Are Mergers and Acquisitions a Successful Way of Growth?

A Case Study of AstraZeneca

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-ABSTRACT-

Title: Are Mergers and Acquisitions a successful way of growth- A Case Study of AstraZeneca

Subject: Bachelors thesis within the field of Business Management, School of Economics and Engineering, Halmstad University, Sweden

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Objective: The objective of this thesis is to analyse the effects of a fusion from a business perspective. Furthermore, a case study approach is used in order to identify factors that have been reached by AstraZeneca through the joint venture.

Working Structure: The thesis is based on a qualitative case study of AstraZeneca. The empirical data is based on interviews with people who were working at the company at the time of the merger and people within the field of the stock market. Furthermore, studies of documents, articles, press releases and annual reports have been used as a framework for the empirical data.

Conclusion: The results from our study are not unequivocal. However, today AstraZeneca is considered to be a successful joint venture since the company is one of the greatest market leaders in the pharmaceutical industry. Even though, the analysis state that the deal created both financial and international advantages, its effects on the share price movement are not equivalent. Furthermore, the share price movement is only a short term effect and since synergy effects were accomplished concurrently as it has enhanced its market role, the conclusion is that the merger between AstraZeneca is a successful way of growth.
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1. Introduction

In this section we are to present a brief background of Mergers & Acquisitions and the importance of the designated research question. Thereafter a problem discussion and the question at issue are put forward. The chapter finishes with a presentation of the limitations of this study.

1.1. Background

Mergers and acquisitions (M&A) is today seen as a big element of the corporate finance world. It is often employed as an international tool of growth which may create global expanding opportunities. However, some refers the M&A as the development of the economy, it has always existed but its development is pursued by the buoyancy of the economy (Vinten, 1992).

Every year the trend of fusions increases among firms worldwide. In 2005, Thompson Financial Report announced that M&A deals attained a volume of US $2.7 trillion, an increase of 38.4 percent in comparison to the previous year. In addition, among those deals the US market had an increase of 33.3 percent whilst Europe rose 37 percent and the Asian market 64 percent. Furthermore, most of the fusions were concentrated on the US market which contributed with a volume of 1.1 trillion (Cogut and Rodgers, 2006). For example, during the first nine months 239 acquisitions occurred for the value of $14 million only on the US market (Thomson Financial Securities Data, 2008). The development of these trends cannot be explained by referring to only one standpoint; it is more likely to comprise different internal factors which occurrences are influenced by external factors. A strong asset of investment capital and a strong development of the stock market are some factors which have played a great role in the progress of the fusions happened on the Swedish market. (Axess, 2007)

Down below two graphs are presented which clarifies the trends of the fusions and their total value in US dollar.
1.2. Popularity of Merger & Acquisitions

As mentioned earlier, M&A has existed and been used as a strategy for a long period of time. When evaluating its history, trends of popularity can be seen as a pattern of the current economic situation in a country. Furthermore, five intense periods of fusions, also called waves, have been identified between the years 1880 and 2003. (Gaughan, 2005) At present, M&A is still undertaken as a strategy around the world by many large companies.

Even though a correlation can be seen between the waves and the economy, the reasons to the trends may vary. For instance, technological innovations which can create overcapacity in a sector, rising prices of raw materials or deregulations can stop a fusion from completion. (Gaughan, 2005)

Below a table is presented which clarifies the strategic background behind the five waves.

<table>
<thead>
<tr>
<th>#</th>
<th>Period</th>
<th>Strategic background</th>
</tr>
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<tbody>
<tr>
<td>1st wave</td>
<td>1880-1904</td>
<td>Realization of monopoly rents by horizontal takeovers</td>
</tr>
<tr>
<td>2nd wave</td>
<td>1916-1929</td>
<td>Vertical integration to gain control of the complete value chain</td>
</tr>
<tr>
<td>1940s-1950s: the increase in the number of M&amp;A deals was small and the value was not significant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd wave</td>
<td>1965-1969</td>
<td>Anti-cyclical portfolio building to harmonize different industry-driven economic downturns</td>
</tr>
<tr>
<td>1970s: drastic downward trend in the number of M&amp;A announcements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th wave</td>
<td>from 1981</td>
<td>‘Back to core business’ through divestures and carve-outs</td>
</tr>
<tr>
<td></td>
<td>1985-1989</td>
<td>Speculative gains from financial acquirers (e.g. Leveraged buy-out)</td>
</tr>
<tr>
<td>5th wave</td>
<td>from 1993</td>
<td>Increasing shareholder value and globalization</td>
</tr>
<tr>
<td></td>
<td>2000 onwards</td>
<td>Talents technology and consolidation of the ‘New Economy’</td>
</tr>
</tbody>
</table>

*Source: Adapted from Gaughan (2002), and Jansen (2002, in Picot 2002)*

The waves between the 1880 and the 1969 can be explained by a downturn in the economy which resulted in a decrease in the market demand and a collapse on the stock market. (Gaughan, 2005) However, in 1981 a new era started in the M&A development. Gaughan (2005) explained the fourth wave as: “the 1980s proved to be the longest post war economic expansion until we got to the following decade, which
featured an even longer growth period”. Moreover, some big events which occurred during this period were the radical changes in the Swedish pharmaceutical industry.

In the end of the 1970s, the Swedish Industry consisted of seven major pharmaceutical companies; Aco, Astra, Ferring, Ferrosan, Kabi, Leo, and Pharmacia. Later on it was reduced to only three firms Astra, Ferring and Pharmacia and Dahlgren and Valentin (2007) comment the event as “Despite the comparatively modest size of Swedish pharmaceutical, measured by number of employees and number of firms, through the 1990s they exhibited commercial success and accelerated growth”.

In contrast, Stankiewicz (1997) argued that the rapid growth of the pharmaceutical industry concurrently as a decline of the spending on public research and development occurred, resulted in a faster growth of pharmaceutical activities in the Swedish owned firms abroad compared to the domestic growth.

Some of the business deals that were made during the fourth and fifth wave are referred as mega-mergers due to the great amount of money that were distributed amongst the deals. Although, the slow growth of some of the fusions implemented in the fourth wave made them appear ordinary in comparison to the deals in the last period. Many companies during the fifth wave had strategies consisting of willingness of a rapid growth. Hence the fastest way to accomplish the goal was to acquire a whole company as opposed to grow organically or internally. (Gaughan, 2005)

1.3. Problem Discussion

M&A has for long been considered as a growth opportunity due to its influences in elements such as product development and distribution channels. Thus, many studies have been analysing its possibility of accomplishing a positive trend in growth. Studies made by Jensen, Ruback (2005), Bradley, Desai, and Kim (2005) present all a similar conclusion; that M&A repeatedly results in an inadequate outcome (Klein, 2003). However, the reasons for a negative effect can be many, unrealised synergies, overrated positive outcome and lack of knowledge regarding the acquired venture (Klein, 2003). However, it has still generated in a positive trend on the world market due to many ventures have presented confident results. New mergers deals are
continually making headlines in the daily news and one well-known example is the merger between Google and Yahoo (Mills E, 2008).

Furthermore M&A tends to have unique potentials of transforming companies into diversification which explores the development of new products in a new market (Angwin, 2001). As the process of being a new incumbent may cause some problem of adapting to the new environment, a joint venture partner can solve this by providing an already existing market position. As stated by Haspeslagh & Jemison (1991), it will also have a constructive prospect on the speed of establishing a strong market position, which is not achievable through internal development. As a result, our research is based on the Pharmaceutical Industry which is highly dependable on moving forward fast in research development and can therefore present a clear view on the importance of instantly establishing a good relation to the market.

As the pharmaceutical industry is very complex and in order to understand the aspects concerning M&A, the research is approach as a case study based on a large company originally from Sweden. Furthermore, Sweden’s biotechnical and pharmaceutical industry is one of the fourth largest in Europe and in 2006 it was appointed to be the most successful biotechnical industry in the world measured in Gross National Product (GNP) and size. As a result, the case study investigates the merger between the Swedish company Astra and the British company Zeneca which took place in 1999.

1.4. **Question at Issue**

*Are Mergers and Acquisitions a successful way of growth? : A Case study of AstraZeneca*

1.5. **Limitations of the Study**

This report examines M&A and its influences in the pharmaceutical industry. Furthermore, the main focus is to investigate M&A significance in terms of growth in the collaborated companies. In order to be able to analyse the question without being too broad, the research area has been narrowed down to one specific cross border merger between Astra and Zeneca. Even though it is based on a company which is nowadays one of the largest incumbents on the market, the choice of using case study
as research approach have negative effects such as the results found is not eligible to be generalised.

