's brand image and reputation because the external communication and the given promises are not matching with the reality of the external constituents' experience. In a service profession it is argued that correct employee behaviour is crucial in order to deliver the desired service quality, hence it is reasonable to find out how opposing values affect the employees' ability to deliver the desired service quality.

Communication is key in integrating cultures in a merger. A horizontal merger requires the greatest degree of integration between the organization's functions and activities (Seo and Hill, 2005), and alignment of values is needed to create consistency in employee behaviour and attitude. However, the merging of organization values can provoke psychological issues and conflicts. Hence it is adequate to see how internal branding can contribute to deliver the desired service quality by reducing possible psychological issues.

This will be examined through the following research questions;

- *How is employee behaviour affected by opposing values?*
- *How do opposing values affect employees' ability to deliver the desired service quality?*
- *How can internal branding help to secure the delivery of the desired service quality?*



### **1.3 Objective**

The objective of this master thesis is to analyse employee behaviour in mergers and acquisitions in order to understand how opposing values might affect the delivery of desired service quality.

A second objective of this thesis is to create a case meant for learning situations based on the study undertaken.

### **1.4 Delimitations**

This master thesis will have its focus on employees' behaviour in horizontal mergers and acquisitions, and how psychological issues can affect the organizational efficiency. Early pre-merger theories like the search-phase and the risk of managerial over-commitment (Haunschild et al., 1994) will, however, be excluded from this thesis. The term 'merger' will be referred to as a horizontal merger between two organizations on the same level, in the same business and with more or less the same objectives.

The thesis will not consider other aspects of achieving service quality than the importance of the employees' psychological commitment to the organization and his/her awareness of the organization's desired service quality. It will merely explore the human side of a service delivery and how it can be affected by employee behaviour.

Further, it will look at the theory of internal branding as a tool to integrate two organizational cultures. However, the latter research question aims only to explain the benefits an organization may get from internal branding regarding delivery of the desired service quality. It will not give any complete guidance for how it should be implemented. To read a thesis considering such a guide, see Holmgren et al. 2003.

Due to a turbulent time in the aviation business the last ten years many cut downs and dismissals has coloured the business. However, this thesis will consider the situation of SAS and Braathens from April 2001 to May 2006 and happenings related to the merge of the two

organizations disregarding what affection the aviation crisis might have caused to the employees situation.

### **1.5 Thesis outline**

Due to our second objective of writing a case study of SAS Braathens for teaching purposes this thesis will have a slightly different outline than an ordinary master thesis. The thesis consists of five parts divided into six chapters and a separate case.

First, a Harvard Business School-like case study of SAS Braathens is presented together with the case questions that are to be answered by the students it may concern. The case describes the different aspects of the merger and acquisition of Braathens made by SAS, and how the employees experienced this event. The answers should be in accordance with the theory and the conclusions made in this thesis.

The thesis will continue with a more ordinary disposition. The background of the thesis is presented in chapter one together with its objectives. Further the methodological discussion of how the thesis has been carried out is explained in chapter two.

The third part (chapter 3) discusses the theoretical framework of the thesis and considers issues of human aspects in mergers and acquisitions, the nature of service delivery and quality, and the importance of internal branding.

The fourth part concerns presentation (chapter 4) and analysis (chapter 5) of the empirical data collected about SAS Braathens from a scanning of more than 7000 news articles. These articles are collected from 21 different Norwegian newspapers between 1<sup>st</sup> of April 2001 and 1<sup>st</sup> of May 2006. Data is further analysed in relation to the theoretical framework in chapter 5.

The fifth and final part in chapter six presents the conclusions made in this thesis. It also considers managerial implications and suggestions for further research.

## **2. Methodology**

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*This chapter outlines the method that is used in this thesis. It discusses the choice of case, the research design which is implemented, and gives a description of the methodological techniques that is used to collect data.*

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### **2.1 Choice of case**

Choosing SAS Braathens as a case for this master thesis was a result of the authors' interest in the different conflicts that have occurred in the company lately. As marketing students, who are both from Norway, the situation in the major Norwegian airliner was found to be interesting both from an academic and a personal perspective. Having particular interests in the areas of brand management, services marketing and customer loyalty, a closer examination of the case proved that it contained interesting and researchable issues within the context of the desired areas of study.

The scope of the case would allow for many different theoretical approaches that would all have the potential of producing an interesting and contributing paper. Employee behaviour in mergers and acquisitions and its effect on service delivery was found interesting because of the disruption mergers and acquisitions make in the employees' environment.

### **2.2 Overall approach**

#### **2.2.1 Philosophical issues**

Easterby-Smith et al. (2002: 27) argue for different reasons why an understanding of philosophical issues in research is useful. In short it can help clarify research designs,

recognize which designs that will work and which will not, and help the researcher identify, and even create, designs that may be outside his or her past experience. It is the idea of social constructionism that is interesting for this study. This view of how research should be constructed deals with the ways people make sense of the world, especially through sharing their experiences with others via the medium of language. It also implies that “reality” is defined by people instead of objective and external factors, and that the task of the researcher is not to gather facts and measure the frequency of patterns, but rather to embrace the meanings that people give to their experiences. (Easterby-Smith et al.: 2002: 30). This way of looking at research has guided the work for this study because core values and cultures are definitely a social construction rather than an objective fact.

### 2.2.2 Method

The study was composed of a combination of literature study and empirical study. The reason for studying literature first was to get a more in-depth understanding of the research area of interest, and at the same time for it to contribute to a theoretical framework to be used with the empirical study. Accordingly, the intention with the empirical study was to create an understanding of the case study undertaken, and to analyse and compare the theoretical framework in relation to the reality as presented through the empirical data.

### 2.2.3 Research strategy and design

Having developed a research problem and a purpose the next step is to consider the nature of the problem and what one wants to gain from the research. In differentiating among the various research designs it is according to Yin (2003: 7) important to identify the type of research questions being asked. Yin further states that the extent to which the researcher has control over behavioural events and the degree of focus on contemporary as opposed to historical events, are important factors in deciding on research design. If “how” and “why” questions are guiding the study, if the researcher does not have control over behavioural events, and if the study focuses largely on contemporary events, a case study is a favourable design for guiding research (Yin, 2003: 7).

However, the element of contemporary events could be in conflict with choosing the case study design. Even though this study would look at events still in progress, the process investigated started five years ago. There is, however, a design that is closely related to the case study. According to Yin (2003: 7) histories are studies that look at events back in time, and are the preferred strategies when there is virtually no access or control. No access or control would mean that the researcher would have to rely on document studies as main sources of evidence. Even though no access normally would mean that no relevant persons are alive to report, no access can also be related to the methodological limitations of a study. The two research designs both rely on many of the same techniques, but the case study adds two sources of information that is not included in a history: direct observations of the events being studied and interviews with people involved (Yin, 2003: 8). But, case studies and histories can overlap, and histories can therefore be done about contemporary events as well.

A case study can be said to be quite flexible in its nature as it can be conducted and written with many different motives, which include the simple presentation of an individual case or a desire to arrive at broad generalizations based on case study evidence (Yin, 2003: 15). In a case study the case is an object in its own right, and the researcher endeavours to provide in-depth elucidation of it (Bryman and Bell, 2003: 54). Yin (2003: 12) quotes Schramm (1971) who states that the essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result. Further, Yin (2003: 2) argues that the need for case studies arises out of the desire to understand complex social phenomena. It allows the researcher to retain the holistic and meaningful characteristics of real life events, such as individual life cycles and organizational and managerial processes, which is what this study is concerned with.

Based on the nature of the research problem and the limitations for the study, a case study combined with elements from history design was chosen for this thesis.

## 2.2.4 Reflection on choice of design

The nature of the SAS Braathens-case favoured the case study with a twist of history study. One important argument for doing a case study was that it allowed for a document study, focusing on media as source of information. However, it is important to notice that media as a source of data was not just a forced on element given by the choice of case study design, but was interesting to the study in its own right. The advantage with studying data gathered from media is the broadness of information it provides. However, a disadvantage connected to media as source of information is that it normally does not allow the researcher to get very deep – it provides more width than depth. Qualitative interviews were considered an alternative method of data collection for this study. It would allow us to go deeper and also to choose people whom to interview. However, the question of access to employees was considered being difficult. Pilots and cabin crew spend most of their work time in the air, and hence spend little time at the airport except from flight planning and preparations. For this study, being interested in employee's reactions and behaviour in relation to the acquisition and merge, access to emotions and reactions expressed as much as five years ago was necessary. Even though employees normally would be able to tell how they felt and why, interviews would not give access to accurate statements, reactions and expressions back in time. This was considered being important in order to fulfil the purpose and being able to answer the research questions posted for the study.

The case of SAS' acquisition of Braathens and later the merger between the two companies, has in different ways affected a third party – the customer – by changes in route programmes, strikes and other internal disputes. Being the major airliner in Norway, who also had a monopoly for some time after the acquisition, media has followed the company and its situation closely with great interest over the years. This has resulted in an extensive amount of information about the case in newspapers and magazines which we have gained access to. Newspapers have, however, a tendency of favouring “bad news” and often choose an angle when writing that can make the news more interesting to the reader, and hence sell more. Consciousness about this was required and is explained further in chapter 2.3.1.

According to Bryman and Bell (2003: 55) the question of how well the case study design fares in the context of validity and reliability, depends to a large extent on how far the researcher feels that these are appropriate for the evaluation of case study research. The issue

of external validity, or generalizability, of case study research has particularly been discussed a lot. It concerns the fact that it is impossible to generalize from one single case. However, according to Bryman and Bell (2003: 55), it is common to claim a degree of theoretical generalizability. In this study it is the single case of SAS Braathens that has been of interest, and it has not been expected to yield findings that can be applied more generally. However, a certain degree of theoretical generalizability can be claimed to similar cases.

## **2.3 Practical approach**

### 2.3.1 Data collection

The document study contained a study of articles and letters to the editor in newspapers and journals plus a few websites. The most important source was Retriever, a leading supplier of intelligence services on digital platforms in the Nordic region. It monitors the 21 largest and most important Norwegian newspapers and journals, and offers more than 5 million articles from the mid eighties until now from the sources' editorial archives (Retriever, 2006).

The study focused primarily on secondary data, but contains elements of primary data. This data was gathered by one of the authors in an unplanned and unstructured interview in cockpit with the captain and the first officer of flight SK395 from Oslo to Bardufoss.

Studying documents that have not been produced at the request of the researcher might seem like a somewhat easier and less time-consuming task as compared to collecting primary data. However, this is not reality. Searching for documents relevant to the study can according to Bryman and Bell (2003: 404) often be a frustrating and highly protracted process. The Retriever database contains several thousand articles dating back to 2001 with the search words "SAS", "Braathens" and "SAS Braathens". This required consciousness about choosing the right search words in order to find information relevant to the study. Approximately 7000 articles from April 2001 till .May 2006 were screened through title and abstract in order to find the most interesting and relevant articles to the study. Also, studying

documents requires considerable interpretive skills to be able to ascertain the meaning of the collected material.

Bryman and Bell (2003: 404) refer to John Scott's (1990) criteria for assessing the quality of documents. According to Scott it is important to evaluate the following:

- *Authenticity.* Is the evidence genuine and of unquestionable origin?
- *Credibility.* Is the evidence free from error and distortion?
- *Representativeness.* Is the evidence typical of its kind, and, if not, is the extent of its untypicality known?
- *Meaning.* Is the evidence clear and comprehensible?

It is undoubtedly a tremendously rigorous set of criteria that Scott speaks of. A study that to a large extent relies on newspaper articles would normally require somewhat less rigid rules connected to the quality assessment of relevant documents. However, the criteria were followed to the best extent possible when searching for documents to this study.

Our data is collected from trusted Norwegian newspapers and journals. However reservation for certain biases should be calculated. Newspapers are chasing breaking news and headlines, therefore it is likely to believe that many articles has a rather critical perspective in their elaboration of a current situation. On the other hand, searching through 21 different newspapers we often found different articles on the same happenings, but the variation in the descriptions were of no consequence. Due to the fact that empirical data gathered was available in Norwegian only, awareness was required when translating in order to ensure the proper interpretation. However, due to the translation of empirical data, possible biases from exact meanings and expressions may have occurred.



## **2.4 Creating a case**

The second objective of the thesis is as stated to create a case meant for learning situations based on the study undertaken. The idea of creating a separate case intended for use by students in a study situation was inspired by the well known Harvard Business School (HBS) case method. The features of the case method forces students to dig into issues that managers confront on a daily basis, and by that adding to the normal learning situation where students are passive receivers of knowledge passed on from professors during lectures. The case method describes a real-life business situation with a real problem where the student has to use his or her knowledge to come up with reasonable answers to the questions posted.

The case was written on the background of the empirical data studied for this thesis. Writing such a case was challenging due to the emphasis placed on the importance of dramaturgy in such writing. Not only is it, of course, important to include all the facts necessary for the reader to be able to answer the questions given, but the narrative style is also of great importance in keeping the reader interested and motivated. We had previously studied one HBS-case in class in addition to looking at other ones, and used that experience as guidance for how to carry out the task.

Even though there are questions posted in the case there are no specific answers attached. There are never totally wrong answers to the questions asked in such cases, but there is a difference between good and bad argumentations and explanations. This thesis holds the function of serving as a guide for reasonable answers, meaning that questions given touch upon different aspects covered in this thesis.