1.6. Definitions

Merger: A merger is a combination of two corporations in which only one survives. The merged corporation typically ceases to exist. (Gaughan, 2005)

Horizontal mergers: A combination of two companies in the same industry merging. (Gaughan, 2005)
2. Theoretical Framework

This chapter’s purpose is to provide the reader with a theoretical framework and thereby an increased comprehension of the field of study. Initially a short discussion is held to present the importance of the topic. Thereafter, numerous motives are discussed which is proceed by a presentation of success factors.

2.1. Importance of Mergers & Acquisitions

In the beginning of the 1980s when the fourth way occurred, a great alteration took place in the Swedish pharmaceutical Industry. Thus, many firms which originally were chemical firms applied new business strategies and later on developed into the pharmaceutical industry (Gaughan, 2005). In an early stage the firms were able to compete with only a few specialised products but in order to become a global competitor the firms needed to grow. Domestic markets were not enough to be profitable as new larger player entered into their domestic market and could compete with lower prices. Larger enterprises benefited from economies of scale that made these firms being able to keep a lower price. The solution was to growth. However, it was not possible organically as the process was too slow in comparison to M&A which already had been implemented by foreign competitors. As a result, the incumbents on the Swedish pharmaceutical market modified their growing techniques in order to be able to follow the global competitors (Gaughan, 2005).

When the new firms initially entered the well established companies’ market and gained market share, the larger pharmaceutical corporations needed to grow and to locate new customers. As a result, their focuses were on entering the international market by implementing global strategies and mergers. As a global component the large firms had possibilities of gaining competitive advantages such as the economy of scale. Moreover, the merger process provided them with a higher value and larger market share which made it easier to acquire small competitors (Gaughan, 2005).

In order to be able to compete and survive with the new fast developing incumbents, a wave of mergers started in the pharmaceutical industry. Some examples are Astra who conglomerated with Zeneca, Glaxo with Wellcome and Bristol with Myers Squidd. As a global component benefiting from cost cutting synergy, more efficient management and economy of scale provided them with the advantage of being
compatible. Small innovative firms were acquired as it became vital to be established on the international market in order to become profitable (Gaughan, 2005).

AstraZeneca can be stated as good example as its development started when Astra acquired P.G. Nordstöm in early days which later on were followed by other Swedish pharmaceutical firms. In conclusion, its strategy became more focused on international growth and therefore was Zeneca examined as a conglomerate partner.

Even though it can be stated as a faster solution in comparison to growing organically, it is still declared as a slow process and some research even indicate that it can last in seven years before the firms and their employee’s processes as one (AstraZeneca.com, 2008)

The new development of the industry provided the conglomerated firms with an increased valuation of stocks concurrently as the smaller firms share prices rapidly reduced as its demand declined. Consequently, pharmaceutical companies which although were successful in research and development and offered a broad product portfolio presented a low share valuation. One of those companies was Astra, which constantly was threatened of being acquired.

In short, to be able to survive these larger competitors Astra had to grow fast and that by acquisition. Organic growth was not fast enough. Astra and Zeneca merged and started compete with the competitors on the same level, globally and with more benefits such as economy of scale and a more differentiated product line.

2.2. Industry Background

Since the beginning of the 1950s the pharmaceutical industry is characterized as a multinational market consisting of large companies. It has developed into a complex and risky industry due to its necessity of high capital investments in research and development. As a result, M&A is often used as a growth strategy since it is likely to enhance a strong role on the market concurrently as creating some competitive advantages. (Teeling- Smith, 1980)
When the pharmaceutical industry has been examined, three frequently used reasons of M&A have been found. Firstly, it offers an opportunity to cut costs by job losses and factory closures. Moreover, it may extend the scope of the firms’ sales forces and lastly the most important, to increase the budget in research and development. (The Economist, February 1998)

In order to be able to cover the costs included in research and development of new products, the incumbents are multinational companies which have adapted to a global market (Teeling-Smith, 1980). The high complexity of developing the products has led to an intense competition and a great importance of being first on the market. As a result, one of the most important components in the industry is to protect the new products by patent. Furthermore, to create and add values to a strong brand name or a high brand image are very important factors as it is significant in order to achieve customer loyalty (Kotler et al, 2005). This can be accomplished by good marketing. (Teeling-Smith, 1980)

2.3. Motives

A common strategic move in a company’s lifecycle can be an M&A. It is seen as complex strategies which can be made by numerous of reasons such as achieving economies of scale, strengthening the financial position and increasing the technical talent. The most frequent motive is to globally expand the business which can be accomplished by merging with a company in another country. Thus, a cross border merger can offer advantages such as rapid penetration of new markets, diversification and an increase of market share. Hence all of them are critically important to businesses which endeavour to compete in a global market. (Buono & Bowditch 2003)

According to Angwin and Sawill (1997) cross border mergers are to some extent the most successful approach, particularly in Europe. Their research state that the cultural and geographical distance between the conglomerates can have a positive effect due to company interference becomes less risky. (Angwin & Sawill, 1997)

Although, a merger can be seen as a good element of a company’s development, the reasons behind the event may be inadequate and deceptive. The difficulties with these
types of studies have been acknowledged by Gaughan (2005) who states that the partakers do not always present the true goals behind the merger and acquisition event.

Numerous companies are presenting to enhance growth as a goal and it can be distinct as a straightforward strategy. Although, its significance may differ due to unclear objectives from the managers such as if it is referred to as revenue growth, total size or growth in profitability. As a result, the manager’s goal of the merger event may not be mutual with the shareholders. The most appropriate growth strategy that is operating in every one's behalf is to increase the profit and return to the shareholder. However, occasionally managers and directors only act on the behalf of its own interest which results in that it cannot be fulfilled (Angwin & Sawill, 1997).

Important factors that need to be evaluated in a possible M&A are company size and the compensation to the CEO. Furthermore, Gaughan (2005) states that the managers need to be concerned due to they can have a better capability of growing a business in comparison to managing one. As the M&A may demand a higher extent of abilities, it can cause management problems of running the business which can proceed as a weakness. Additionally, it might be difficult for the managers to comprehend the situation due to the hubris effect which will be explained in detail later on. Even though the event can cause management problems, in the end the board has all the responsibility to recognise the outcome of the M&A and to analyse if the deal should continue or be ended which can create an opportunity to the company to apply other growth strategies. However, it is always a risk that the board may follow a strategy which comprehends the hubris effect due to its desire of constructing an empire. As a result, the shareholders will only receive few benefits. (Gaughan, 2005)

An M&A is in general paid by the bidder by premiums to the shareholders of the target company but can create advantages for both partakers in the deal. However the one that can gain the most may be the bidder due to the possible increase in share price which can combine these gains of economies of scale (Gaughan, 2005).

According to Jenson (1984) increases a merger the shareholders value by using the resources in a more efficient and valued way. On the other hand, Magenheim and
Muller (1988) argue that the subsequent performance cannot be improved due to the resources capacity is already fulfilled. In conclusion, an M&A can sometimes be seen as a negative event to some companies due it already reached its most efficient size by using all of the best opportunities available. (Magenheim & Muller, 1988)

2.3.1. Synergy

A common reaction to an M&A is synergy which can be defined as “*when two substances or factors combined produce a greater effect than what the sum of the two operating independently could account for*” (Gaughan, 2005). In other words, two companies which have conglomerated and received a stronger ability of being profitable due to a possible increase in their efficiency.

In order to reach synergy, the firms need to present a positive net acquisition value (NAV) which is greater than the expenses of the acquisition process. If this is not fulfilled, the bidding firm will overpay the targets value. Although, this can occur due to the bidding firm may see other potentials in the fusion event. (Gaughan, 2005)

Furthermore, negative target firms’ abnormal returns in the pre-merger period are viewed as evidence of managerial inefficiency: either the target’s management has lost its grip, or has deliberately chosen to stay from the path of profit maximization. After the merger, the sluggard managers will be replaced by more effective leaders, or firm policies will be modified in a profit-maximizing direction. Also, premiums may be warranted because synergies will be realised between the merger partners, reducing operating, financing, or tax costs and/or raising product prices. (Gaughan, 2005)

Synergies can be divided into two different categories, operating and financial. According to Gaughan (2005) operating synergies can be referred to as “*the efficiency gains or operating economies that are derived in a horizontal or vertical mergers*”, which can also be called the revenue-enhancing synergy. In addition, the revenue-enhancing synergy is the ability to enhance the revenue more than what had been possible if the companies remained independent. In contrast the financial synergies, which can also be referred to as cost-based synergies, concern the possibility of decreasing the cost of capital when two or more companies cooperate which is common when small companies are acquired by larger bidders. It enhances the
opportunities of access to capital for the target and provides them with profit-making opportunities. (Gaughan, 2005)

In conclusion, benefits to businesses as synergies are usually easier to realise when the firms are similar and it’s even more common in the horizontal combinations.