### 3. Theoretical approach

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*This chapter presents current literature which is deemed to be of importance to the thesis. Human aspects of mergers and acquisitions considering psychological issues, the importance of employee behaviour in service businesses, internal branding and the perceived organizational support theory are found in this chapter. At last the theoretical framework used in the thesis is presented in a short summary.*

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#### **3.1 The human aspects of mergers**

As briefly explained in the introduction, mergers and acquisitions cause great changes in organizations. Many of the affected employees have often worked in the organization for years and are used to how routines and values go around in the organization. In general, cultures consist of groups of people and different nationalities. However, Ghauri and Cateora (2005: 74) shortly define a culture as “*a set of values and norms followed by a group of people*”. This definition can be transferred to smaller groups like companies and organizations. The members of an organization have usually adapted the norms and values over time in order to “fit in” in the organizational culture which is defined as “*a network of integrated subcultures*” (Elsass and Veiga, 1994). When a newcomer joins in he or she will soon learn the values and the norms by observing, trying and failing. The rest of the group will also teach the individual, with or without intention, by signaling what is accepted behaviour.

On the other hand, when a merger occurs, two existing cultures are supposed to start working along as one. When two groups are forced together it is more likely that the individuals will keep to the familiar and what that is known, and hence keep behaving in line with the values and norms they are used to.

Not surprisingly this causes trouble to the efficiency of an organization. Cultural clashes and conflicts often emerge when the members of an organization discover differences in how things are done in the other organization (Elsass and Veiga, 1994). In the end, the organization will suffer because customer satisfaction decreases due to lacking consistency and quality on the product and services the organization deliver. In short, the cultures will have to integrate with each other in order to survive.

### 3.1.1 Psychology in mergers and acquisitions

A merger between two cultures is of course more complicated than outlined above. Seo & Hill (2005) have made a thoroughly scanning of more than 100 books and articles on the field of mergers and acquisitions. They argue that a horizontal merger, which is usually made to obtain market synergy or consolidation, requires the greatest degree of organizational integration which includes procedural, physical, managerial and sociocultural integration. A shift in these aspects can in most cases be a source of cultural clashes (Elsass and Veiga, 1994). When such clashes occur, several psychological effects emerge among the employees. Seo and Hill (2005) identified six theoretical themes that explain psychological and behavioural responses in merges and organizational changes. The reason why these theories are explained in this thesis is to make the reader understand what reactions and behaviour psychological issues may provoke and what it means to an organization.

#### **Anxiety theory**

The first theory is named *anxiety theory*. This covers the uncertainty that prevails in the atmosphere around a merger or acquisition. Rumours and weak communication is often spread through the organization and hence the employees start worrying about their future. What will happen to my job? Will I get pay cut? Will somebody replace me? Will I be transferred? Several studies conclude that an environment like this has a traumatic impact on employees, and hence results in layoffs, high turnover, stress and both physical and psychological illness (Seo and Hill, 2005). Another outcome of the employees' anxiety is what Schweiger et al. (1987) call the survival instinct. Employees take opportunistic actions in order to protect and maintain their status, power, prestige and careers. This creates internal

competition and distracts the organization from functioning optimally to reach its goals. Distractions of these kinds can be disastrous in the services sector. The role of employees in service firms will be discussed in chapter 3.2.

Separation anxiety is a sub theory and explains how individuals are affected by the destiny of colleagues which are dismissed from the organization. Even rumours can start this cognitive process of the frightening situation of having a relationship changed drastically or ended. Therefore it might even occur before separation takes place or when separation is only implied (Astrachan, 2004).

Several researchers suggest that tidy, top-down and formal communication is the key to keep rumours under control, and hence unnecessary anxiety among the employees (Seo and Hill, 2005 ; Hayes, 1996). This will kill a certain degree of fake rumours. However, leaks of true managerial information should not be denied in order to maintain credibility throughout the merger. Seo and Hill (2005) suggest that timely and accurate communication about what is going to happen with the organization and the employees' jobs is the best way to reduce anxiety related stress. However, the communication should go both ways. Interaction with the employees will reveal the sources of anxiety and hence the communication can be adapted to be more accurate. By listening, managers also signalize that they care and have responsibility for the employees which affects the employees' perceived organizational support (POS) positively. POS will be more thoroughly explained in chapter 3.3.2. Seo and Hill (2005) further refer to Cartwright and Cooper (1996) and Ivancevich et al. (1987) who claim that it is not only the degree of uncertainty that creates anxiety and stress, but also the duration of the uncertainty. Therefore a rapid implementation of the merger can minimize anxiety related issues.

### **Social identity**

Individuals draw their identity from the culture that they feel connected to or want to be associated with. Hence individuals derive identity from organizations, professions and work groups that are to find in a company. In a merger these groups are often torn apart and abandoned, the former members feel lost, and again anxiety appears. (Seo and Hill, 2005).

The theme of social identity also touches upon the relationship between the two organizations which are to be merged. The one organizations' perception of the other creates the foundation to which extent the acquired organization accepts the changes. Marks and Mirvis (2001) argue that the buying part of a merger (or acquisition) often gets the feel of superiority. Further they argue that this feeling of superiority frequently turns into assumptions that the buying organization's business acumen (policies, procedures, people, system, etc) is better than in the organization being acquired. On the other hand, the acquirees often feel powerless to defend their interests in the merger which often results in frustration and anger – first at the leadership that sold them out, then on their new management. This is likely to happen even though it is considered a “friendly acquisition” where the organization is “saved” by a brother of charity. Again it is possible to refer to the survival instinct; some will leave “the sinking ship”, others will enable defence mechanisms and make themselves indispensable by i.e. guarding data and customer information they have in their possession. Only after a while - weeks, months or even years - the employees accept the reality and adapt to the changes (Marks and Mirvis, 2001). The perceived status of each organization is another source of conflict. If one or both parties do not believe that the other will fit in, the responses to a merger will be more negative. The same will happen if one of the organizations perceive the other's status as unmerited or illegitimate (Seo and Hill, 2005).

To avoid heavy conflicts regarding social identity, the theory suggests to make an assessment of to what degree the employees are attached to their existing identity and to find out what values that are important to them. Then the process of constructing a common in-group identity can start. This should be based on a new vision, new common goals and a new organizational symbol which is constructed in interaction between the two parties. It is recommended to cut and add in both organizations as this is likely to reduce intergroup bias and tension (Seo and Hill, 2005).

### **Acculturation**

According to Seo and Hill (2005), acculturation is defined as “*changes in both groups that occur as a result of contact between cultural groups.*” The term “cultural clash” has emerged from this field and relates to perceived differences in the way of doing business based on an organizations' own cultural reality considering i.e. communication styles, planning, managerial authority, commitment, teamwork and so forth (Elsass and Veiga, 1994).

Acculturative stress is an outcome of such clashes and when the organizations cannot agree upon how to acculturate.

The theory proposes four modes of acculturation (Berry, 1980 in Seo and Hill, 2005) which are likely to happen. (1) *Deculturation* happens when the employees leave their old organizational culture and values and replace these with new ones. This can be compared to single individuals that join a new organization. (2) *Assimilation*. In this case one of the organizations partly drops aspects of their old culture and values and then adopt into the new organization. (3) *Separation* takes place when both organizations intend to retain their old culture and values. This is usually the most conflict filled acculturation mode. (4) *Integration* is usually the most favourable mode because the organizations are getting along by both give and take, and usually combine the best practices from both parties. Hence fairness is perceived by employees and acculturative stress is minimized. How the different modes are chosen depends on the relationship and cultural distance between the two organizations, including how the perception, identity and values differ.

Since this theory also can be said to involve acculturation of organizational processes as well as values, it is suggested that proactive planning and mapping of potential acculturation issues are done by assessing differences in corporate values, organizational structures, operating- and decision-making processes, reward systems and other human related matters (Marks, 1997). In similarity to the integration of social identity it is suggested to deploy cross-organizational teams in order to reveal similarities and differences.

### **Role Conflict**

In a merger it is likely that positions and roles in the two organizations differ or overlap – even new positions are made. A role is defined as a set of expectations about the behaviour for a position, and hence a role conflict occurs when two organizations merge. Even though both organizations have the same position, the expectations of the employee filling it might be different (Seo and Hill, 2005). The theory of role conflict spans wider than just to the inside of an organization. Former customers, co-workers and family might have expectations to an employee, and hence he or she will feel “trapped” between these expectations, thus resulting in tension and stress (Schweiger et al., 1987). The uncertainty that grows out of the feeling of being incapable of handling ones position like before produces anxiety.

As in the anxiety theory, Marks and Mirvis (2001) suggest that a two-way interaction with the employees is essential to clarify the expectations. Also, a strong managerial leadership can clarify and develop new roles in discussions with employees. Further they suggest using the time between the announcement of the merger and the legal approval efficiently to plan the integration firmly.

### **Job characteristics**

Job characteristics are close to the theory of role conflicts. A general perception in merges and acquisitions with downsizing is that employee morale declines. A research concluded that this was the case in 86% of all US mergers with downsizing between 1989 and 1994 (Hayes, 1996). As the moral declines, so does job satisfaction and organizational commitment. Seo and Hill (2005) argue that a change in an employees' attitude and behaviour after a merger or acquisition may reflect changes in his or her job characteristics. Core job characteristics often describe the task itself, the skills needed, the task identity, task significance, task autonomy and task feedback. However, Seo and Hill (2005) further present a broader view of job characteristics and include other elements of the work environment such as career paths, work relationship, support network, status differences and job security. These elements can affect forming an employee's attitude, motivation, commitment and behaviour in and after a merger or acquisition.

The new positions should firmly be constructed in a way which sustains and increases job satisfaction, and hence organizational commitment. How a job is designed to increase an employee's job satisfaction is an individual task, and hence involves the employee as much as possible in the redesign is important. At last employees should also receive training to adjust the tasks and expectations of their new position (Schweiger et al., 1987)

### **Organizational justice**

Organizational justice considers the employees' perception of the organization's fairness and responsibility when decisions regarding reselection and displacement of employees are taken. A positive perception contributes to positive attitude and behaviour towards the new organization. Seo and Hill (2005) have identified three common types of fairness during their literature research. (1) The *Distributive justice* refers to the individual perception in

comparison with individual standards. Decisions should be based on objective needs of the organization. (2) *Procedural justice* is the perceived fairness of decision-making. This is often judged through the “democratic” equality of the organizations’ participation in the decision-making. Also new HRM policies/procedures should be objective and consistent towards the two former organizations. (3) *Interactional justice* considers the leaders’ treatment of how displaced employees are handled with fairness and respect. Employees are paying close attention to what happens to their co-workers, hence it is favourable that the integration leader has good skills and experience in managing such situations. (ibid)

### 3.1.2 Four stages of integration

The integration process in a merger can be seen as a timeline. It is easier to manifest the start than the end since the end is a matter of individual definition. However, Seo and Hill (2005) suggest four integration stages; pre-merger stage, initial planning and formal combination stage, operational combination stage and stabilization stage.

The stages are considered important to this thesis in order to easier understand where and when the different psychological theories are likely to impact. The pre-merger stage starts when the organization begins searching for a potential partner and ends when the official announcement is made. Leak of information is likely to create rumours in the organization and hence anxiety related stress is likely to occur in this stage. The initial planning and formal combination stage starts directly after the official announcement, and ends when the new organization is legally approved. In this phase new vision, goals, staffing plans and structure are made, and hence stress related to anxiety, social identity and organizational justice theories are in focus. The operational combination stage takes place when the employees of the new organization physically start working together. The acculturation problems, role conflicts and job characteristics issues are likely to reach its climax at this stage. The last stage, the consolidation stage, starts when the operational integration is considered as complete and has no clear end. Psychological conflicts and issues are likely to drop down to “normal levels” over time. (Seo and Hill, 2005) Figure 3.1 illustrates the risk and degree of impact of the different theories in the different stages.



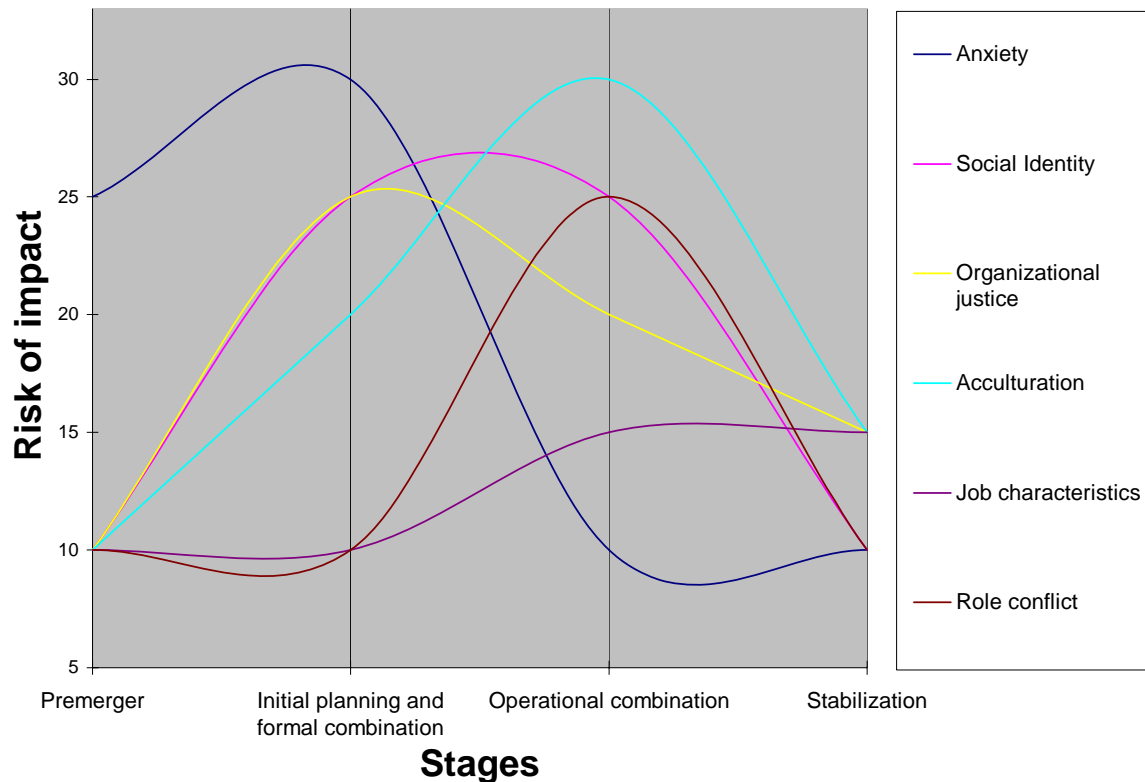


Figure 3.1. Impact of psychological theories in merger-stages. The illustration is based on the theory from Seo and Hill, 2005.