2.3.2. Deregulations
A deregulation within the industry is a common reason if a rising volume of merger occurs. It can be an important factor that has changed the former laws and regulations on the market and therefore created new opportunities for companies as deals that were previously impossible. According to Gaughan (2005) a deregulation can also be referred to as a shock. (Gaughan, 2005)

2.3.3. Improved Management
Improved management can also be a reasonable motive for an acquisition by a larger company with high managerial skills since management change is a common process towards a connection between the companies. However, M&A is an expensive process which includes costs that goes beyond the instant deal expenses and the uncertainty concerning the managers goals may make it a deal risky. (Gaughan, 2005)

2.3.4. Hubris Theory
Although the reasons for an unsuccessful M&A appear to be many and varied, an alarming percentage has one element in common, the hubris effect.

Richard Roll has created the Hubris hypothesis which implies that managers may be engage in M&A for personal reasons. The primary motive of the deal may differ from the one that would be the most beneficial one in an economic perspective for the company. Moreover, the hypothesis was used in order to clarify why managers might pay a premium for a company that the market has already correctly valued. In conclusion, the hubris theory is based on that the market is efficient and can therefore provide the best indicator of the value of a firm. (Roll, 1986)

According to Roll (1986), three criteria’s need to be fulfilled in order to follow the hubris theory
The stock price of the acquiring firm should fall after the market becomes aware of the takeover bid. This should occur because the takeover is not in the best interest of the acquiring firm’s stockholders and does not represent an efficient allocation of their wealth.

The stock price of the target firm should increase with the bid for control. This should occur because the acquiring firm is not only going to pay a premium but also may pay a premium in excess of the value of the target.

The combined effect of the rising value of the target and the falling value of the acquiring firm should be negative. This takes into account the costs of completing the takeover process.

(Roll, 1986)

2.3.5. Diversification
A firm which is considering growth through M&A has two different directions to consider. It can choose between to acquire or merge within its own industry or to go outside the boundaries. In addition, an M&A which occurs outside its own industry is called a diversification. The advantages within the alternatives differ and it can be difficult to clarify a correct choice. However, if the bidders industries may be doing poorly and it can be a better alternative to enter a new market which has a higher return (Gaughan, 2005).

When extending a business through growth, the international market provides even more alternative. It can offer a higher extend of markets with different patterns of variation in demand and can consequently be a less risky approach. Moreover, an international market is sometimes referred to as a provider of a mix of international equity and fixed-income investments (Adler & Dumas, 1983).

A manager’s goal can be diversification; to enter a new market with to a new developed product, which enhances its ability to grow faster. However, if the goal is to achieve some level of international diversification it can be seen as vague due to it should be seen as benefit of the deal more than a motive. Adler and Dumas (1983) argues that international diversification may provide some benefits for the
stockholders. However, a stockholder may be even more profitable if it creates its own stock portfolio in comparison to let cooperation control it. As a result, Manager’s arguments behind the agreement are seen as important factors when determining success of the M&A (Adler & Dumas, 1983).

As mentioned, the opinions behind M&A may differ between the managers within the company and the stock holders. If the CEO endorses a strategy that will not be beneficial to the stock holders the board should not allow the deal to go ahead. In conclusion, if the company continues with a deal which will have a negative effect on the share value the CEO should be penalised. (Adler & Dumas, 1983)

2.3.6. Achieve Greater Market Power

To achieve greater market power has always been seen as a distinctive goal of an M&A. A large market power implies that a company has a leading part on the market and therefore also advantages towards its competitors. According to Adler and Dumas (1983) market power can be defined as “the ability to raise price above the competitive price”.

However, to achieve greater market power as a motive of M&A has for long been a questionable issue. In 1983, Stillman R. presented a doctorial thesis which included a sample of eleven mergers and investigated the share value of the incumbents in the sector where a merger took place. Furthermore, the result presented no statistically abnormal returns with nine out of the eleven mergers. To conclude, it was prevailed that if the market power of the company increased then also the share value will be improved. (Stillman R., 1983)

In the same year a similar study was conducted which presented an identical conclusion. Moreover, the research conducted by Eckbo (1983) analysed a sample of 126 horizontal and vertical mergers which were an average of fifteen incumbents in each sector. The result presented that most companies showed an abnormal return when the merger was first announced, although it had a negative effect when the collusion had been made. To conclude, it is statistically confirmed that firms should not use M&A as a strategy to increase market power. (Eckbo, 1983)
However, recent studies support that consolidations are a good effort of increasing market power in some sectors. For instance, Kim and Singal (1993) presented an evaluation of the airline industry which showed that M&A increased the market power and the associated prices. (Kim & Singal, 1993)

2.4. Factors that can be gained through merger

The potential benefits expected from a merger embrace a greater capacity to reduce costs, research departments consolidated to enhance efficiency and to make a better use of excess manufacturing capacity. As a result, products can be developed in a faster and more efficient way concurrently as a less costly approach is used. However, there are a numerous of success factors which need to be implemented to reach the potential benefits. (Gardiner, 2005)

2.4.1. Critical Success Factors

Gardiner (2005) explains that understanding the critical success factors is required in order to succeed with a project. Furthermore, a success factor is defined as “the deliverables that must be achieved in order for the project to succeed” (Gardiner, 2005, p.201)

Literatures’ which discusses M&A have put a significant amount of effort in exploring the motives of firms engaging in the transactions. Trautwein (1990) and Cox (2006) present a systematic summary of the motives which underlie different theories (See Table 2.2: M&A Motives). Motives suggested Trautwein (1990) marks that M&A partakers frequently cite synergy and valuation to justify their actions. Consequently, neither of the partakers claim that the motive is to achieve monopoly power nor to fulfil managers own benefits. However, Trautwein (1990) also justifies his research by stating that there is little research made which can be used as data when investigating the motives of a deal.

On the other hand, Gaughan (2002) takes a more pragmatic view to identify M&A motives by referring back to theories concurrently as the data is supported with multiple empirical case studies.

According to Gaughan (2002), the four main motives are:
M&A is considered as a means for firms to grow quickly;
M&A firms hope to experience economic gains as a result of economies of scale or scope;
A larger firm as a result of M&A may have a better access to capital market, which later leads to a lower cost of capital, i.e., financial benefits; and
M&A is aimed at anticipated gains which a firm may experience when applying its superior management skills to the target’s business.

In conclusion, all of the examined researchers concur that M&A is driven by many complex motives which varies from deal to deal and can therefore not be fully justified by any theory.

<table>
<thead>
<tr>
<th>Motive</th>
<th>Theory</th>
<th>Description</th>
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<tbody>
<tr>
<td>M&amp;A is a rational choice</td>
<td>Efficiency theory</td>
<td>M&amp;A is planned and executed to achieve synergies of three types: financial, operational, and managerial.</td>
</tr>
<tr>
<td>1.1.1 Net gains through synergy</td>
<td>Monopoly theory</td>
<td>M&amp;A is planned and executed to achieve market power. Horizontal and conglomerate M&amp;A may allow firms to cross-subsidize products, simultaneously limit competition in more than one market, and deter potential entrants from the markets, all of which result in higher stock market power.</td>
</tr>
<tr>
<td>1.1.2 Wealth transfer from customers</td>
<td>Raider theory</td>
<td>A raider is a person who causes wealth transfers from the stockholders of the company by making a successful takeover.</td>
</tr>
<tr>
<td>1.1.3 Wealth transfer from target’s shareholders</td>
<td>Valuation theory</td>
<td>M&amp;A is planned and executed by managers who have better information about the target’s value than the stock market.</td>
</tr>
<tr>
<td>M&amp;A benefit shareholders</td>
<td>Empire-building theory</td>
<td>M&amp;A is planned and executed by managers who thereby maximize their own utility instead of shareholders’ value.</td>
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<tr>
<th>Motive</th>
<th>Theory</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A as a process outcome</td>
<td>Process theory</td>
<td>M&amp;A decisions are outcomes of processes governed by one or more of the following influences: organizational routines, political games played between an organization’s sub-units and outsiders, and individuals’ limited information processing capabilities.</td>
</tr>
<tr>
<td>M&amp;A as a macroeconomic phenomenon</td>
<td>Disturbance theory</td>
<td>M&amp;A waves are caused by economic disturbances. Economic disturbances cause changes in individual expectations and increase the general level of uncertainty, thereby changing the ordering of individual expectations. Previous non-wars of assets now place a higher value on these assets than their owners and vice versa. The result is an M&amp;A wave.</td>
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(Adapted from Trautwein, 1990 & Cox, 2006)

2.4.2. Product Differentiation
A company can undertake M&A in order to strengthen its resource department with the purpose of improving one specific product or higher skills is needed to enhance an overall improvement. (Trautwein, 1990)

2
Trautwein (1990) explain that to gain knowledge of product or process technology, and establish brand name access to a distribution channel or managerial know-how are important factors to consider when a opportunity of a acquisition arise. The latter factors can be especially relevant to cross-border acquisitions where the bidding company often lacks any operating experience in the overseas market and is keen to exploit the local market knowledge of the target firm´s management team.