## 3.2 Service management

### 3.2.1 The service concept

According to Grönroos (1998) a central part of service marketing is based on the fact that the consumption of a service is *process consumption* rather than *outcome consumption*. This implies that the consumer perceives the production process as part of the service consumption, not just the outcome of that process as in traditional marketing of physical goods. One main difference between the consumption of physical products and services is that when consuming a physical product the customer consumes the outcome of the production process, in other words makes use of the product itself. When consuming a service the

customer takes part in, and evaluates, the process of producing the service. By taking part in the production process the customer interacts with employees, physical resources and production system of the service organization. The consumption process leads to an outcome for the customer, which is the result of the service process. Grönroos (1998) thus argues that the consumption of the service process - which is commonly emphasized in hotels and airlines (de Chernatony and Segal-Horn, 2003) - is a critical part of the service experience, and that perception of the process is important for the perception of the total quality of a service.

The special characteristics of services mean that airline passengers take part in the production process of the service they are buying – transportation from A to B – and at the same time evaluate their experience with contact and interaction with the different employees, physical resources and production facilities. Even though consumption of services focuses on the production process of the particular service, the customer will have a set of expectations connected to an expected outcome of the service. If you make an appointment for a haircut you would first, of course, expect the hairdresser to show up and the haircut to be executed as planned. Also, you would expect a certain result, by which the process leading to the outcome – a new, and hopefully fresh, haircut – would be evaluated. The same can be said about air travel, where the evaluation of the term service quality would start with whether or not the service has been executed as planned – in other words if the passenger has been transported to the planned destination, followed by an evaluation of the different elements of the process. Service quality is therefore referred to as a customer’s total perceived experience of contact and interaction with a company’s services.

### 3.2.2 The role of employees in service firms

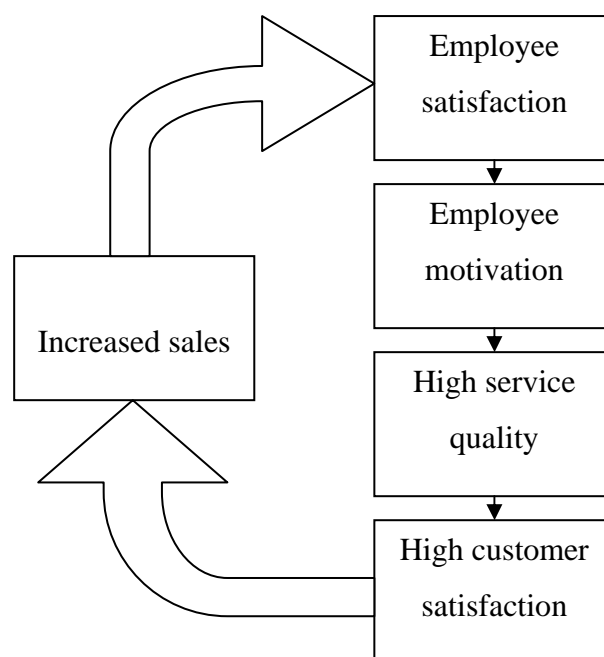
*“Before you try to become friends with your customers, you have to make friends with your employees”*

Bjørn Kjos, CEO and owner of Norwegian Air Shuttle

CEO’s and managers are often heard talking about employees being the company’s most important asset. This is especially true in service businesses where the lack of tangible products often make employees stand out as the brand itself in the eyes of the customer. In

service businesses employees have a responsibility of delivering the brand promise to the customers through the production process of the particular service. Several authors argue that the whole organization has to work for customer contact staff in order to help them serve customers the best way possible. This can be referred to as support-functions. Grönroos (2000) in de Chernatony and Segal-Horn (2003) argues that in service organizations the organizational pyramid must be turned upside down. Contributing to that, Gummesson (2002) refers to Albrecht and Zemke (1985) who state that “*if you’re not serving the customer, your job is to serve someone who is*”. The importance of motivated, loyal and service-minded employees in service firms is unquestionable.

In service firms there is a clear connection between employee satisfaction and customer satisfaction. De Chernatony and Segal-Horn (2003) adapted Heskett’s (1987) model of the process of successful services management:



*Figure 3.2 - The process of successful service management.  
de Chernatony & Segal-Horn, 2003.*

The model illustrates how increased revenues in service firms can be linked back to satisfied employees. Employee satisfaction and employee motivation are closely connected. An employee who feels that he or she is treated well by the organisation, has pleasant co-workers,

interesting job tasks and is rewarded fairly, will be motivated to do a good job. Strong employee motivation to perform well results in high service quality, which in turn results in high customer satisfaction. Increased sales are related to satisfied customers, and in turn it will affect the employee satisfaction through a confirmation of job well done from sales stats, reward programmes and customer satisfaction measurements.

It is easy to picture to oneself the model with dissatisfied employees as a starting point. Even though quality shortfalls or gaps frequently occur in service firms due to the centrality of the service encounter and its dependence on staff attitudes (de Chernatony and Segal-Horn, 2003), employees that are unmotivated and uncommitted will be less qualified to deliver the expected service quality to customers. If it is internal conditions in the organization rather than personal matters that are causing demotivation and uncommitment, the outcome would be more devastating to the company by the very fact that many people are affected by the same cause. Such a collective decline in employee satisfaction and motivation would have a considerable negative effect on the required consistency and quality of the service delivered. According to Grönroos (1998) the customer orientation of the service process is crucial for the long-term success of a service firm. If the process fails from the customers' point of view, no traditional external marketing efforts, and often not even a good outcome of the service process, will make the customers stay in the long run. Only lowering prices can make them stay – at least for a while.

### 3.2.3 Factors influencing employee satisfaction

According to Tor W. Andreassen (2001), associate professor at the Norwegian School of Management, employee satisfaction generally seems to decline as a result of three specific phases in mergers and acquisitions.

#### **Phase 1: Looking over the shoulder-effect:**

According to Andreassen (2001) the first phase would cause a looking over the shoulder-effect among employees, dealing with concerns about who would be affected by a possible merger or acquisition. This corresponds with the anxiety theory dealt with in chapter 3.1.1, which deals with the uncertainty that prevails in the atmosphere around a merger or

acquisition. It is also connected to what Schweiger et al. (1987) refer to as survival instinct, meaning that employees may undertake opportunistic behaviour in order to protect status, power, prestige and careers, which again leads to internal competition and thereby distracts the organization from functioning optimally to reach its goals.

**Phase 2: Winner/loser-effect:**

It is according to Andreassen (2001) generally so that it is the employees of the organization that is actively taking over another that end up better off in the new constellation. The employees of the acquiring organization may feel that they outrank the employees of the acquired organization, and that their interests should come first in the new company. This would have a potential of creating a tension between the two groups of employees, and also between the employees from the acquired organization and management who generally seem to favour “their” employees.

**Phase 3: Cultural isolation-effect**

The third phase involves employees realizing that the company they are working for is substantially different from the one that they used to work for (Andreassen, 2001). This would come as a result of repeated confirmations that values and organizational culture in the new organization deviates negatively from the former organization, potentially resulting in identity problems and a lack of motivation among employees.

### 3.2.4 The desire for alignment of values

According to Hultman (2005) values are to people what instincts are to animals. The core values of an organization’s employees can be defined as those tenets that are fundamental to their mission and that motivate everything they do. Values play an executive role in personality and organizational culture, serving as criteria for making decisions and setting priorities (Hultman, 2005). Further, Rokeach (1973) in Hultman (2005) claims that the ultimate purpose of our value system, as well as all our other attitudes and beliefs, is to maintain and enhance our self-concept, or what is referred to as self-worth. According to Hultman (2005) values are psychological constructs internal to a person. This implies that

organizations as such do not have values, but by the fact that they are composed of people, their cultures are shaped by values that are shared in varying degrees.

Hultman (2005) refers to Rokeach's (1973) distinction between terminal and instrumental values. Terminal values define the overall goal we want to achieve, and instrumental values are the preferred ways of getting there – how we plan to fulfil the purpose and dreams reflected in the terminal values. In an organizational setting corporate mission and vision are reflected by terminal values, while instrumental values are ways of attaining these ends.

Alignment can in this case be defined as the degree to which values are compatible. Hultman (2005) distinguishes two types, *intrapersonal* and *interpersonal alignment*. The first is consistency or integration among an individual's values, while the latter is consistency or integration among an organization's values. Misalignment is the opposite of alignment, and hence means lack of consistency or integration. Both imbalance and misalignment of values can cause conflicts, but according to Hultman (2005) for different reasons; with imbalance the conflict stems from either overemphasizing or underemphasizing values, while with incongruence the conflict stems from a basic incompatibility between values – like mixing oil and water.

Interpersonal conflicts are often the result when people with different levels of self-worth come together in a team or organization. According to Hultman (2005) differences manifest themselves as disagreements about goals, priorities, and methods that can result in power struggles, hidden agendas, manipulation, internal competition, and mistrust. Conflicts like these can be seen as results from lack of alignment or poor fit between personal, team, and/or organizational values. However, Hultman (2005) argues that there is some controversy around the concept of alignment. According to him some view it as manipulating employees to achieve organizational ends. He further argues that attempts to force alignment of values never work for long; they only serve to increase conflict and mistrust, and they drive values issues underground, rising again as passive-aggressive behaviour, open defiance, sabotage, morale problems, and turnover.

More consistency between personal and organizational values would result in higher levels of morale and productivity. Hultman (2005) therefore argues that there is nothing wrong with seeking alignment *per se*. To him the issue is not whether or not to work toward alignment,

but rather *how*. His believe is that the best way is through creating a *shared* vision with which people can freely align themselves based on their personal visions.

As values act as a guidance of behaviour and decision-making and sets standards for morale, it is of particular importance to service firms, where the interaction between employees should work like a well-oiled machinery to deliver the best service possible to customers, that employees' values are corresponding.

### 3.2.5 Management's role in service firms

The chapter has so far emphasized on the importance of employees in customer-contact positions to a service firm. However, the role of management is also of utmost importance in this context in enabling employees to deliver the expected service through providing good working conditions. Bjørn Kjos, CEO and owner of Norwegian commented that before you try to become friends with your customers, you have to make friends with your employees (TV2 Nettavisen, 06.04.2006). This is in accordance with the saying that "if you take care of the inside, the inside will take care of the outside".

The task is much related to the responsibility of creating a basis for employee satisfaction, which importance is shown in chapter 3.2.2. Trustworthiness, honesty, fairness and consistency in communications and actions are qualities that employees demand from their leaders (Kane-Urrabazo, 2006; Hultman, 2005). Employees for example consider the ethical behaviour of managers when establishing their trust in the organization, and tend to directly relate the ethics of the company into how they are treated personally (Kane-Urrabazo, 2006).

## **3.3 Internal branding**

Internal branding is said to be of utmost importance in the development and maintaining of a corporate brand. While branding initiatives are most likely to focus on external stakeholders,

internal branding has the purpose of establishing systems/processes and an employee behaviour that is consistent with the external branding efforts (Aurand et al., 2005).

In high contact service businesses where the frequency of contact points between employees and customers are many, internal branding is even more important. The entire organization is communicating through all of its contact points with the environment, and hence it is important that the transmitted signals reflect the fundamental values and correct image of the organization in order to fulfil the customers' expectations.

An informed workforce has a better foundation to deliver the brand promise to the organization's external stakeholders. According to Aurand et al. (2005), it is possible to generate synergy between the internal and external branding initiatives by having a good coordinated branding programme. Further they argue that Human Resource (HR) activities in internal branding projects are crucial in order to increase knowledge of the brand and its values. Their research shows that the more positive the employees are towards the brand, the more likely they are to incorporate the brand into their work activities. Hence it is suggested to promote and educate the brand consistently through HR activities like recruitment, training, staffing and so forth. Aurand et al. (2005) conclude that the employees learn and interpret the brand more thoroughly when they are active rather than passive in the learning process.

However, the employees should not only know the brand message and guidelines. They should also be communicating it with passion and ardour. Such employees are worth their weight in gold. Systems, processes and the marketing mix are replicable to competitors, but the personality, the core values and the culture of the organization are much harder to copy (Anonymous, Strategic Direction, 2003).

### 3.3.1 Definitions

Theory operates with two different terms which are more or less synonymous. Internal marketing and internal branding are used frequently and inconsistently in theory, hence we will try to make a distinction between the two terms. We find this important in order to eliminate confusion around the different terms throughout the paper, and therefore we also



consider it important to discuss the nuances between these two terms to sort out the information and theories. Just to make the confusion complete, several authors mix the terms internal branding and employee branding which we consider to be synonymous to each other (Miles and Mangold, 2004). The term internal branding will be used throughout the thesis.

Rafiq and Ahmed (2000) made a thorough analysis of the current literature regarding internal marketing. They further claim that the term was first used by Berry et al in 1976, and has been widely discussed until today. They identified five main elements of internal marketing in their research:

1. Employee motivation and satisfaction
2. Customer orientation and customer satisfaction
3. Inter-functional co-ordination and integration
4. Marketing-like approach to the above
5. Implementation of specific corporate or functional strategies

Further they used these elements to create a new definition considering the conceptual and empirical findings of their research. Each element is marked in the definition text.

*“Internal marketing is a planned effort using a marketing-like approach (4) to overcome organizational resistance to change and to align, motivate, and inter-functionally co-ordinate and integrate (3) employees towards the effective implementation of corporate and functional strategies (5) in order to deliver customer satisfaction (2) through a process of creating motivated and customer oriented employees (1).”*

As the term has been used inconsistently in theory, various definitions are said to cover both internal marketing and internal branding. After scanning the theory we have found that the main difference between internal marketing and internal branding can be explained by that internal branding goes beyond the definition of internal marketing. While Rafiq & Ahmed’s (2000) definition of internal marketing focuses on a marketing-like approach towards the employees in order to create internal and external satisfaction, internal branding takes aim to embrace the entire organization - included its systems and policies. This will in turn motivate

the employees to project the desired organizational image. By making communication consistent the employees will constantly get information that is in line with the desired image (Miles and Mangold, 2004).

This information often contains the same fundamental values and images that are communicated through advertising and other promotional material (name, term, sign, symbol, and so forth) because it also must be internalized by the employees in the organization in order to successfully project the correct image in customer interactions. However, it is not enough just to pour out messages about the core values and the organization's ideology – the employees must be taken into interaction. To quote Nicholas Ind; “Just telling people what the brand stands for is very common but it doesn't work” (Hiscock, 2002). Mitchell (2004) argues that even the vaguest brand values must be translated into real-life experiences, and hence the organization must be adapted to its “lifestyle” in order to be able to provide its employees with such experience.

Miles and Mangold (2004) suggest a definition for the term “employee branding”;

*“Employee branding is the process by which employees internalize the desired brand image and are motivated to project the image to customers and other organizational constituents.”*

After browsing through the theory, we believe this definition is quite similar to the concept of internal branding and that Miles and Mangold (2004) simply has chosen to use the term “employee branding” instead of “internal branding”. However, we revealed some elements we consider important to further distinct internal branding from internal marketing.

As stated previously many authors are emphasizing the importance of HR in the context of internal branding because HR is responsible for the fundamental training of the staff. An article from the journal “Strategic Direction” describes internal branding as to be to integrate core organizational functions to work more efficiently and strive for greater performance. It is further suggested to “build the brand promise into the recruitment and selection process so that only the most suitable candidates are selected and high performance can be encouraged” (Anonymous, Strategic Direction, 2003).

Miles and Mangold's (2004) definition expresses that the employees should be motivated to project the desired image to customers. However, the ideal outcome of internal branding should take aim of making the employees totally committed to the brand and hence talk positively about the brand spontaneously. Both Hiscock (2002) and Ind (2003) argue that commitment is increased by empowering the employees to communicate their perception of the brand instead of having a series of instructions to follow.

Finally, Hiscock (2002) refers to Moor who claims that "there is no benefit in dictating generic brand values and behaviour to employees, as each person has a different job to do." Further, he also suggests that "each person should be empowered to apply the brand to their own role."

### 3.3.2 The process of employee branding

The process of employee branding (internal branding) is described in four stages by Miles and Mangold (2004). The first stage defines which sources and inputs that lay behind the employees' perception of the organization's norms, values and standards of behaviour. The second stage describes the set expectation that is formed between the organization and the employees. This is referred to as "the psychological contract" in theory. The third stage regards the interpretations that employees make of the brand based on the sources of information and their expectations of the organization. In other words, this is the employee's brand image. Finally, the fourth stage concerns the consequences of the outcome from the previous stages. The model is shown in Figure 3.3.

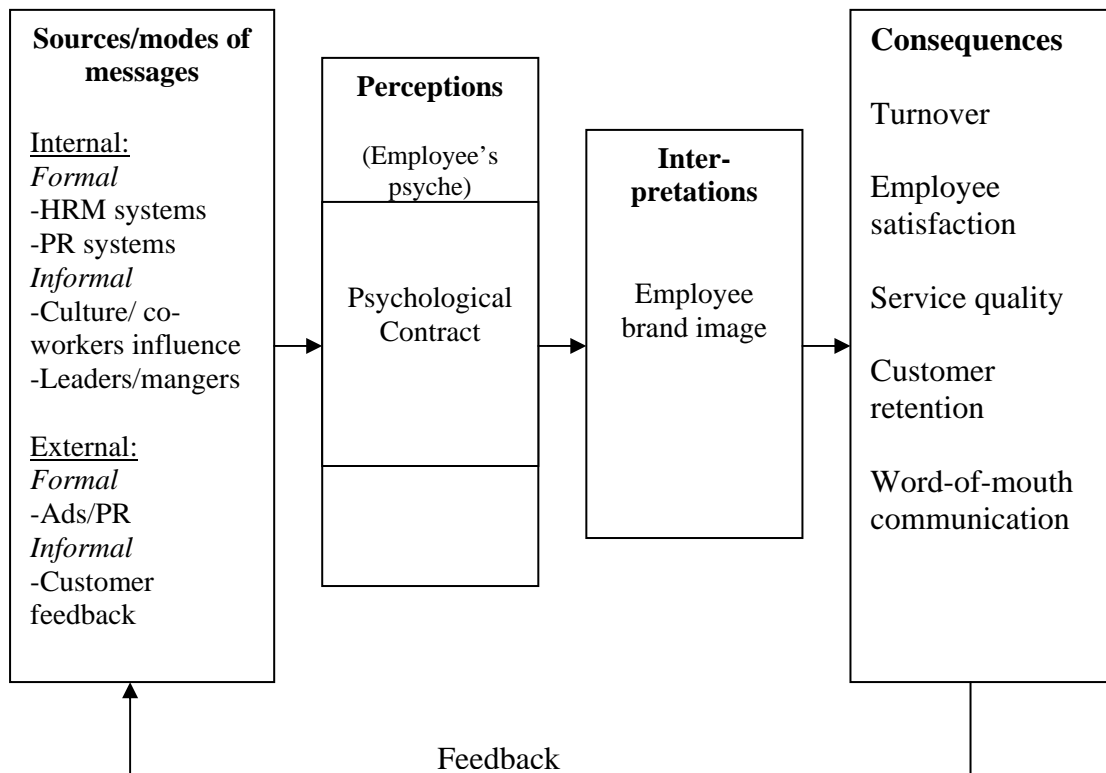


Figure 3.3, "A Conceptualization of the Employee Branding Process". Adopted from Miles and Mangold, 2004.

The employee brand image (stage 3) reflects the employee's image of the organization and hence likely the way they communicate the image externally. As shown, the image is affected by the psychological contract, which again is based on the inputs and different messages the employee receives from the environment. The feedback arrow indicates the continuous process and responses as new inputs.

### Sources of messages

It seems like the majority of the authors agree upon that communication is a major factor in the concept of internal branding as well as consistency in communication. The challenge is, however, to control the information because employees derive messages about the organization from a wide range of obvious, and not so obvious, sources (Kapel and Thompson, 2005). The sources of information that employees derive information from can be divided into internal/external and formal/informal. All this information influences the employees' expectations.

### **Formal internal sources**

The formal internal communication is important since this information comes directly from the organization, and hence the management has a high degree of control over what is being sent. Miles and Mangold (2004) argue that this information is spread through HRM and PR systems, and has the opportunity to connect the employees emotionally to the brand values.

The use of HRM in the creation of the internal brand is also supported by other authors. Ghose (2002) argues that HR aims to encourage employee commitment and create standards for the desired performance, and at the same time increase employee involvement and satisfaction. In this way he claims that HR becomes interwoven in internal brand creation. As HR systems are responsible for recruiting, training and staffing, the information received from this instance are for many employees the first direct impression of the company. Further this information is seen as guidelines for the desired image the organization wants to be identified with. Hence the information and processes of HR have a great influence on the formation and maintenance of employee expectations (Miles and Mangold, 2004). Therefore it is highly important that the messages within these systems are consistent with each other as well as with the organization's other communication efforts. Future employees search for internal formal information from recruitment documents, formal press releases in the newspapers, the organization's Internet site, new job-specifications and so forth. The information found forms expectations of the organization, and creates an understanding of its goals and values (ibid). Therefore it is suggested to integrate the brand promise in the recruitment process (Anonymous, Strategic Direction, 2003). To relate this to a merger or acquisition, the employees are likely to gather information from the same sources when a change in the organization is about to happen.

The messages transmitted in training and development teach employees which values the organization admires and wants to express. Compensation for wanted behaviour also gives clear signals of what the organization wants to communicate to its constituents. However, it is again highly important that the messages are consistent with what was told in the recruitment process and through other internal formal sources. The compensation system must also be consistent in terms of rewards, meaning to make sure that the rewards are earned and that those who have earned compensation get it. Inconsistency will lead to confusion and frustration among the employees, and hence result in decreased commitment. Public relations can and should be used wisely and not conflict or jeopardize the organizations' goals and

values as this would lead to confusion and lack of trust towards the organization. (Miles and Mangold, 2004)

### **Informal internal sources**

Informal internal sources concern direct interactions between supervisors and employees as well as overall internal word-of-mouth. Co-workers are influencing each other by sharing interpretations and experiences. Here will the inconsistency soon be compromised if the formal documentation does not reflect the truth – as Miles and Mangold (2004) put it; “the information transmitted through co-workers may sometimes reflect organizational realities more accurately than the information transmitted through formal sources.” This will in turn make the employees question the integrity of the organization.

As we slightly touched upon in chapter 3.1 an organization’s culture consists of a set of values, norms and standards of behaviour. These elements communicate the culture’s goals and accepted behaviour to its members. However, these goals and the accepted behaviour are not necessarily synonymous to what is desired by the organization, which usually reflects a negative gap and broken brand promises.

Organizational systems and procedures may not always be compatible with the organization’s norms, values and standards. It is important that i.e. reward systems hold water and that the right people are rewarded for the right behaviour, otherwise the system can be misused when the employees discover that the system can be fooled.

Messages and information from management should also be consistent with the organization’s desired values and image. However, Ind (2003) suggests that the managers should empower the employees to act on the behalf of their own interpretations of the brand. This suggestion puts the rulebook away and lets the brand speak instead of the systems.

Miles and Mangold (2004) refer to Kelman (1958) who claims that people are following a leader either by compliance, identification, internalization or any combination of the three. If they follow by compliance they are acting against their will because of the high costs of disobedience, which can result in frustration among employees. Identification takes place when employees obey orders in solidarity of the leader as a person. This might result in biases

where the employee is lead by the leader alone instead of the organizational values. Internalization refers to the situation where the employees and the leader share the same values and beliefs, and the employees hence trust the leader due to acceptance of his or her logical reasoning. Miles and Mangold (2004) describe leaders who are able to internalize the organization's values in this way as charismatic leaders.

There is a present risk that some managers are rather chasing short-term goals than an internalization of values which commonly is a source of inconsistent messages within the organization. Again this can lead to confusion about goals and the behaviour the employees should exhibit – and not at least questioning about the organization's integrity.

### **Formal external sources**

Formal external communication often refers to advertising and public relations. This is the organization's traditional toolbox to transfer their values and promises to the external constituents. What is important to keep in mind is that the employees of the organization receive the exact same message, and hence it therefore requires consistency with the internal communication. An organization is usually sending messages with content and values they want to identify with. Public relations usually have the same structure. However, as public relations often are used in times of crisis, the message is more likely to promise more than what the organization is able to keep in order to restore goodwill. In both cases the organization should be aware of expressing duplicity towards the employees since the message sent to external constituents may differ from the internal goals. It can result in decreasing trust, confusion about the organizations' true values and its expectations for employee behaviour.

### **Informal external sources**

The external informal communication relates to the responses from the external constituents. According to Miles and Mangold (2004) negative feedback and word-of-mouth can have a major impact on the employee's psyche as a result of being identified with beliefs they do not feel attached to. This can make the employees feel betrayed by the organization.

### **Psychological contract**

The psychological contract is defined as “*individual beliefs regarding the terms of the exchange agreement between individuals and their organization*” (Rousseau et al., 2004). In other words it can be explained as a set of expectations that are formed through the time the employee and the organization have had a relationship, starting from the recruitment (Miles and Mangold, 2004). It can be seen as the sum of the implicit and explicit promises that the organization has given the employee over time. It is important to make it clear that the psychological contract goes both ways and that it can encompass any item that might be exchanged between the organization and the employee (Coyle-Shapiro and Conway, 2005). By its communication the organization can form the psychological contract towards the employee. By being consistent in its messages, the employees will recognize what is expected of them from the organization’s side. The other way around the employees will in common expect general beliefs about respect of persons, codes of conduct and other patterns of behaviour associated with relationships involving trust (Coyle-Shapiro and Conway, 2005).

### **Employee brand image**

The sources of messages are containing information about the organization. This information, together with the experienced perception of the organization, leaves the result of an individual’s interpretation of the organization which is referred to as the “employee brand image”. If the employee brand image is negative it is less likely that the employee will be able to deliver the desired service quality because he or she lacks commitment and trust in the organization’s capabilities to deliver its promise. On the other hand, if the overall interpretation of the organization’s brand image is positive, the employees are likely to fulfil the organization’s expectations and project the desired brand image outwards. (Miles and Mangold, 2004)

### **Consequences**

An organization with a strong employee brand, or internal brand, is likely to harvest valuable outcomes. According to Miles and Mangold (2004) benefits as higher employee satisfaction, higher performance, higher service quality, higher customer retention, as well as reduced employee turnover, are likely to be present. Positive word-of-mouth among customers and employees is also likely to occur in organizations that communicate strong brand images.