2.4.3. Financially
When the bidding company’s price earnings ratio is high in comparison to the target buyer, an acquisition funded by shares can provide immediate earnings per share enhancement to the acquiring firm. (Habeck et al, 2000)

2.4.4. A Clear Vision
Many companies involved in M&A do not state a clear vision of what is needed to be accomplished due to a lack of knowledge of the difference outcomes which could occur. Thus, one commonly discussed strategy is to cut costs through the synergy effect. In conclusion, rules and regulations need to be addressed as important as it is crucial for the managers to have a clear vision of its goal in order to make the merger successful. (Habeck et al, 2000)

2.4.5. Leadership
The businesses process of clarifying who will undertake the leadership role takes often a long time to resolve. Therefore confusion often occurs in the settlement of a merger deal as the battle of the power continuance until only one survivor is left. As a result it can be clarified to be time wasting, resource consuming concurrently as it reduces the motivation and arises uncertainty between the employees. (Habeck et al, 2000)

2.4.6. Growth
As mentioned, most mergers are conducted in the order of growth concurrently as it focuses on cost synergy. However, numerous researchers present that many of the companies return to the same stage of size as before the fusion just after a short period
of time when the cut costing process have taken place. As a result, most fusions tend not to be successful in the long run. (Habeck et al, 2000)

2.4.7. Early Profits
One immense problem researchers demonstrate is that fusion companies often believe its employees will accept the deal when it has been clarified. However, many studies clearly state that the employees within a fusion company are not convinced that the deal will emerge a positive outcome. In order of solutions, this can be altered by presenting quick and clear results and early profits in a positive manner towards the workers. (Habeck et al, 2000)

2.4.8. Culture
A few years ago, a new field of firms aroused in order to assist with the organisational culture due to cultural barriers were often ignored by managers. These problems have to be resolved quickly and with professional guidance in order to not affect the outcome of the deal in any way. (Habeck et al, 2000)

2.4.9. Communication
According to studies made, problems have arisen due to lack of information exchanged between the managers and the employees. Thus, in order of improving the communication most current merger processes use external professional advisors to enhance the possibility of potential deal to go through (Habeck et al, 2000)

2.4.10. Share Price Movement
According to Gaughan (2005), share price movement should not be addressed as a measurement of success due to the researchers “do not access to the hypothetical returns without” the merger taking place and by this be able to compare the two scenarios. However, the share price movement before and after the deal is compared and analysed as a complement to the other more accurate measurements used in terms of success.

M&A research of share price movements are implemented in two different categories:
➢ Short-term effect studies
➢ Long-term effect studies

Even though short and long term effects on share price movements can be valid in some perspectives, it is still deeply criticised and should therefore be used with caution. Furthermore, short term studies validity are discussed due to the analysis is being narrowed to only a short period of time covering the surrounding of the merger event. It focus on examining a deals effect on the stock market during a short period of time clarifies the importance of understanding its small validity in terms of analysing M&A success. In conclusion, many studies addresses that M&A are long term investments and should therefore only be evaluated in the long term. (Gaughan, 2005)

In contrast, researchers that support the idea of short-term and stock evaluation as a measure of success claim that this method is a “good predictor of the actual long-term performance of a deal” (Gaughan, 2005).

**Short term findings**

Many studies have been conducted to present firms’ stock prices during a period of time around the announcement of the M&A which focus on short-term variation of the shareholder value by comparing purchase and selling behaviour before, during and after the event.

In 2002, a study was conducted by King et al in order to examine the merger event between Astra and Zeneca and if the fluctuation in the share prices were “statistically significant”. Furthermore the conclusion of the fusion was "Actual stock returns that deviate sharply from normal returns tend to support the hypothesis that the event in question affected stock price valuations". (King et al, 2002)
Long term findings

In 2007, Hassan et al presented a study which was based on 409 American pharmaceutical firms and examined the share price alteration in a short term and five years after the announcement of the M&A. As a result, the evidence confirmed “that mergers do not give rise to either short- or long-term abnormal profits for the pharmaceutical industry”. (Hassan et al, 2007)

The study addressed uncertainties regarding the efficiency of M&A that recently occurred between large companies such as Pfizer-Warner Lambert and AstraZeneca. Moreover the research indicated that “when pharmaceutical acquisitions are analyzed separately from mergers, the results indicate a statistically significant positive abnormal return for acquiring companies for both short and longer terms” (Hassan et al, 2007). Since the pharmaceutical industry has constraints in terms of protecting its patents, it is significantly valuable that the cultural issues are easy to understand and manage in order to reduce absorption- and concomitant time of completion. To conclude, acquisitions present a clearer view of where the control lies concurrently as it evidently states the expectation of the acquired company.

In contradiction, Healy et al (1997) study compared the performance, with a focus on cash-flow fluctuations, of different merged companies within a five-year period after its fusions occurred. It findings indicated improvement in operating cash flows which
were outlined from changes in sales and asset turnover. In addition, merging companies within the same industry such as Astra Zeneca were clarified to have an even larger increase in its cash flow performance. (Healy et al, 1997)

Furthermore other researches were conducted and presented a similar conclusion, that cash flows performance was improved which reflected in positive stock returns of the two merger partners around the time of the announcement. (Andrade et al, 2001)

Another angle of a research was undertaken by Loughran and Vijh (1997) which examined acquirers and its approach towards paying dividends to the targets’ shareholders of a five year period after the acquisitions. When stock were utilised as paying method, bidders averaged negative returns equal 25 percent in comparison to when cash was used as an offer, the returns were a positive 61.7 percent. In addition, it should be acknowledged that the companies that used cash in its offers tend to be larger. (Loughran and Vijh, 1997)

However, according to Andrade et al (2001) which have made several long-term studies, the effect of M&A can only be estimated in long term due to the adoption face is a long term approach. (Andrade et al, 2001)

2.5. A Factor-for-Success-Model

To make this comprehendible and visible have we constructed the following model (see further down) that clearly demonstrate necessary factors for success that are discussed in the theoretical chapter of this report. The authors that discussed these certain factor are also defined in the model.
### Factors/motive for a successful merger

<table>
<thead>
<tr>
<th></th>
<th>Reason</th>
<th>Reference(s)</th>
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<tbody>
<tr>
<td>4</td>
<td>Financial benefits (include having greater access to capital market, which later leads to a lower cost of capital)</td>
<td>Gaughan, 2002.</td>
</tr>
<tr>
<td>5</td>
<td>Greater market power (include quick growth)</td>
<td>Stillman R., 1983</td>
</tr>
<tr>
<td>6</td>
<td>Gain superior productivity and efficiency in the production process</td>
<td>Gaughan, 2002</td>
</tr>
<tr>
<td>7</td>
<td>Increased share price (short-term)</td>
<td>King et al, 2002</td>
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3. Methodology

This chapter explains the study process. Firstly, a presentation is made of how the data collection process was conducted. Later on a discussion of the deductive and inductive approach is held in order to present the one that was determined to be the most suitable to the research topic. Lastly, this chapter reviews the influential factors that can affect this research validity.

According to Lekvall & Wahlbin (2001), a research strategy needs to be made since a study can be conducted using different methods depending on the research question. Firstly, a research philosophy needs to be chosen which depends on the way that the researcher reflects about the development of knowledge. Furthermore, it is followed by the research approach which is strongly linked to the researcher’s use of theory. Lastly, the data collection methods are chosen which have great affects on the study in terms of the type of data being collected and how it is conducted. (Saunders et al, 2007)

3.1. Research Strategy

Case study is a research strategy used to gather in-depth data from a particular case rather than complying broad conceptual overviews. Correctly implemented, a case study may provide a detailed analysis of a phenomenon inside its real-life context; although researchers should be aware of that there are numerous aspects that require attention (Saunders et al, 2007).

Generally, a case study is often related to use a phenomenological research philosophy as it endeavours to gather qualitative data, although the distinctions between a positivistic and phenomenological philosophy is not always explicit (Saunders et al, 2007). However, the researchers’ motives for conducting the case study were to gain a rich and detailed understanding of AstraZeneca’s merger process, which arguably are characteristics of qualitative data and phenomenology.