On the other hand, organizations that communicate weak and inconsistent messages and values are less likely to be able to manage and fulfil the psychological contracts with its employees. As stated previously this results in emotive, cognitive and at last behavioural responses that harm the organizations performance (Rousseau et al., 2004). This will further affect variables as word-of-mouth and customer retention negatively.

### 3.3.3 Perceived organizational support

Coyle-Shapiro and Conway (2005) also refer to a closely related term, “perceived organizational support” (POS), which concerns the employees’ belief regarding the organization’s commitment to them, and regards emotional-rational items such as caring for their well-being, assistance with job performance, working conditions and so forth. They further claim that POS concerns the individual’s perception of the organizational treatment regardless whether the treatment was implicitly or explicitly promised, and that the psychological contract concerns gaps between promises and reality.

However, a breach of the psychological contract or absence of POS usually mounts out with the same employee reactions. Rousseau et al. (2004) claim that responses to breaches take form in three general categories; emotive, cognitive and behavioural. Emotive responses explain negative feelings due to a breach and results in distress and hostility. Cognitive responses affect attitude and result in decreased linking of the other party, and creates intentions to change actions and behaviour over time. Behavioural responses are highly individual. However Miles and Mangold (2004) suggest results as negative internal and external word-of-mouth, reduced productivity and employee turnover.

By understanding the construction and use of the psychological contract and POS, the organization will have an advantage of being able to control and fulfil the expectations from its employees. Hence consistency in values and messages will ease the management of employee’s psychological contracts in order to have a healthy relationship and in the same time communicate what is desired attitude and behaviour in customer interactions.

### **3.4 Theoretical framework**

The theoretical framework discusses elements of employee behaviour in order to understand what the underlying reasons for certain behaviour are. The discussion considers psychological issues that are likely to occur under the circumstances of a merger or acquisition and in the tension between opposing values. It further elaborates how these issues can affect the well-being of employees as well as how it affects the efficiency of the organization and its ability to deliver its brand promise. Certain issues can be developed in a negative direction over time and hence harm and jeopardize the organization's image and reputation due to employee behaviour. The theoretical framework further includes aspects of service quality which has the purpose of outlining the importance of employee behaviour in the service business. This will also give insight on how stress and frustration related behaviour can affect the delivery of the desired service quality. De Chernatony and Segal-Horn's (2003) service-management model is displayed to see how employee satisfaction affects the service quality. At last internal branding is presented as a possible tool to guide the organization on the right track after a merger or acquisition by aligning values and create consistency in internal and external communication. Miles and Mangold's (2004) conceptualization of the employee branding process is used to give an understanding of how the desired service quality can be achieved through internal branding and aligned values. In addition, the theory of perceived organizational support is briefly explained to emphasize the importance of a fair and supportive leadership.

## 4. Empirical discussion

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*This chapter presents the empirical data collected from the reality of the SAS Braathens case seen through the perspective of media. The data is collected from news-articles in the period between April 2001 to May 2006 as well as an unstructured interview in cockpit on a SAS Braathens flight.*

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### 4.1 Managerial conflicts

The construction of a new, merged culture involves a great deal of trust and reliability. The partnership between Braathens and its new employer, SAS, had bad start. It is necessary to go back in time to get the whole picture of how the partnership between SAS and Braathens has developed since the acquisition in 2001. The two companies had been rivals for more than 50 years fighting for the same customers. SAS' acquisition of Braathens was welcomed with mixed feelings by both the SAS and Braathens employees when it was announced in May 2001, and ever since it has been an emotional rollercoaster. After a long period with red numbers and uncertainty, the Braathens-employees were relieved that the company was saved, but a loss was felt even though. As the former CEO of Braathens said on the press-conference; *"Our hearts cry, but our brains shout with joy."* (NTB, 21.05.2001). Already at this stage the employees lost some of their identity and pride of being an independent organization, despite that it was decided that Braathens would continue as an independent subsidiary in the SAS group. An interview with the former leader of Braathens' cabin-personnel was conducted straight after the announcement was made, and she claimed that she was sure that all the employees would keep their job; *"We do not know what might happen in ten years, but we have got oral and written guaranties that all the [Braathens] employees will keep their job."* (NTB, 21.05.2001. #2). This was a formal promise made by the organization, affecting the relationship between the employees and the organization. In addition SAS

promised both employees of SAS and the employees of Braathens that they would be treated equally under SAS's command (Klassekampen, 27.04.2002).

But less than a year later the first of several conflicts started when SAS decided to shut down Braathens' ground-services and rather outsource the job to its own ground-service division (SGS) because of overstaffing. The cut-down included dismissals of 1040 ground-workers, except from some transfers to SGS (Dagsavisen, 28.05.2002). The decision was perceived as unfair among the Braathens-employees, as they claimed that the term "outsourcing" was used instead of "acquisition" to cut corners in order to save the SAS-employees from resignations. The Braathens-employees felt dejected and that they were treated unfair. One of the ground-workers that kept 75% of his job expressed himself as following:

*"When the news arrived I immediately thought I was going to lose my job, but when I reviewed my seniority I saw a small chance that I'd might stay. Yesterday I received the message that I 'only' lose 25% of my position. (...) I am single and do not have any kids to take care of. Then it is not such a big deal losing 25% of my job. But it is with mixed feelings I celebrate that I still have a job. I have many friends here and it is sad to see them end up unemployed." (Source: Dagbladet, 21.12.2001).*

Later, a confidential rotation agreement between SAS and "its own" employees was revealed and leaked out in public (Adresseavisen, 27.04.2002). The agreement secured the SAS-employees from being dismissed in the discharges of ground-service personnel. However they had to give up some benefits. This agreement provoked heavy and instant reactions among the Braathens-employees.

*"21 luggage-workers left Oslo airport last night indignant at the fact that 1040 Braathens-employees have to go. Neither the morning shift is feeling too well: - I will show up at work at 7, but I don't think the work morale is going to be very good in the future. People here are pissed off" (Source: Verdens Gang, 28.05.2002)*

*"The Braathens-employees at Gardermoen [Oslo airport] reacts with frustration and anger at the news of dismissals. 50% of the workers suddenly got 'sick' and went home. (...) – It is not illegal to be sick in Norway. The employees have lived in anxiety for a long time and tonight it reached a climax. Somebody gets angry and somebody gets sick (...), says Robert Grunno, operational manager at Braathens ground-services. - Many of Braathens' employees have worked for the company for 30 years. It is unfair that they lose their job while SAS-employees which have been here for three months get to stay" (Source: NTB, 27.05.2002)*

The final reaction was that the resigned employees sued SAS despite they were offered compensation for lost income. The employees further claimed that SAS broke their promises and contracts regarding equal treatment of SAS and Braathens employees. Later the CEO of SAS, Jørgen Lindegaard denied that any promises were given in the first place (Aftenposten, 09.09.2003). In addition, SAS was prosecuted of having violated dismissal laws but only a few got their claims sustained, and the final judgement was given as late as in January 2006 (NTB, 31.01.2006). Rumours about reactions among Braathens' managers also came loose;

*“Aftenposten has references that, on the condition of anonymity, confirms that centrally positioned managers in Braathens consider resignation in protest to the SAS-managements' handling of the ground-workers. (...) Braathens' CEO, Vidar Meum comments these claims: - I am not familiar with this. I don't know anything about it.” (Source: Aftenposten, 24.05.2002).*

The message communicates low internal integrity in management. Further, the employee representative of the Braathens ground-services at Kristiansand airport says;

*“It makes me want to throw up when our boss, Vidar Meum, doesn't support his own employees! (...) It is horrible that Meum hasn't supported his employees. For many years, (...), we have worked hard and made many all-out efforts to help Braathens. Firing us is a bad way to say thank you!” (Source: Dagbladet, 28.05.2002)*

Less than three months later, Meum quit his job as CEO for Braathens after being in the position for ten months. He claimed that his resignation had nothing to do with pressure from SAS, however his position was replaced by a SAS manager, Knut A. Solberg (Aftenposten, 24.08.2002).

Due to rough competition, constant warnings about dismissals were sent out in both SAS and Braathens the time after this first major conflict, keeping anxiety at a high level. Despite that Braathens saved SAS from a major deficit by the 3<sup>rd</sup> quarter in 2002, they were affected with most dismissals compared to SAS (Dagbladet, 13.11.2002). On the other hand, the SAS-employees had to give up benefits, work 30% more and earn 10% less than before (Dagsavisen, 10.03.2004).

The merger between these two organizations had the intention of making the new organization able to compete with the low-cost airlines but communication from SAS Braathens seemed to focus on saving money, cut-downs, the need of efficiency and complaints about the tough times – the only consistency to be found in the public communications is the announcements of cut-downs and saving plans.

## **4.2 Social conflicts**

As explained in the theory, psychological reactions due to mergers and acquisitions occur in many ways and in many forms. Aligning values in an organization can be a tuff task alone but in mergers and acquisitions the challenge is even greater. Considering SAS and Braathens, the two companies are said to have lost a great piece of their core values during the merger that started with the acquisition in 2001. The marketing director of SAS Braathens presented the former images of respectively SAS and Braathens as;

*“SAS (...) is associated with the terms ‘elegance’, ‘international’, ‘big’ and ‘professional’. On the other hand terms like ‘traditional’, ‘for the people’ and ‘nice’ is used to describe Braathens...”*  
(Source: Økonomisk Rapport, 16.03.2005.)

The strong images seem to have faded a bit in the eyes of the customers after that SAS acquired Braathens. A perceived image of the new SAS Braathens through media can rather be described with internal conflicts, strikes and courts.

The cultures of the respectively former SAS and Braathens were very different from each other, which has been a barrier to the merger from the start. The pilots are one of several profession-groups within the organization that have taken action against the merger. The most visible actions made are the several strikes that have been held to protest against the management and the way they have decided to handle the merge. A quote from Terje Nielsen, the leader of SAS Braathens’ cabin-crew, describes the cultural situation quite well;

*“The former cultures of SAS and Braathens were like day and night. The Braathens-spirit was based on hard work and to give a helping hand where it was needed. In SAS the employees were very conscious about their job description and would not condescend to do any kind of work that*

*was considered to be below ones' job description. Braathens was seen as the little underdog which was on the edge to be declared bankrupt, and SAS' attitude after the merge was; we were the one that saved you." (Source: Økonomisk Rapport, 02.03.2006).*

It is not uncommon that cultures transform in merges, in fact in most cases it is a necessity in order to get two cultures to work together. However, aligning two organizations that have been rivals for more than 50 years and have widely different cultures, is a hard task. The former cultures have created a gap between the employees – especially between the pilots. The SAS-employees have shown signs of feeling higher ranked and being superior compared to the Braathens employees. The attitude is even visible to other SAS co-workers;

*"Among certain colleagues in SAS, which has worked hard and adapted to the changes, the [SAS] pilots are described as 'prima donnas'. – I have heard SAS-pilots say that 80% of the Braathens-pilots are not good enough to fly for SAS, says a dejected SAS ground worker." (Source: Verdens Gang, 18.09.2004)*

On the other hand the Braathens-pilots did not find SAS' self-appointed status and superiority as legitimate. The attitude might reflect concern about perceived uncertainty towards the entrance of Braathens-pilots – a perceived risk of losing seniority, benefits, status and even the job. Would they lose seniority benefits to the new employees? Would the newly assigned captain be degraded to a co-pilot? The seniority list was also a great part of the culture in SAS. The list also gave a kind of security and stability, every pilot would know exactly when it was their turn to be promoted, when the salary would rise and how much time off they had in credit.

Further, the culture is claimed to have differed in organizational processes and way of conduct. The internal communication is claimed to have been less complete in SAS;

*"- It was a huge cultural difference. In Braathens it was an open dialogue even though we could disagree from time to time. In SAS the decisions are taken without letting the employees know anything, says the former leader of Braathens staff association, Peggy Hessen Følsvik." (Source: Dagsavisen, 15.04.2005).*

However SAS' director of communication, Cathrine Foss Stene denied the critics with an important aspect;

*“- In general, I will claim that SAS emphasizes having a good dialogue with its employees and labour-unions. At the same time, media is very interested in such businesses as ours [airline business] and post cases which currently are not decided. Hence it can be perceived as we do not take communication seriously.” (Source: Dagsavisen, 15.04.2005).*

This partially confirms that media has affected the employees’ perception of the organization, but it still creates a picture of a cultural difference. Foss Stene’s claim was also supported by trend-analyst Paal Fure;

*“- The media loves to put the big companies in a bad view and help out the small ones. People do not really identify with these constructed stories, he says. (...) he further believes that the airline [SAS Braathens] has a big problem: - SAS [Braathens] miss something we can cheer on. It is easy to cheer on Norwegian [Norwegian Air Shuttle] which has a typical challenger role.” (Source: Bergens Tidende, 28.01.2006).*

On the other hand, actions were taken by management in order to merge the two cultures together. Meetings and “acculturation-days” were held to align the opposing values but the process is described as incomplete by the employees. A former Braathens employee elaborates her opinion of the management’s effort to integrate the cultures;

*“- They tried a couple of acculturation-days but it did not do any difference. Afterwards it has been up to us [the employees] to sort things out. The management has been absent; we have not seen Stensbøl [the HR manger] nor Jansen [the CEO] ever since. It is silly [the meetings] because no one dare to say anything in these crowds.” (Source: Økonomisk Rapport, 02.03.2006).*

Further she was critical to the HR-manager, Bjørge Stensbøl, which is the former CEO of “Olympia-toppen”, a Norwegian sports-organization;

*“- It is a heavy focus on winning instead of solving problems. Besides I have troubles with Olav Tufta [an Olympic paddler] as a role model. He is going to be the world champion in paddling but I’m going to be the world’s best purser. I want to have a good teamwork with my colleagues.” (Source: Økonomisk Rapport, 02.03.2006).*

However, she pinpointed that her personal relationship with her co-workers was just fine, but that the conflicts in the organization were tearing;