Furthermore, the research objective was to clarify if M&A is a successful way of growth and to understand the phenomena applied in one case, hence it is considered to follow an inductive approach. Conversely to a deductive approach, an inductive approach is related to phenomenology and opposes positivism since the research moves from specific observations towards a theory rather than vice versa.
(Denscombe, 2003). Yet it might be argued that the theory initially came from the secondary data prior to the case study. However, since the area covered by the research has previously limited attention; hence it clarifies the research of being suitable to follow an inductive approach.

There are two methods of data collection, quantitative and qualitative. The factors that separate the two approaches are that qualitative approach attempts to interpret or get a greater understanding of a phenomenon meanwhile a quantitative approach attempts to measure a phenomenon to see if it has any connection or relation to other factors. (Lundahl & Skärvad, 1999) Qualitative data is used in this study since it analysis through use of conceptualisation and expresses meaning of a phenomena in words. Furthermore, the researchers’ choice of data collection method is also strengthen by the selection of philosophy and approach, which are related to use qualitative data.

3.2. Primary and Secondary Data

There are two different types of data, primary and secondary data, that can be used and the researcher choice of which to use depends on the research topic. Primary data is often defined as the information that has been gathered by the researcher. It can be collected through many ways but the most common ones are interview, survey and questionnaire. Yet, secondary data is normally gathered through studies that have already been published, books, journals and reports (Lundahl & Skärvad, 1999).

This study includes both primary and secondary data as complements to each other in order to increase the study’s validity and reliability. The secondary data was gathered from books and journals that were found through Halmstad University’s database system concurrently as primary data was gathered through interviews. Documents were received from the interviewee concerning the merger along with four annual reports which were examined. In addition, interviews conducted by earlier studies with important key employees in Astra were used since the interview documents were available to the researchers in order to save time and cost. Throughout the study process, the researchers were critical when using the secondary data in order to increase the study’s validity (Lundahl & Skärvad, 1999).
3.2.1. Primary Data Collection Methods

Interviews, questionnaires and observation are three commonly used primary data gathering methods implemented by researchers in order to gather information while performing a case study. Each of these benefits the researcher in a certain way since neither of them is superior. However, it is crucial that the researcher value a thorough understanding of each methods strengths and weaknesses to ensure and justify that the chosen ones are appropriate to the study’s research strategy and approach. (Saunders et al, 2007)

**Questionnaires**

Questionnaire is a data gathering method that is often used when implementing a case study. One major advantage of using this data collection method is the standardisation of questions rather than having customised sessions for each individual, which makes the method ideal for wider distribution and quantitative research (Bouffard et al, 2004). Furthermore, it is likely to contribute with a high response rate since it can enhance the respondents’ participation by guiding them and answer any of their possible questions (Saunders et al, 2007). Conversely, weaknesses of questionnaires are that they can be misinterpreted and therefore misleading concurrently as it may fail to cover social and personal experiences, thereby a limitation of qualitative answers and less appropriate to use in an exploratory study (Denscombe, 2003).

**Ethnography**

Ethnography is an additional strategy that can be used when analysing case studies. Furthermore, the main advantage is that a direct observation of a social process in its natural setting generates an in-depth description of workers own perspectives. Subsequently, it can provide value to the framing of the survey questions and the selection of the interviewees. Furthermore, if using observations the researchers need to consider the observers’ reaction as the researchers directly experienced the phenomenon being explored. Nevertheless, it is important to remain objective throughout the research as in a positivistic framework. In conclusion, observations were not used when conducting this research since it would not generate any advantages to the topic at question. (Bryman, 2004)
Eriksson and Wierderheim (2001) state that there are two further factors which should also be concerned when choosing data gathering method. In addition, even though cost and time cannot be stated to have a direct affect to a study’s validity, reliability or generalisability, the choice of data gathering methods are affected and can therefore also reflect the outcome of the research. In conclusion, the choice of data collection method has to be made with consideration to these variables a long with concern of the research topic (Eriksson & Wierderheim, 2001). Thus, the study’s primary data gathering method was phenomenological related interviews collecting qualitative data. In addition, the researchers’ choice of method can be settled as it can be linked to the purpose of the research which is exploratory (Saunders et al, 2007).

**Interviews**

Interviews were to primary data gathering method used. Denscombe (2003) states that one major advantage of using interviews is the broad insight gained by the qualitative method, which also is claimed by the researchers to be the primary reason for choosing this method. However, interviews depend on the participants to dedicate hours of their time in order for the method to work, thus it is a weakness needed to be considered during the conducting (Wilkinson et al, 2003). In addition, the responder can be influenced and affected by the interviewer. As this topic is solid, the affect form the researchers are minimal. Interviews can affect the respondents, particularly as some of them are employees of the company being examined. On the other hand, occurred the merger between Astra and Zeneca several years ago and having opinions about its success should not affect their situation today.

An interview can be formed in different ways depending on its purpose by using open or standardised questions (Ellram, 1996). With open questions, the respondent can give his/her reflection of the question which provides the researcher with an answer in their own word. Since the research topic investigated is an exploratory study, semi-structured interviews were used. It is a combination of standardised and open-ended questions that although are more time consuming to analyse, thus provide richer qualitative information in contrast to structured interviews (Ellram, 1996). Additionally, they may have benefited the employed phenomenological approach as it allowed the participants to initiate their own observation rather than act strictly as question respondents (Yin, 2003). Simultaneously, further issues of importance may
be highlighted, as interaction from the respondent is a fundamental part of the procedure (Bouffard et al, 2004). Thus, semi structured interviews are argued to have a more complex relation between the interview and the interviewee, hence a negative impact on reliability and generalisability (Saunders et al, 2007). Furthermore, caution should be given to carefully plan the interview as a lack of structure might lead to an unsuccessful outcome (Wilkinson et al, 2003).

As accurate information and a full understanding of the merger were necessary, mainly open ended questions were used. However, in order to keep the questions relevant to the topic a framework of standardised questions were made. Furthermore, the open ended questions were necessary in order to understand the role of each of employee during the merger. The interview was conducted during 1 hour and 10 minutes. In addition, the interviews earlier conducted by other researchers used the same framework as explained above.

3.3. Sampling

One important step of the data process is to identify reliable sources to interview. This can be done with difficulty and several attempts were made in order to conduct interviews with employees that worked at Zeneca during the merger. An interview was made with Steve Brown, Media Relations Manager for AstraZeneca, concurrently as he sent the researchers’ important material to research this in a profound approach. Furthermore, earlier documented interviews with Staffan Ternby, Sven-Olof Lager, Gunnar Ek were used. Down below each of the interviewees are introduced in order to increase the study’s validity.

A very important respondent was Staffan Ternby, Director of Information at AstraZeneca, due to its role within the company at the merger. He as well as Sven-Olof Lager worked for AstraZeneca during the fusion in 1999. During 1998 and the following year, Staffan Ternby was responsible for communication and was working in the project-group that led the merger.

Sven-Olof Lager, Business controller at AstraZeneca, was also interviewed. He works in Sweden in Mölndal with control of R&D. He has worked for AstraZeneca for more
than a decade and was also present during the merger. He has seen many changes made both external but more important internally.

He was to the merger took place head of information for Astra and works still as this but is now responsible just for the Swedish market. He has a degree in Business Management and has worked for AstraZeneca since the day he graduated.

Gunnar Ek, a director for the enterprise-analysis department for Aktiespararna, was one of the respondents. He has earlier worked as director of several branches for Nordea. Furthermore, he has been employed by Chalmers University, where he also in his youth studied. His main responsibility with Aktiespararna is Public Relations (PR).

The last interview was made with Steve Brown, Media Relations Manager for AstraZeneca in England. Steve has the global responsibility of PR for the whole enterprise. He has worked in this current position since 2005 and has been employed with AstraZeneca since 1995. Thus, it can be understood that he has great knowledge about this merger as he worked in the project-group for Zeneca.

He studied in London business school and graduated as a top student with a direct opportunity to work internationally with AstraZeneca.

3.4. Choice of Company

As mentioned earlier, much research have been conducted on M&A and most of these studies concentrate on the success in terms of increasing shareholder value by calculating the share price of the enterprise. According to Gaughan (2005), this type of study process has limitations as each particular case has its own factors that make its successful. Furthermore, it can be possible to informally extract “good and bad mergers what they did right and what were the possible causes of the failures and the successes” (Gaughan, 2005). As a result, this study is based on one specific company in order to understand the reasons behind the event in depth.
As M&A is seen as a popular approach in the pharmaceutical industry, AstraZeneca, one of the largest companies on the global market, is chosen. As the company is a former Swedish and British company, the choice is seen as appropriate as the study is conducted in Great Britain by two Swedish students.