*“- I think it is sad with all the conflicts and cancellations. It gives us a bad reputation and harms the pride we have for our work-place. It is with mixed feelings I wear this, she says and looks down on her SAS Braathens uniform.” (Source: Økonomisk Rapport, 02.03.2006).*

### **4.3 Opposing values and internal conflicts**

When the news about SAS’ intention to buy Braathens was released in 2001, some Braathens-employees reacted with shock. They knew that something had to be done to save the company, but to be bought by SAS, and be supposed to cooperate with them, was beyond the realm of possibility. After all, they were the sworn enemy (VG, 22.05.2001). In late 2002, about a year after SAS’ acquisition of Braathens, several employee representatives expressed their worries about unhealthy competitive spirit and hostile behaviour between new colleagues in the new corporation due to the differences in organizational cultures. As one put it:

*“We have never spoken before. We have been raised to scowl at each other. The competitive spirit is rooted in our spinal cord, and now we are using the employers to outdistance each other.” (Source: Dagsavisen, 30.10.2002).*

The employees found it difficult to suddenly become co-workers with those they had competed against for so many years, and especially pilots directed their patronizing accusations towards each other. Thoughts about each other that had been building up over the years came to the surface. As an experienced Braathens-captain said:

*“The SAS-pilots have been living on a different planet and they wish to continue doing so.” (Source: Verdens Gang, 18.09.2004).*

A high ranked employee representative commented the cultural differences this way:

*“The SAS-people are spoiled. They are used to dominate while the Braathens-crew is more used to work hard to earn their food.” (Source: Dagbladet, 30.10.2006).*

SAS-pilots called their colleagues from Braathens “the Filipinos of the sky”, a nickname originating from when Braathens was established in 1946. SAS was very dominating at the time, but Braathens did very well – but they did the job at a lower wage. But, also Braathens-pilots have used nicknames, calling their co-workers from SAS “brown shirts”, a nickname originating from the time SAS-pilots used khaki coloured shirts instead of the normal white ones. Pilots have also told about situations where SAS-employees had harassed stewardesses from former Braathens, accusing them of having got their education through mail order. Several sources among Braathens-pilots and from outside the company said they were of the opinion that SAS-pilots have looked upon themselves as superior to other pilots for a long time (Dagbladet, 30.01.2006).

The employees share crew room at Oslo Airport, but according to employee representative Terje Nielsen, who is organizing former Braathens-employees, the pleasure is not present.

*“The disputes among the pilots have caused a bad workplace environment and regenerated internal strife among colleagues. You always side with ‘your own’, because most still identify with either SAS or Braathens. We were old enemies, and the merge has been marked by this. When we suddenly were to share crew room it was natural to seek to your people. Introductorily it was actually attempts of bullying. They called us ‘the Poles of the sky’ and ‘knit sweater gang’ because we came from a ‘home knit’ company. We share the room, but pilots and cabin crew from the different companies seldom sit together.” (Source: Økonomisk Rapport, 02.03.2006).*

SAS-pilots have historically been better off than their colleagues from Braathens both in terms of wages and career opportunities (Aftenposten, 28.08.2004). This work group brought with them these conditions of appointment into the new company, but just as Braathens-pilots required equal wages for the same job done, SAS-pilots would not accept lowering wages to Braathens’ level. Another factor important to the disputes among the pilots was the question of seniority. Pilots compare the seniority list to the Koran, and say it guides the possibilities in life. The leader of the Braathens-pilots put it like this to emphasize its importance:

*“To a pilot the seniority list is more important than the pay cheque and the car. It is more important than wife and children.” (Source: Dagens Næringsliv, 30.10.2004).*

The question of seniority would affect Braathens-pilots' career possibilities in the new company and send them far down the list that would include SAS-pilots from Sweden and Denmark, who would be prioritized for promotions in Norway due to the seniority rule. The same system would allow Norwegian pilots to apply for positions in the other Scandinavian countries, but not the Braathens-pilots according to SAS-pilots' wish. They would even like to erase a few years from the Braathens-pilots' seniority as an entrance ticket to the somewhat limited seniority list (Dagens Næringsliv, 30.10.2004).

Adding to the features of the situation is the fact that Braathens-pilots in general are younger and less experienced than SAS-pilots. This implies that an SAS-pilot that is both older and more experienced than a Braathens-captain, might still just be first officer. Among pilots this combination in cockpit is unacceptable. As the SAS-pilots' representative put it:

*“We have to avoid a situation where an older SAS first officer flies with a younger Braathens-captain. It does not work well in cockpit. It would cause a very bad atmosphere that could actually be dangerous to flight safety.” (Dagens Næringsliv, 30.10.2004).*

But, it is not only the pilots that have experienced a rough time. Frustration due to the merger and following expenditure cuts sent the cabin crew's job satisfaction straight to the bottom. Representative for the cabin crew's in SAS Braathens, Jon Lyng, said:

*“The cabin crew's of SAS and Braathens have worked side by side under different conditions of appointment. It has caused a lot of frustrations.” (Source: Adresseavisen, 30.01.2006).*

He continued describing the cabin crew's work day as tough and unanticipated:

*“We have been through one of the largest mergers in Northern Europe and shall unite two different organizational cultures and create a new identity.” (Source: Adresseavisen, 30.01.2006).*

The different conditions of appointment have regulated wages, working time and pension- and insurance agreements. One employee told that the merge had been painful:

*“I have shouted, I have cried and I have tolerated a lot. But, I think it is necessary to look forward. It is necessary to join the ‘ship’. Or, rather pull the ‘ship’ together.” (Source: Økonomisk Rapport, 02.03.2006).*

The cultural differences between the two companies are shown in different negotiations. According to SAS’ cabin crew-representative and leader of the negotiating committee, Knut Jørgen Næss, the cabin crews from Braathens have been used to accepting the terms given by the employer, while in SAS they have always wanted to have a word to say. This has led to several undisguised quarrels between employees from the two companies over the years.

#### **4.4 Reactions to internal conflicts**

The captain on SAS Braathens flight 395 from Oslo to Bardufoss said that flying was not the same any longer. The former SAS-captain told about another captain that during a flight had told the passengers to look down and see the lonely red house in the valley, his childhood home. He told that when he was a little boy he used to sit by the pond next to the house fishing, looking at the planes that passed over his head and thinking;

*“One day I shall be up there flying.” “Now I am here”, he said “and all I want is to be down there fishing.” (Larsen, 2006).*

Employees' reactions to the internal conflicts in the company have degenerated in different ways. Some have been more visible to customers than others through strikes, illegal actions taken, sickness absence and through employees openly biting each other in media. Other have rather manifested themselves in the minds of the employees, who have tried to keep a professional mask outwards.

Employees' reactions have caused many headlines in media over the years. In frustration some anonymous Braathens-employees once openly asked ex-colleagues employed in travel agencies and in major companies to boycott their own company and SAS. By recruiting moles around the country they hoped to cause as much loss to the companies as possible (Dagbladet, 06.05.2002).

Strike is probably the most synonymous word connected to the internal conflicts, but seldom have the actions taken to express dissatisfaction and frustration been supported by both parties. One example was a dispute between the employees in SAS and Braathens in 2002 where accusations hailed as it was only Braathens-employees that intended to go on strike – a strike that the SAS-employees did not support (NTB, 10.05.2002).

The opposite scenario has been seen later as well. As late as in January 2006 35.000 passengers were stuck at different airports around the country due to sudden massive sickness absence among former SAS-pilots. It was soon clear that it was an illegal protest directed towards organizational changes. At the same time former Braathens-pilots worked as hard as they could to keep as many planes in the air as possible, and did not want to have anything to do with their SAS-colleagues' conflict. *"It is not our conflict"* they said, and requested their colleagues to get back to work and to get those planes in the air (Dagbladet, 25.01.2006, Dagsavisen, 26.01.2006). At the same time SAS' employee representatives reacted with anger that Braathens-pilots worked extra to fill empty seats in cockpit. Jens Lippestad, second leader of SAS-pilots' union said:

*"We are in the same company. They should not run errands for the management and enrich themselves based on our conflict. This is not a step in the right direction to improve the relationship between us". (Source: Bergens Tidende, 27.01.2006).*

Several strikes and actions have caused frustration, anger and despair for thousands upon thousands of customers. People have missed funerals to close relatives, vacations, job interviews, important meetings and more due to planes stuck on ground because either pilots, cabin crew or ground services have had issues around internal conflicts, and media has wallowed in stories from angry customers. At the same time many of the major corporate customers stated that they were considering not renewing their contract with SAS Braathens.

SAS Braathens ended last of the 164 companies in the Norwegian Customer Satisfaction Index (NKB) for 2006, having the decidedly least satisfied customers in Norway (NKB, 2006). Leader of the Norwegian SAS-pilot's union, Jack Netskar, confirmed that pilots think that even though SAS Braathens is gone, people will not stop travelling. They are sure they will have a job in some kind of uniform (Verdens Gang, 15.02.2006).

#### **4.5 Formal external promises**

The formal communication found on SAS Braathens' web-pages communicates their vision and mission. These should be guidelines for the employees of how desired behaviour in SAS Braathens should be. The airlines vision is formulated as following;

*“All pulling together for your flying pleasure.” (Source: SASBraathens.no).*

The situation appears to have been directly the opposite, and the messages sent through media make the vision being perceived ironically. Further the mission is stated;

*“Our mission is to be Norway's assurance of hassle-free, affordable and flexible air travel services within and to and from Norway. We will strive to be the most popular airline in Norway that offers more than just low prices.” (Source: SASBraathens.no).*

Despite SAS Braathens' vision and mission the company ended last at the Norwegian national customer-satisfaction survey in 2006.

## 5. Analysis

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*This chapter compares the empirical findings from the SAS Braathens merge and the current theory presented in the theoretical framework.*

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### **5.1 Psychological aspects in mergers and acquisitions**

The constant presence of uncertainty in the organization of SAS Braathens has provoked a lot of psychological issues. It is likely to believe that also the circumstances and the nature of the aviation business can be a reason for the situation the employees of SAS Braathens have found themselves in. The threat of job-losses seems to have characterized the timeline of SAS Braathens' history. Media has regularly and with high frequency announced the bad economical position of the organization, and hence the necessity of cost cutting and restructuring. Keeping in mind that media has the tendency of favouring critical news, the employees would still be receivers of the messages and hence the rumours are let loose. The managerial communication is claimed to have been poor, which has increased the uncertainty and let rumours live and expand (Seo and Hill. 2005; Hayes, 1996). Hence the threat of job-losses has made employees worried and created feelings of distress. The employees have evoked strong emotional illness reflected in stress and depression. As time has gone by, these psychological issues have mounted out in behaviour like hostility or withdrawal, which have hindered the organization's daily duties to be executed in the desired manner. These reactions can also be seen in relationship to "self-survival" behaviour where the employee acts on behalf of own benefits in order to save ones own job, status, power and prestige. (Schweiger et al. 1987; Seo and Hill. 2005). For example the former SAS-pilots raising themselves over the Braathens-pilots might indicate a perceived threat of losing ones positions. The fact that the SAS-pilots have guarded their seniority list at all costs is another example of protecting ones position. However, it can also signalize a social identity issue as the list of benefits has been a respected status-hierarchy in the organization for a long time. Social identity issues will be further discussed in the next paragraph. The constant risk of job-loss also considers the

anxiety of a sudden change in ones daily environment. Ground-service worker Kurt Kemi expressed elements of fear and care for colleagues. Another employee said that her work day had been dramatically changed after changes in the organization. It is important to notice that anxiety not only takes place during and after changes – also in advance due to rumours and pre-information (Astrachan, 2004).

Several interruptions in organizational-, profession- and group identities have been identified in the case of SAS Braathens. The organizational identities, which are closely connected to an organizational culture, have obviously been affected. The employees are likely to have expressed glorified images of the better days referring to their previous organization. However, this is rather common in mergers and acquisitions when acculturation processes take place. The profession identity seems to be more diffuse. Both the SAS- and the Braathens-pilots seem to have pride in their profession. However their perception is coloured by their former organizational cultures and values, as well as the current situation in SAS Braathens. One of the cabin-crew employees expressed a loss of pride in her profession due to the external rumours created by the internal conflicts. Therefore it is more proper to refer to the two opposing pilot-groups as work-groups with different identities instead of a profession-group (Seo and Hill, 2005). As the two groups are forced to work with each other they are experiencing acculturation issues due to SAS-pilots' perception of being superior (Marks and Mirvis, 2001). The theory claims that negative attitudes to the merger is provoked if the other party does not perceive the status as legitimate, which is the case of SAS Braathens (Seo and Hill, 2005). On the other hand, the tangible merger of name and symbol is irreproachable according to the theory (ibid).

The most evident form of acculturation in SAS Braathens is the *separation mode* which involves that the members do not retain their old culture (Berry, 1980 in Seo and Hill, 2005), most likely because the cultural values from the two organizations were “like night and day” as one of the pilots expressed it. According to Elsass and Veiga (1994) this mode is likely to provoke acculturative stress which leads to resistance to acculturation and serious interorganizational conflicts. Several examples of this are found in the empirical data. However, actions to bring the cultures together have been taken, but the attempts were discontinued and of little value to the employees.



The job characteristics have changed dramatically for the vast majority of the employees in both organizations. Especially career paths and job-security have been affected considerably. The Braathens-pilots had to adapt into the hierarchy of the benefits-list in SAS, and this is still a source of conflicts. Job duplication has also occurred which has resulted in an overstaffing of 50 pilots. The problem was temporary solved by sharing jobs part-time with other pilots. Similar situations are to be found in other profession-groups such as the cabin-crew. A negative shift in these elements can shape the employees' attitudes and behaviour in the same direction (Seo and Hill, 2005; Elsass and Veiga, 1994). A series of strikes and episodes of sickness absence support this claim in this case.