3.5. Critic of Used Resources and Errors in the Measurement

It is important to crucially control the study’s resources, particularly the secondary data as it may have been conducted from a different purpose and therefore be colored or non-objective. Moreover, primary data has to be negatively investigated as errors can occur in the data. (Lundahl & Skärvad, 1999)

According to Lundahl and Skärvad (1999) certain questions can be asked to validate the data that is collected:

- Does the empirical evidence and older theory combine?
- Is the interpretation of the data consistent?
- Is the interpretation very different from earlier conducted studies?
- Is the study based on earlier theories?
- Is there a new finding that is presented in this piece of research

(Adapted from Lundahl & Skärvad, 1999)

3.6. Validity and Reliability

Validity and reliability involves analysing if the research is measuring what it was intent to assess. As validity cannot be measured, it is decided on subjective basis. On the contrary, reliability is the ability for the method to resist the influence of coincidences in the interview. In addition, if the method for measurement is accurate, the reliability is high. Contrary, a low reliability can depend on that the questions used were vague. In this study, it was avoided by the utilisation of interviews were based on open questions concurrently as the interviewer took into consideration the affect of them being present at the interview.
In order to achieve the research objectives, both primary and secondary data in form of a case study and an extensive literature review were used. By combining them, the researchers were given a deeper understanding to the background of the topic, concurrently as the results from the case study could be evaluated with the external information in order to endeavour to increase the reliability (Thiétart, 2001). However, little research has earlier been conducted on the designated research topic, thus the literature review was used with caution as its validity may be low. Furthermore, generalisability of this study is low but since the findings are not concerned to be applied to other cases, it does not affect the trust worth of the findings. (Thiétart, 2001)
4. Empirical data

This chapter presents the significance of the M&A in the pharmaceutical industry. It is followed by presentations of the two merging companies, Astra and Zeneca and its strategic decisions behind the collusion. In conclusion, the results of the merger are illustrated in order to be able to analyse the effects more in depth.

4.1. Astra AB

Astra AB was founded in 1913 and had its main office in Södertälje, Sweden. It was an international pharmaceutical company with main focus on researching, developing, producing and selling medical equipment. Astra’s mainly focused on medicine within four areas: gastrointestinal, cardiovascular, respiratory and pain treatment. In addition, it had a big role in important research concerning neuroscience. During 1998, Astra had a revenue of 57 million Swedish Crowns, a business consisting of 22 000 employees and was established in Europe, America and Japan.

Already on an early stage, Astra needed to expand rapidly to be able to follow the fast development of the industry and to keep the company from being acquired. Thus, Astra acquired P.G. Nordström’s pharmaceutical factory. Also other acquisitions were made, such as the one in Södertälje, the largest in Scandinavia at that time.

In 1947 Astra expanded to the USA and during the same decade subsidiaries were also set up in UK, Italy, Canada, West Germany, Colombia, Mexico and Australia. By 1950 were all non-pharmaceutical operations, with the exception of medical devices, sold off due to the company pursued a strategy of consolidation. By the time of the merger, the company’s employees numbered approximately 17 000, 65 percent of whom were outside of Sweden.

4.2. Zeneca Group PLC

On 1st of June 1993 Zeneca Group plc was established by three different divisions, Pharmaceutical, Agrochemicals and Specialties, which all came from Imperial Chemical Industries. It had its main office in London, Great Britain and was an international biotechnical company. Zeneca Group plc focused on researching, developing, producing and marketing of pharmaceutical, agrochemicals and
specialised chemicals. Moreover, the company had its main focus in cancer, cardiovascular, neuroscience, respiratory and anaesthesia. In 1998, one year before the merger, Zeneca had 34 000 employees and showed results of 5.5 millions in revenue.

### 4.3. The Merger of AstraZeneca

Before Astra was acquired by Zeneca it was threatened to be acquired at several times. At the end of the 1990s, a reorganisation of the Swedish pharmaceutical industry was due to happen when several businesses on the market merged concurrently as the same phenomenon occurred in the US. Furthermore, the industry diversified rapidly which led to increasing R&D costs. As a result, it was necessary for Astra and Zeneca to follow the market development in order to be able to enhance its market position. Thus, through economies of scale and with a more diversified product range AstraZeneca were proposed to compete in a more efficient way. (Hanke, 2002)

#### 4.3.1. Motives for the Merger

The motives of AstraZeneca’s merger were many as have been understood by the interviews that have been conducted. However, the most crucial ones that were demonstrated to the shareholder before the merger were:

- **Global power and reach in sales and marketing** – number three worldwide and strong presences in U.S. And Europe
- **Strong R&D platform for innovation-led growth** – number three in R&D expense
- **Financial strength for strategic flexibility** – combined market capitalisation on 67 Million U.S dollars
- **1.1 milliard U.S dollars in annual pre-tax cost savings from the third anniversary if completion**

(Report to the shareholders, 1999)

In 1996 the first proposition of the merger took place but was quickly stopped and no deal was established. Furthermore, in August 1998 the CEO along with the top
manager of Astra met Zeneca’s head of directors to further discuss these matters and on the 9th of December in 1998, an agreement was finally settled. Thus, AstraZeneca enhanced into becoming a great market leader on the global market concurrently as being superior in certain smaller niche markets. (Presentation: Erbjudande till aktieägarna i Astra AB 1998:24).

On the announcement day of the merger, two quotes were stated which indicate the high expectations that occurred. Dr Percy Barnevik, Chairman of AstraZeneca declared,

“This new company combines the best of two innovative companies with strong track records of organic growth and with great synergies together”

Furthermore, Dr Tom McKillop, Chief Executive of AstraZeneca PLC remarked,

"Today marks the formation of a new company in the world pharmaceuticals market. I am determined that the energy, thoroughness and co-operation which has enabled the new company to be created in such good time will now be devoted to ensuring that AstraZeneca builds further on its platform for growth."

(Presentation: Erbjudande till aktieägarna i Astra AB 1998:24)

Even though the merging companies were convinced and presented a strong believe in their future advancements, the respondents’ were not confident when the deal was announced. Astra was critiqued since it had altered its strategy which had led to earlier success concurrently as people were concerned regarding the possible consequences of moving the head office to London, Great Britain. Concurrently, Zeneca became criticised as the control of R&D was moved to Södertalje, Sweden. (Hanke, 2002) However, information stated by staff within the two companies at the time of the merger support the statements that were made on the announcement day for the merger.

Staffan Ternby, Head of Information in AstraZeneca, explained in an interview that the growth strategy of Astra had showed clear indication of that the production would
not be able to sustain on the same level in the future. Moreover, a gap existed where no new products could become cash-cow. Consequently, Astra had two options; to acquire another firm or to join forces with a competitor and merge. (Ternby, 2007)

An analysis was made of Zeneca along with nineteen other companies in the pharmaceutical industry in order to find the perfect match to Astra. As a result, Zeneca was seen as the greatest option due to very complementary products and research lines. In addition, its research within the central nerve system (CNS) was only one of a few where complementary research was evident. Other areas were leukotrien antagonist, stroke, depression and medicine against schizophrenia. (Ternby, 2007)

**Product portfolio**

Sven-Olof Lager, Business Control Manager at AstraZeneca’s R&D, clarified that even though AstraZeneca’s portfolio of products was complementary; there were areas where the effects of synergy were missing. Both Astra and Zeneca had research on cardiovascular but none was overlapping the other. Furthermore, Zeneca had a lot of research on cancer and obesity whilst Astra had done no research or products in that specific area. Therefore, a form of product diversification rose as these products along with the “crestor product” could be sold in markets where Zeneca had not been able to reach earlier success. (Lager, 2007)

According to Staffan Ternby, the merger was necessary for Astra as their patent on Losec was about to run out. After the merger, Nexium replaced Losec and turned into a very successful medicine. It obtained revenue of 5.5 milliard US Dollars per year and was a tremendous success due to AstraZeneca’s newly developed marketing force. (Ternby, 2007)

Further on, Steve Brown, Media Relations Manager for AstraZeneca, along with Staffan Ternby agreed that Astra and Zeneca could together create a very successful portfolio of products which was necessary in order to compete on the US market where sales in great volumes are needed. As a result, the fusion led to a strong marketing and sales team which consequently resulted in an increasing market share on the US market. (Brown, 2008 & Ternby, 2007)
**Cultural differences**

Furthermore, Staffan Ternby stated that Astra’s choice of Zeneca was due to their similarities in following science-based culture values where competence and well educated individuals were highly respected. However, cultural differences in leadership and titles as well as the motives with meetings made it harder to unify. In addition, the staff at Astra from Sweden believed that a meeting was to come to an agreement or understanding whilst Zeneca’s English employees considered it to be a site where to discuss certain factors, not necessarily to come to a conclusion. However, Staffan Ternby along with Steve Brown and Sven-Olof Lager stated that all their co-workers experienced the merger as something positive. (Ternby, 2007, Brown, 2008 & Lager, 2007)

**Biggest Business Transaction**

At that time, the fusion of AstraZeneca was the largest business transaction that had ever occurred in Sweden. Even though it was seen as a merger between the two entities, in actuality it was Zeneca that acquired Astra for a price of 300 milliard Swedish Crones. However, before the merger took place it was obstructed by some difficulties. (Staffan Ternby, 2007)

In 1982, Astra signed a contract with Merck & Co, a large pharmaceutical company on the US market. In addition, the deal concerned cooperation on the US market along with Astra’s blockbuster medicine (a medicine that sustains a widespread popularity and achieves enormous sales). As a result, in 1998 a renegotiation took place in order to make the deal of Astra and Zeneca possible.