## **5.2 Trustworthiness**

The organizational justice seems to be one of the most inflamed sources of conflicts in the case of SAS Braathens. A major mistake was done in 2002 when Braathens ground-service was shut down to the advantage of SAS' ground-service. All of the three different types of fairness mentioned in theory are negatively affected; distributive justice, procedural justice and interactional justice (Seo and Hill, 2005). Management violated a formal promise twice. First they violated the promise that all the Braathens-employees would keep their job and secondly they violated the promise that Braathens-employees and SAS-employees would be treated equally throughout the merger. This is the first of many incidents which have affected the employees' trustworthiness towards the SAS management. Colleagues of the ground-service employees also paid attention to the incident and how "the problem" was solved by the management, which also made other profession-groups question the managements' integrity (ibid). Such incidents certainly violate the psychological contract which is to be found between each employee and the management. It is expected that promises are kept and when they are not the employees will put doubt in future promises (Miles and Mangold, 2004). This might lead to opportunistic behaviour, and the lack of trust can lead to undesired behaviour by the employee. As mentioned in the theoretical discussion the perceived organizational support (POS) is closely related to the psychological contract. Violation of informal promises and unwritten norms results in lack of POS and hence the employees' perception of the organizations image will reflect dishonesty (Coyle-Shapiro and Conway, 2005). Harsh statements about management and certain leaders as well as law-trials, show

great dissatisfaction and breach of contracts by the organization's management as this reflects emotive, cognitive and behavioural responses (Rousseau et al., 2004). An integration manager was hired. Bjørge Stensbøl had documented management skills from the sports-organization Olympiatoppen, but his legitimacy was questioned by the employees since they found the "winner propaganda" to be irrelevant in order to get along with their new colleagues.

### **5.3 Communication**

The managerial communication through media has showed close to none specific consistency in the desired values. The most evident and visual communication that is projected through media is the need for cost-savings and efficiency. Therefore the employees discovered a lack of identity when the former organizational cultures ceased to exist, and no new common values to cling onto were established. Hence, a role conflict issue occurred (Seo and Hill, 2005). The employees did not know how to behave or how to execute the work in the new position obtained in the organization. Management also communicated through actions, and the most notable ones in the case of SAS Braathens are reflected in unfair treatment of the employees.

The formal promises communicated through SAS Braathens' website have not reflected any consistency through media. The image created in media has been heavily distorted compared to SAS Braathens' desired image. The lack of consistency made both employees and customers confused about the image of SAS Braathens (Miles and Mangold, 2004). Moreover, the inconsistency in communication and actions taken by the organization make the employees once again question the integrity and trustworthiness of the organization.

### **5.4 Decrease in employee satisfaction**

As explained in the theoretical discussion, employee satisfaction generally seems to decline as a result of three specific phases in mergers and acquisitions. The stages in which a decrease of employee satisfaction occurs are found in the merger of SAS and Braathens as well.

**Phase 1: Looking over the shoulder-effect:**

The first phase causes a looking over the shoulder-effect among employees, dealing with concerns about who would be affected by a possible merge or acquisition. This corresponds with the anxiety theory dealt with in chapter 3.1.1, which deals with the uncertainty that prevails in the atmosphere around a merge.

A promise from SAS that Braathens would still exist as a separate subsidiary of the SAS group, and that all employees were guaranteed to keep their jobs, managed to keep most of the anxiety away when the acquisition was announced in 2001. However, as the two companies presented their new and coordinated route programmes early in 2002, fear rose as rumours estimated that several hundred employees could lose their jobs. Employees felt great uncertainty around their future in their company, and that they feared they would have to fight internally against each other for their jobs (Bergens Tidende, 14.02.2002). It appears that this was the point when the employees realized that the promised job security was not as safe as first assumed.

The following debate dealt to a large extent with the question about who should be fired in the different divisions where notices were indicated. Another outcome of employee's anxiety connected to the possibility of losing their jobs, is what Schweiger et al. (1987) refer to as survival instinct. It provokes opportunistic behaviour in order to protect status, power, prestige and careers, and leads to internal competition and hence distracts the organization from functioning optimally to reach its goals. The debate led to the first sign of hostile attitude among the employees of the SAS group's two subsidiaries in Norway. SAS-employees demanded that Braathens-employees would have to go first when the issue of dischargement was brought up, as it was SAS that had saved Braathens from bankruptcy.

**Phase 2: Winner/loser-effect**

It is according to Andreassen (2001) generally the employees of the organization that is actively taking over another that end up better off in the new constellation. The most obvious example is probably the fact that around 1000 of Braathens' ground service-workers were fired and replaced by SAS-employees. It is, however, a general comprehension that SAS-employees ended up better in terms of conditions of appointment as a result of the acquisition

of, and later merge with, Braathens. This includes ground-service workers, pilots and cabin crew. SAS-employees felt that the fact that they came from the acquiring company made them outrank the employees from Braathens and that this should give them priority in situations where benefits and positions were the issue.

### **Phase 3: Cultural isolation-effect**

The third phase involves employees realizing that the company they are working for is substantially different from the one that they used to work for (Andreassen, 2001). This would come as a result of repeated confirmations that values and organizational culture in the new organization deviates negatively from the former organization. For the former employees of both Braathens and SAS, the new organization was different in many ways. Braathens-employees came from the “people’s airline”, where cabin crew dressed in national costumes on the national day, and where everybody turned a hand when necessary. SAS-employees came from the greater, international “big brother”, where the unions had a strong position and where employees were very conscious about their specific job description. It is like a relationship between two persons; it takes some time to get to know what the other one really stands for. It was most likely in this phase that the employees from respectively SAS and Braathens were exposed fully to the values of the other party.

## ***5.5 Effect on service quality***

It is clear that the reactions to the processes around SAS’ acquisition of Braathens, and later the merger between SAS and Braathens, have caused employee satisfaction to decrease. Numerous statements from employees have revealed strong distrust in, and dissatisfaction with, their workplace, including co-workers and management. The captain who shared his dissatisfaction with his job with the passengers gives a good picture of the situation. The changes involved in creating a new company based on personnel from two very different organizational cultures are hard enough under normal conditions. In SAS Braathens’ case the task has been even harder due to the fact that the employees used to be competitors and that the two organizations consisted of opposing values. Instead of collaborating to create a unifying identity, focus has been on fighting for one’s own rights and fighting openly with co-

workers. Many of the reactions seen are normal due to changes resulting from mergers and acquisitions, but with employees holding opposing values it can be argued that the effect of the reactions have increased in strength.

Values play an executive role in personality and organizational culture, serving as criteria for decision making and setting priorities (Hultman, 2005). This means that the values held by the employees in SAS Braathens work as a guideline for their behaviour. Hultman (2005) refers to interpersonal alignment which is interesting to the SAS Braathens-case as it deals with the consistency or integration of an organization's values. A misalignment of values, meaning lack of consistency or integration, is clearly seen in the case. The conflicts stem from an incompatibility between values among the employees from the two companies, which is often the case with incongruence, according to Hultman (2005). The effect of opposing values among employees has in this case degenerated in the way that employees apparently have been more interested in fighting with each other than trying to solve the issues at stake in cooperation with each other and management. Instead of pulling the load together the employees have pulled in different directions. Having two groups of employees with different values guiding their actions and behaviour has made the task of creating employee satisfaction a difficult one for the management of SAS Braathens.

As argued for in the theoretical discussion, an employee who feels that he or she is treated well by the organisation, has pleasant co-workers, interesting job tasks and is rewarded fairly, will be satisfied and thereby motivated to do a good job. Regarding the conflicts in SAS Braathens it seems clear that most conditions for creating motivation have been absent. This absence of motivation is critical in the way that it is the employee motivation that ensures the delivery of desired service quality. As argued for by de Chernatony & Segal-Horn (2003) employee satisfaction is crucial in service firms, as it ultimately creates customer satisfaction – and hence, revenues to the company. The lack of employee satisfaction and motivation has unquestionably resulted in a lack of ability to deliver the required level of service quality to customers. SAS Braathens ending last of all 164 companies in the Norwegian Customer Satisfaction Index in 2006 is a qualified proof of this lacking ability. A lack of commitment to the organization is also clearly shown by the fact that pilots do not fear being out of job even if SAS Braathens would go bankrupt, acknowledging the fact that people would still fly, and that uniforms would be available in other companies due to that.

A lack of commitment to the organization, low job satisfaction and low motivation has arguably lowered the employees' barrier to strike and in other ways make customers suffer because of internal disputes. Opposing values among co-workers is perceived as a factor that can strengthen psychological issues in mergers and acquisitions, and can metaphorically be seen as adding gasoline to a fire.

## 6. Conclusions

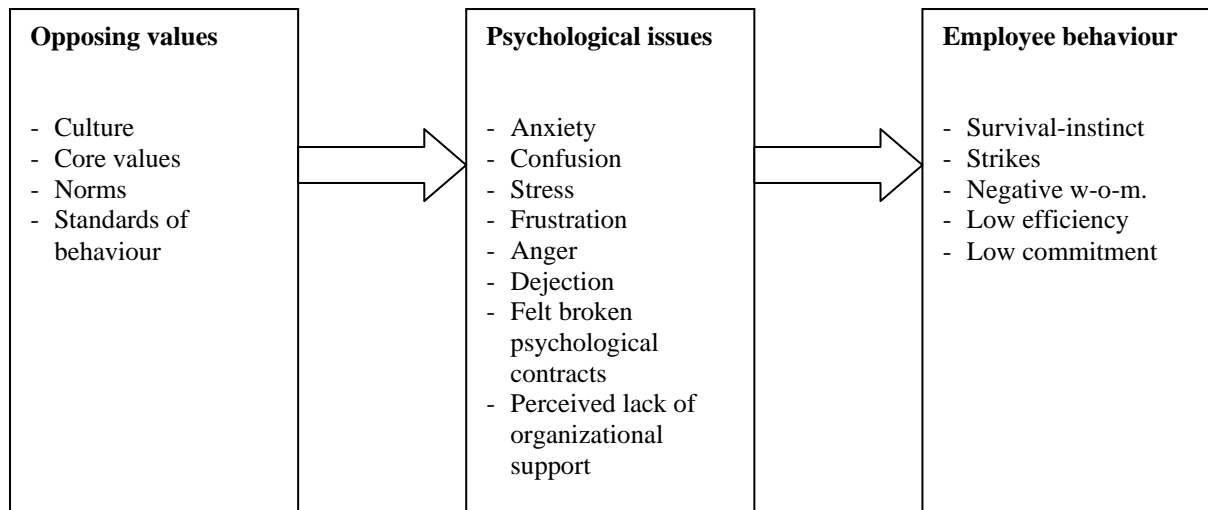
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*This chapter contains more subjective interpretations of the empirical findings seen in the light of the analysis presented in chapter five. The conclusions also have the intention to answer the research questions of the study. At last managerial implications and suggestions for further research are discussed.*

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### **6.1 Opposing values and employee behaviour**

Employee behaviour has been central in this thesis as the objective has been to analyse how employees respond to opposing values in mergers and acquisitions, and how these responds affect the delivery of the desired service quality. As seen through the current literature, and as confirmed by the empirical data collected from the case of SAS Braathens, opposing values are affecting and strengthening employee behaviour. Different psychological issues occur in the tension between conflicting values, and put the employees in a defensive position where they act on behalf of their own benefits (Seo and Hill, 2005). However, it is important to notify that opposing values do not only reflect *conflicting* values. Opposing values can describe differences in values which are accepted by the other party, but may create confusion and misunderstandings. Again this can lead to frustration. Therefore psychological issues and processes can be seen as a link between opposing values and employee behaviour. This is illustrated in figure 6.1. In SAS Braathens it is evident that psychological issues are the reason for several strikes, sickness reports and tension between employees due to opposing values between the two organizations. The opposing values make the employees alert and defensive which again make the employees stick to their values of origin. Moreover, the former Braathens-employees felt vulnerable to organizational cut-downs and the SAS-employees were afraid of losing benefits which put them all in a defensive position where they chose to demonstrate their importance to the management.



*Figure 6.1 – “Opposing values’ affection on employee behaviour”.*

Since this thesis is seen in the context of mergers and acquisitions it is hard to define what psychological reactions that are directly linked to opposing values per se. Changes in the organizational environment do also evoke psychological issues and reactions, and hence it is difficult to make clear distinctions whether the psychological reactions are an outcome of a merger or acquisitions, or of the uncertain times in the aviation industry.

## **6.2 Opposing values and service quality**

The theoretical discussion emphasized that the delivery of the desired service quality demands alignment of values to be fulfilled (Hultman, 2005; Miles and Mangold, 2004). After analysing theory and the case of SAS Braathens we suggest that the employees have lacked the ability to deliver the desired service quality due to three different reasons; (1) the employee does not want to, he/she is consciously trying to harm the organization, (2) the employee is not aware that he/she is not delivering the desired service quality, and (3) the employee does not have the organizational support to deliver the service quality. The first reason can be affected by opposing values in the way that the employee feels frustrated, stressed, dejected or treated unfair and hence behave in “self-defence” or in anger. It can also reflect low commitment to the organization. The second reason is based on confusion due to lack of consistency in the organizational values. Opposing values in the organization create



many sources with different information and the consistency is therefore low. The employee does not know how the service should be delivered. The third reason relates to situations where the employee is well aware of how the service delivery should be made, but where the support functions are not capable of providing the needed support due to possible lack of service awareness by the support workers or the system.

As a conclusion it can be said that opposing values are noises that diffuse the organizational communication and alignment of values in the organization, and hence the employees are confused about what is the desired service quality as well as how it should be executed.

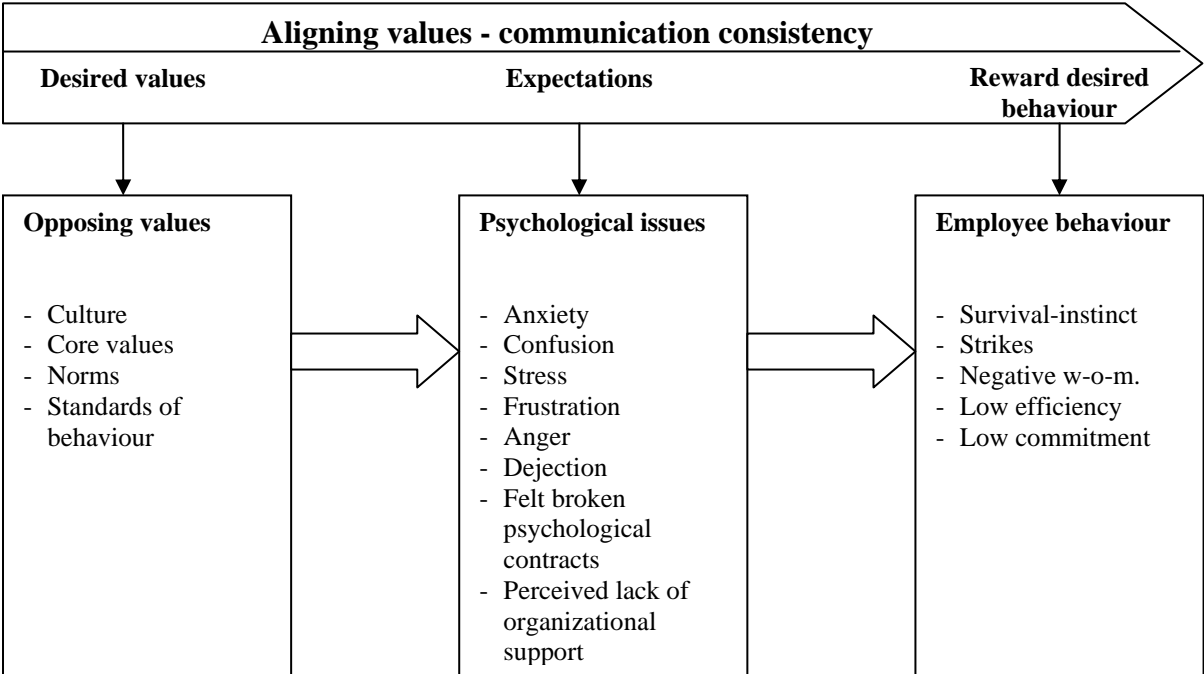


Figure 6.2 – “The demand of consistency”.

Figure 6.2 illustrates the need for consistency in the internal organizational communication which is supported by the existing theory (e.g. Hultman, 2005; Miles and Mangold, 2004; Seo and Hill, 2005). The desired values must be constantly communicated to align the opposing values, but it should not be forced upon the employees. The criterion is to pervade the contact point between employees and management with consistent messages. It should not only be mass communicated but also responses to individual requests should be in line with the desired values. Effects of opposing values can be like a screaming voice that is heard above

any other message and hence hinders the organization to reach out to the employees with their desired brand image and behaviour. If the employees receive consistent information about the desired values, they will create stable and realistic expectations from the organization, and the employees will know what is expected of them. Also the organization's expectations from the employees should be communicated in a clear, fair and supportive way. Hence the psychological issues are likely to decrease. Consistent rewarding of desired quality delivery clearly communicates the wanted behaviour. The communication of the desired service quality is rather a matter of informative communication and guidance since the wanted behaviour cannot be expected to be fully executed until the psychological issues are diminished.

Related to SAS Braathens, no consistent values exists. Seen from the perspective of the employees, the organization's formal promise, vision and mission to the external constituents do not match their reality and it seems as an impossible task regarding the situation they are in. They will not be serving the customers' with outstanding services as no values are tying the organization and the employees together.

### **6.3 Internal branding and service quality**

The need of consistency and aligned values moves our interests towards internal branding. As argued for in the theoretical discussion internal branding goes beyond internal marketing and takes aim to embrace the entire organization in all its activities (Miles and Mangold, 2004). However, after analysing the theory we find it suitable to adapt a few words into Miles and Mangold's (2004) definition of employee branding (internal branding);

*Internal branding is the process by which employees internalize and commits to the desired brand image and are motivated to spontaneously project the image to customers and other organizational constituents.*

First, we have switched the term "employee branding" to "internal branding" to be consistent in our use of the term. Second, we have added the commitment aspect of the brand image. As suggested in theory (Hiscock, 2002 ; Ind, 2003) we believe it is critical that employees

commit to this image which they internalize in order to be brand ambassadors. This also reflects the third change in the definition which is the word “spontaneously”, as we consider to be internal branding’s visionary outcome. Despite that it is not mentioned in the definition, we will also specify that an internal branding process should embrace the organization’s HR-systems like training and recruitment as suggested by many authors.

The thesis has discussed the influence of opposing values in depth regarding both employee behaviour and delivery of the desired service quality. As discussed in the previous paragraph the need for aligned values is critical to make the employees understand what the desired service quality is about. Implementing internal branding takes aim to seize and control the communication by the source. Figure 6.3 is a modified version of Miles and Mangold’s (2004) “Conceptualization of the Employee Branding Process”. It emphasizes the pervasive role of internal branding in the sources of messages and communication, i.e. in HR-systems. It also emphasizes the role of the organizational culture which includes a set of values, norms and standards of behaviour. The “internal branding arrow” in the upper left corner signalizes that internal branding should control the internal formal sources, and by doing that management will also to a certain degree be able to control the internal informal sources by providing consistency in the given information. The management is also in control of the formal external communication such as advertising and PR, and it is crucial that external and internal communication are aligned regarding values and messages in order to remain trust and integrity. Further, the arrow indicates that the internal branding affects the organizational culture. Its intention is to create motivated and positive employees, and either way, we believe the organizational culture will affect the perceptions of management and the interpretations of the internal brand image – it is pervasive in everything an organization conducts. Our intention is to show that it is not the systems themselves that affect the culture, but the opinions and cognitive reactions of the employees. If they are good the employees most likely have a positive interpretation of the brand image and are hence able to communicate and behave in line with the desired image. The theory of perceived organizational support is added to the employees’ perception of the organization because it is closely related to the psychological contract. It considers the perceived fairness and care by the organization. This perception is further laid in the foundation of the brand interpretation. The feedback arrow is strengthened because it is of utmost importance to make clear that this is a continuous process which constantly has to be adjusted accordingly to the consequences and the feedback.

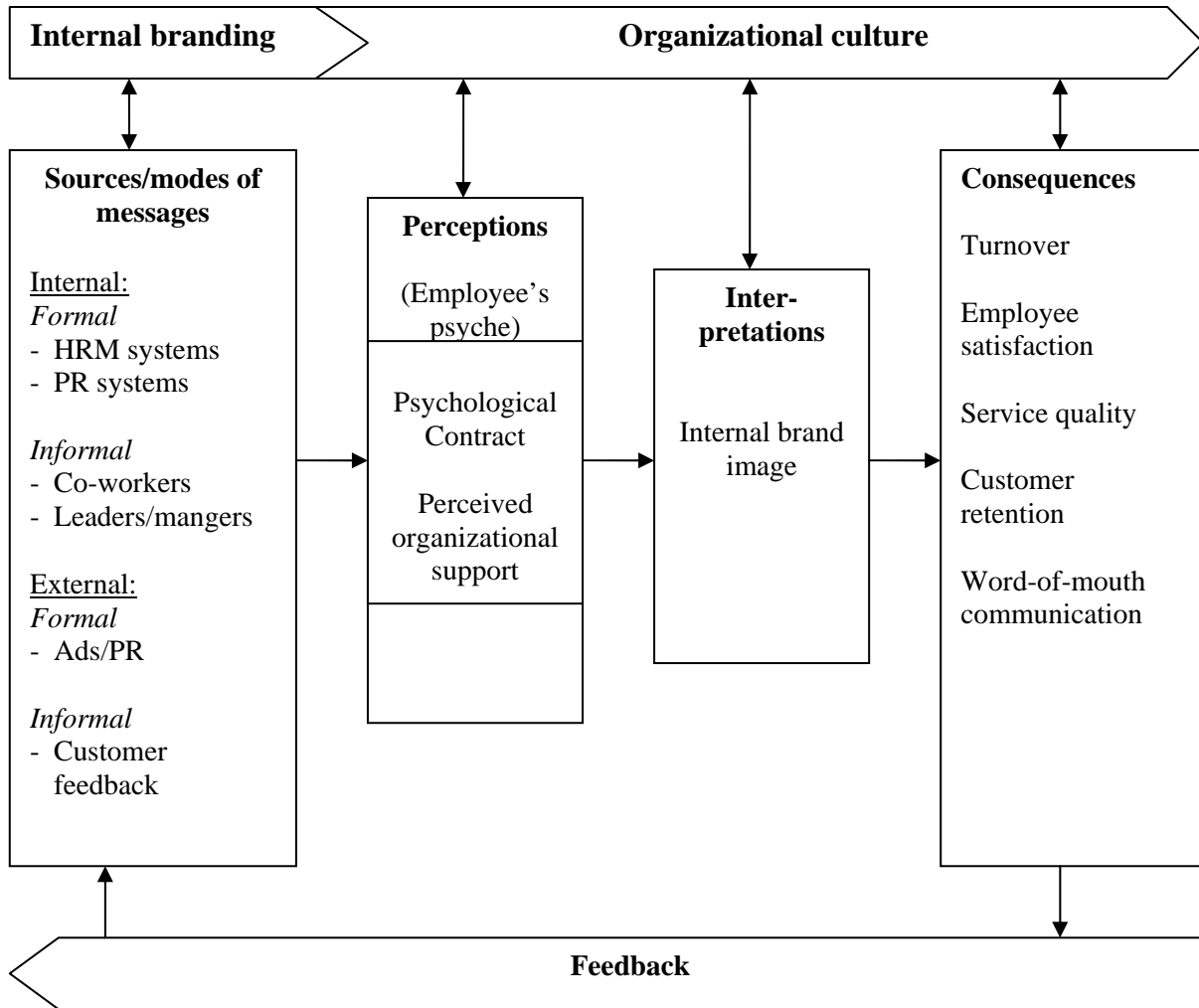


Figure 6.3, "A Conceptualization of the Employee Branding Process." Modified from Miles and Mangold, 2004.

Seen in relation to the SAS Braathens case, management could benefit from emphasizing more on the core values of the organization than on the current goals. The goals are surely communicated, but how to reach them does not involve the effort of the employees very much. It is not told how the employees will help reaching the goals, merely how the management will reach them by cutting costs. This leaves the employees in the middle of nowhere without any common values or culture to cling on to, only uncertainty of who is going to lose their job next. Expectations in the psychological contract are confused and the perceived organizational support is weak due to major cut downs. No guidance towards a new culture also make the employees feel a loss of identity and hence they seek to what is familiar, which is their former colleagues and culture from their previous organizations. The

acculturation will therefore have a slower progress and hence the opposing values will still live strong.

Internal branding, however, should focus on the long term desired values stated in the organization's vision and mission. As SAS Braathens' situation is today they will not be able to deliver their brand promise because it is communicated as a second prior. First prior is to cut major costs, but there are no guiding values in this message that show the employees how to deliver the desired service quality. Properly implemented internal branding will align values, norms and standards of behaviour, and hence the noise in internal communication will decrease along with the degree of opposing values. Finally, the employees will be able to get consistent messages of how the desired service quality should be delivered.

#### ***6.4 Managerial implications***

Mergers and acquisitions prove to have a strong impact on the employees of the respective organizations. This is far from being any new finding, but it is still an important aspect. By being aware of the consequences of the psychological reactions that mergers and acquisitions may bring, managers should be cautious about keeping a top-down and straight line in communication, keeping promises, treating the members of the two organizations equally, and practise fairness. Involvement and interaction with both of the organizations' employees are highly recommended. Managers should show understanding of that such situation is affecting the employees' well being and comfort. It should be taken into consideration that also the managers are human beings and can also be emotional affected by such change. However, the communication at the management level is usually clear and concise and works as a guiding star for managers.

Internal branding, however, is a strategy that managers can use to make sure the desired values and goals are communicated consistently throughout the organization. By implementing this tool in the HR-systems, recruitment processes and so forth, the employees will get a solid understanding of accepted behaviour. Then it is also important that the organization behaves and communicates accordingly to the given values, both internally and

externally in order to avoid loss of integrity. Thus, the communication and messages should be thoroughly planned.

### **6.5 Suggestions for further research**

Our research has considered the employees' reactions and behaviour to opposing values that are likely to occur during mergers and acquisitions. However, the affection on managers and board directors is rather de-emphasized in this thesis. Therefore a research of opposing values' affection on the management-level could be of interest.

Seo and Hill (2005) suggest four stages of integration explained in our theoretical discussion, chapter 3.1.2. However, we discovered that the merger of SAS Braathens slightly differed from these stages in terms of order, length and contemporary existence. Further research on this area could also be of interest.

Pilots belong to a profession-group with the advantage of possessing scarce knowledge and expertise that is hard to duplicate. In SAS Braathens the pilots tend to have strong expertise-power in the relationship towards management. They regularly demonstrate their power by strikes if they disagree with management, and the management rarely have any other choice than to obey their wants. How should such profession-groups be handled?

The labour unions in SAS Braathens are many and tend to be more powerful than in other businesses. 38 labour unions have struggled and fought for their wants and beliefs (Aftenposten, 02.02.2006). How could these unions be aligned and managed efficiently?

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