A second problem that occurred was the price Zeneca offered Astra’s shareholders. The shares were heavily undervalued which resulted in that the stakeholders had negative opinions regarding the deal. According to an interview conducted with Gunnar Ek (2007), an analyst from Aktiespararna, lost Astra’s shareholders approximately 50 milliard Swedish Crones. (Ek, 2007)

According to Staffan Ternby, the merger between Astra and Zeneca was one of the most successful ones in the pharmaceutical industry, concurrently as it is one of the
most winning mergers between two globally operating firms that have ever occurred. Furthermore, he explained it as all board of directors came to quick agreements and the integration process was therefore completed after just two years despite the objective of finishing it in three years. (Ternby, 2007)

However, Sven-Olof Lager (2007) argued it was difficult to evaluate the merger success since Astra’s former agreement with Merck & Co had been very costly and had a continuing negative effect on AstraZeneca several years after the joint venture took place. Nevertheless, as a conclusion to the synergy effect, he stated that the merger was a success and particularly pointed out the third stage of developing a drug which used to be very costly and demand a great volume of staff. However, after the merger the problem was solved. (Lager, 2007)

Further on, Steve Brown explained that the synergy was efficient through integration of the sales forces along with cost cutting by reducing the amount of employees, concurrently as a synchronised computer system was built. Furthermore, revenue was increased as a synergy effect due to a more global strategy was interpreted. Moreover, it enhanced the sales force to sell the same products over a larger geographical area. After the fusion, Zeneca attempted to implement cost awareness which resulted in Astra’s departments became more efficient and on the same level as Zeneca. (Brown, 2008)

Gunnar Ek explained that the greatest benefit of the merger was that greater resources could be invested in R&D which could ease the sales as larger volumes could easily be handled. This gives great value and specially to a company in the pharmaceutical industry (Ek, 2007)

Steve Brown along with Staffan Ternby pointed out that AstraZeneca never became less efficient because of them being together as one was being too big. Conversely, economies of scale became a benefit as a reorganisation of the cooperation was made. Research was organised in smaller units and located in one geographical spot. As a result, it benefitted from being a smaller group concurrently as having competence and knowledge as a larger unity.
As some researchers have raised critics regarding merged companies that have become too big in order to be efficient, both Steve Brown and Sven-Olof Lager stated that this will not be the case of AstraZeneca. Moreover, in the pharmaceutical industry, the businesses have to be large in order to be able to compete, particularly on global basis. Small biotech firms find it therefore difficult to develop a drug as it is very costly to take it through all the stages included in R&D. Another aspect mentioned was that larger pharmaceutical firms in fact acquire smaller firms if it succeeds to develop a new drug. In conclusion, these factors indicate that in order to survive in the pharmaceutical industry the business has to be large. (Brown, 2008 & Lager, 2007)

Globalisation

All persons interviewed agreed on the point of globalisation. The pace of development towards becoming more global increased as the two firms now are greater and operate on a more global basis. Before the merger, Astra was the industry leader in the Nordic countries and had a strong position in Europe along with Zeneca that included a large market share in both US and Europe. Together as one unit, the company became the third largest in the pharmaceutical industry. In addition, Sven-Olof Lager mentioned that through the merger Astra had the opportunity to rebuild and grow in Mölndal, Sweden.

Share Value

A benefit that AstraZeneca held was that it had many shareholders instead of being owned by a few large players. As a result, it becomes easier to issue more shares in comparison to the companies with just a few shareholders. On the other hand, if AstraZeneca would grow too big which could lead to lost of efficiency; it can easily concern of some of the shareholders. (Ek, 2007)

Furthermore, Gunnar Ek, who examined the merger from the shareholders point of view, stated it as a negative joint venture due to many factors. Even though the merger led to a broader product portfolio and entering of new markets that could not be reached earlier, Gunnar Ek argued that the merger of AstraZeneca created no value
as the share price had not until year 2007 reached the same peak as it had at the time of the merger. (Ek, 2007)

Furthermore, Steve Brown stated a similar opinion of the negative result regarding AstraZeneca share price but did not argue it to be seen as a failure since it was the due to alteration in the pharmaceutical industry. In 2002, the rules and regulations became stricter which made it difficult to register new products concurrently as the demand on the security was increased. As a result, the pharmaceutical industry growth stagnated. Furthermore, AstraZeneca as well as other pharmaceutical firms, experienced harder conditions which had a tremendous effect on the share prices since these are based on expectations of future cash flow to the firm. (Brown, 2008)

Further on, Sven-Olof Lager stated diverse judgements depending on whose standpoint it should involve. In addition, if seen as a long-term investment and stated from a business perspective, the merger of AstraZeneca has increased share value. However, in a short term or based on the shareholders view, the fusion cannot be seen as successful. (Lager, 2007)

**Financial Objectives**

All the interviewees explained how the company was able to accomplish its financial objectives in a shorter period of time than planned. Its objective was to save 1.1 milliard US Dollars after the third year and to be able to do so; money had to be spent in order to reach a fast synergy effect. Consequently, 1.3 milliard US Dollars were spent during its first years and later on 1.1 milliard US Dollars were saved every year by a reduction of 6000 employees.

In addition, synergy was partly reached due to a reduction of 2800 jobs during 1999 which was mainly done by integrating and reorganise the sales forces. It was carried out effectively and rapidly on a detailed country-by-country basis. Similar success has been achieved in merging AstraZeneca’s marketing operations in other regions of the world and sales growth performance has generally been strong. (Annual Report, 1999)
Furthermore, the Annual Report of 2000 confirmed that the plan of financial objectives was followed since it explained that the cost cutting, due to the fast pace of the synergy, exceeded their pre-objective of 100 million US Dollars and achieved the sum of 130 US million dollars. (Annual Report, 2000)

Percy Barnevik, CEO, (Annual report, 2000) indicated that the expectations reached faster than expected, “Excellent progress has been made towards this and we are increasingly confident of delivering the $1.1 million of synergies envisaged at the time of announcing the merger”. (Annual Report, 2000)

After the merger, AstraZeneca became the third largest player in the pharmaceutical industry. In 1999, it had the third largest R&D department which was highly developed and an important resource since its significance in the sector. Furthermore, an increasing R&D budget made them more attractive as partners to academic institutions, biotech companies and other seeking to out-license, as well as facilitating the exploration of existing and future technology investments (Financial report, 1999).

Several years after the merger, Steve Brown and Staffan Ternby explained, that Astra came to financial trouble as three medicines never were launched. Moreover, Exanta, Galida and NXI were seen as products that could become very profitable but they never passed all the stages in R&D and were therefore later divested. However, as Astra was a long with Zeneca the entity could survive. Due to that Astra had Zeneca could the entity survive. (Brown, 2008 & Ternby, 2007)

In 2000 annual report the benefits of the merger were stated:”AstraZeneca moved swiftly to operate as an integrated entity and is delivering synergy benefits ahead of plan. At the end of 2000 these reached $650 million, more than halfway towards the targeted benefits of $1.1 million per annum”.

Despite that R&D costs increased in year 2000, the synergy and integration realised cost benefited of $101 million during the year (annual report, 2000)

Furthermore, in 2000 Annual report, many comments from several departments are stated of how they were convinced that the merger had “added business value and will make the Company more successful”.
In 2001 annual report it could be read: “the merger is now well behind us and we have delivered the promised synergy benefits. Having successfully completed the process of merger” (Percy Barnevik in annual report of 2001)

A statement made in 2001 Annual Report clearly demonstrate the benefits AstraZeneca had from the merger due to the synergies of two companies which resulted in reducing costs, “The annual benefits which we expect to be delivered from the merger programme by the middle of 2002 amount in total to 1.1 million dollars of which approximately two thirds will arise in selling, general and administrative expenses, one quarter in R&D and the remainder in production and distribution. Actual benefit achieved in 2001 was $1 million, giving total benefits to 31 December 2001 of over $1.6 million” (Annual Report, 2001).
5. Analysis

The chapter purpose is to present an analysis based on the case study with the theoretical framework in order to identify the motives behind the merger of AstraZeneca.

5.1. Synergy

In the pharmaceutical industry, R&D is pointed out to be the factor which can enhance a company’s competitive advantage. Furthermore, a fast development process and a wide product portfolio are seen as success factors which can enhance its ability to reach its goal. Consequently, joint ventures have become a common strategy which provides the companies to receive advantages of each other competences concurrently as sharing the costs. However, to reach the synergy process acquires a long time and studies indicate that the pace of the integration process is a crucial factor for making a merger successful. Furthermore, studies agree on the factor that the faster the synergy process can be done by the partakers, the better it is for the company.

When analysing AstraZeneca’s motives that were provided to the shareholders, it can clearly be seen that one of the strongest reasons was to generate financial synergy effect. As mentioned, financial synergy can be categorised into revenue enhancing or cost based synergy. Furthermore, in the pharmaceutical industry cost based synergy is often attempted to reach since R&D is a very costly department within a company. Thus, the merger of AstraZeneca generated increasing efficiency in operations. A pre-tax cost saving-objective was set before the merger to be reached from the third year of the completion. However, the company managed to reach the goal within two years. Moreover, a reduction of duplication in staff tasks and integrated sales forces further increased the cost based synergy.

Since AstraZeneca managed to reduce its costs, it was able to make larger investments in R&D which eased the sales as larger volumes could be handled. In addition, a diverse globalisation strategy involving selling the same products over a larger geographical area increased the sales. As a result, AstraZeneca managed to accomplish both cost based concurrently as revenue enhancing synergy effects.
5.2. **Diversification**

Other factors that are crucial for a successful merger is that the two companies fit for each other. Most studies demonstrate that if diversification is the motive of a merger the two units have to have a high complementarily.

AstraZeneca enhanced this motive since the firms had complimentary product portfolios. Even though some researched had been made by the two companies in the same area, the research was not overlapping each other and could instead be seen as an advantage since it increased their knowledge.

AstraZeneca endeavored to become the third largest in the world and to hold a strong presence in the US and on the European market. Furthermore, this was able to be reached since the partakers could together generate a wide product portfolio. Further on, the joint ventures strengthen them by keeping strong position within specific areas. In addition, Astra was about to lose its patent on one of its important products. However, by cooperating with Zeneca a replacement were developed which became a great success and their strong market position was sustained.

As a result, AstraZeneca achieved a successful diversification of its product portfolio which strengthens their role in the pharmaceutical industry.

5.3. **Market Share Increase**

To achieve greater market power is often announced to be a motive of an M&A. In addition, it is discussed to benefit the stakeholders, increase economies of scale and the productivity. However, some research state that it can generate negative consequences such as the firm can grow too big and therefore have a slow down a few years after the joint venture have taken place.

AstraZeneca’s motive of reaching global power was implemented by using a strategy that made the firm create a product portfolio which could easily be adapted to every market specific demand. Furthermore, by successfully diversify their products and reach positive synergy effects; a strong market position was reached on the US and the European market.
Even though critic have been raised regarding merging firms growing too big, according to the research made, this is not the situation for AstraZeneca. In addition, in order to keep the R&D costs down concurrently as offering a broad product portfolio, AstraZeneca need to have a strong market position in order to compete on a global basis.

Down below a table is presented which clarifies factors that were accomplished through the merger of AstraZeneca.

<table>
<thead>
<tr>
<th></th>
<th>Synergy (includes economies of scale and scope and cost reduction)</th>
<th>Which AstraZeneca accomplished</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Improved management</td>
<td>Could not be fully confirmed</td>
</tr>
<tr>
<td>3</td>
<td>Diversification</td>
<td>Which AstraZeneca accomplished</td>
</tr>
<tr>
<td>4</td>
<td>Financial benefits (include having greater access to capital market, which later leads to a lower cost of capital)</td>
<td>Could not be fully confirmed</td>
</tr>
<tr>
<td>5</td>
<td>Greater market power (include quick growth)</td>
<td>Which AstraZeneca accomplished</td>
</tr>
<tr>
<td>6</td>
<td>Gain superior productivity and efficiency in the production process</td>
<td>Which AstraZeneca accomplished</td>
</tr>
<tr>
<td>7</td>
<td>Increased share price (short-term)</td>
<td>Which AstraZeneca accomplished</td>
</tr>
</tbody>
</table>
6. Conclusion

In this section, we are to present the conclusions of our study. Based on our analysis, AstraZeneca accomplished success factors are presented. Thereafter follow our final conclusion to our question at issue.

In order to accomplish the purpose of the thesis, the analysis was structured according to the motives that were set for the merger between Astra and Zeneca. Furthermore, a discussion was held regarding the motives in order to provide the reader with important facts that need to be clarified in order to succeed. However, a conclusion if AstraZeneca was a successful merger cannot be based on these findings. Furthermore, this section presents the results based on the critical success factors and the empirical data in order to answer the question at issue: “Are Mergers and Acquisitions a successful way of growth?”

The merger of AstraZeneca was a well planned joint venture which involved two companies with clear visions. Astra was before the merger in a situation that was not going to last for long. In addition, the conditions on the market which altered concurrently as the company was threatened of being acquired made the Head of Directors realise that its production lines would not be able to sustain on the same level in the future. As a result, Astra comprehended that a joint venture would be the best solution. Since Astra and Zeneca had complementary products- and research lines, the firms were seen as a perfect match. Furthermore, Zeneca which had endeavoured to reach a greater market position recognized that a merger with Astra would increase its probabilities to reach its goal.

Before the merger took place, the partakers made certain that they shared a clear vision by having several meetings. As a result, AstraZeneca was able to announce its vision of becoming a great market leader on the global market concurrently as being superior in certain smaller niche markets.

Even though, it was in actuality Zeneca that acquired Astra, Zeneca’s Head of Directors agreed on keeping managers from both firms into the joint venture. Thus, the partakers made sure that both companies were supported in the most efficient way concurrently as it became certain that it followed a strategy that made it possible to
reach their vision. However, the role of CEO of AstraZeneca became Dr. Tom McKillop, former CEO for Zeneca.

Together Astra and Zeneca offered balancing product portfolios which together as one enhanced their ability to reach new market segments. Furthermore, by reducing the costs new products could more easily be developed. As a result, AstraZeneca was able to reach product differentiation with new products on new market.

AstraZeneca had a motive of becoming the third largest company in the pharmaceutical industry worldwide and have a strong presence in Europe and US. Furthermore, since the board of directors had a clear vision the integration process went efficiently which concluded in that the firm, only one year after the merger had taken place, became the third largest player in the pharmaceutical industry. Moreover, due to AstraZeneca’s highly developed R&D department and an increased budget made them an attractive partner on the market.

Before the merger, Astra and Zeneca were aware that it may issue some communication problems due to cultural differences. However, since the organisations implemented similar culture values before the merger, the firms never considered it as hinder and the use of external professional advisors was seen as needless. Even though, AstraZeneca’s employees experienced some communication problems, it can be seen as a thriving factor since the integration and the placement of leaders went smoothly.

An effect to the joint venture was that stakeholders could easily issue more shares. However, it can be a negative aspect to AstraZeneca since its performance is more vital to reflect the amount of shares issued. However, during the first years after the merger, the conditions within the pharmaceutical industry was altered which can be seen as a reason for its bad performance in short term. However, AstraZeneca continued to perform badly and until 2007, the share price had not reached the same value as it had before the merger occurred. As a result, the merger of AstraZeneca cannot be stated as successful when analysing its impact on share value since neither theoretical frameworks nor empirical data state positive results in a short nor long term prospect.
To sum up, to conclude if the merger of AstraZeneca has been successful depends on choice of perspective. In addition, it concerns two standpoints; shareholders or from a business perspective. From a shareholder point of view, focused is made on increasing share value and the merger is being evaluated based on these results. Moreover, discussions can be held regarding if Astra’s stakeholders earning per share would be more profitable if the company would have continued as a separate entity or if the company would have been acquired by a firm focused on only creating a higher share value and in the end would sell of the organisation again. However, these are only short term aspects and cannot be seen from a business perspective. When the merger is examined in a long term, value is added to synergy effects and how these have been reached concurrently as the business achievements. In addition, the aim for the merger between Astra and Zeneca was to create values by reducing costs and to earn global power. As a result, based on our analysis, the merger deal has created both financial and international advantages and can therefore be stated as successful. However, it can never be clarified that the merger deal created advantages that would not exist if Astra and Zeneca did not become one company.
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