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The impact of post-merger integration on the customer–supplier relationship

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ABSTRACT

While the impact of mergers and acquisitions (M&A) on internal stakeholders has generated considerable empirical study, comparatively little academic attention has been paid as to how external stakeholders such as customers are affected by, and respond to, M&A activity. This study adopts case-study methodology to illuminate how the customer–supplier relationship is affected by post-merger integration processes in the business-to-business context, with the aim of increasing our understanding of why customers respond to M&A in the ways that they do. The findings highlight the importance of a set of critical customer relationship variables through which post-M&A integration actions can influence customers' perceptions of the merged organisation and, ultimately, their purchase decisions. We also identify a set of specific individual integration actions that appear to trigger changes in the critical customer relationship variables. Together, the findings contribute to our understanding of the precise mechanisms through which M&A can affect customers' purchase decisions and the combining firms' market-related performance. More broadly, consistent with the stakeholder perspective, they reinforce the need to take account of external as well as internal stakeholders when considering the drivers of M&A outcome. Implications are discussed for future research as well as for B2B service industry executives involved in M&A.

1. Introduction

Mergers and acquisitions (M&A)[1] continue to be a popular form of corporate expansion, frequently undertaken as a route to market penetration and market entry (Weber & Dholakia, 2000). For example, the value of M&A announced globally in 2012 exceeded two trillion US dollars, despite the depressed economic environment in many developed nations. However, in a paradox to their popularity, empirical studies continue to find that almost half of all M&A fail to meet their original objectives and result in value destruction for acquiring firm shareholders (Schoenberg, 2006).

Stakeholder theory argues that business performance is best understood by examining the relationships between a business and all the groups who can affect or are affected by it (Freeman, 1984; Parmar et al., 2010). While there has been much debate on the relative importance of different stakeholder groups (Mitchell, Agle, & Wood, 1997), there is general acknowledgement that customers, suppliers, communities, employees, managers and financiers are key constituencies (Parmar et al., 2010). It is notable, however, that in seeking to understand the drivers of M&A outcomes, the majority of empirical research has concentrated on the role played by internal firm factors such as strategic relatedness, organisational fit and cultural compatibility (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Stahl & Voigt, 2008). This has generated considerable insights into how M&A impacts internal stakeholders, but in comparison relatively less academic attention has been paid as to how external stakeholders, such as customers, are affected by, and respond to, M&A activity.

The industrial marketing literature has long recognized the importance of a firm's relationship with its customers as a key driver of firm performance in business-to-business (B2B) markets (Evans & Laskin, 1994). The customer–supplier relationship has been shown to be one of the primary determinants of customer loyalty (Rauyruen & Miller, 2007), which in turn drives a supplier's performance in terms of share-of-wallet and ultimately market share and profitability (Rust, Zahorik, & Keiningham, 1995). Changes in the customer–supplier relationship as a result of M&A activity are therefore likely to be of key importance for firms undertaking M&A in B2B markets. Indeed, studies undertaken from a business network perspective have documented how M&A can bring about both planned and unexpected changes to a company's relationships with its business partners, including strengthening, deterioration, or even termination of the relationship with individual customers (Anderson, Havila, & Salmi, 2001; Öberg, Henneberg, & Mouzas, 2007). These studies have also suggested that the combining companies' internal M&A integration processes may play an important role in driving these external relationship changes (Bocconcelli, Snehota, & Tunisini, 2006). However, while this and other emerging research has established a link between post-M&A integration processes, customer retention and overall

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[1] The terms merger and acquisition are used interchangeably in this paper.

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acquisition outcome, we still know relatively little of the actual mechanisms through which post-M&A integration actions exert their impact on customers and their purchasing decisions.

This study therefore adopts case-study methodology to illuminate how the customer–supplier relationship is affected by M&A integration processes in the B2B context. Our aim is to increase our understanding of why customers respond to M&A in the ways that they do and the underlying determinants of whether they choose to maintain, increase or decrease their spending with the newly merged supplier firm. We believe the findings we report make two primary contributions. First, we highlight the importance of a set of customer relationship variables through which post-M&A integration processes appear to exert their impact on customer loyalty. It is these antecedents of customer loyalty that are directly impacted by M&A integration actions and which, in turn, drive changes in customers' perceptions of the merged organisation and, ultimately, their purchase decisions. Second, while prior studies in this emerging area have tended to consider post-M&A integration processes in relatively broad terms, we identify a set of specific individual integration actions that appear to trigger changes in the critical customer relationship variables. Together, these findings provide an important step towards understanding the precise mechanisms through which M&A can affect customers' purchase decisions and the merging firms' customer-related performance. More broadly, they support the need to take a stakeholder perspective in advancing our knowledge of the determinants of acquisition outcome and underline that future research should continue to look beyond internal stakeholders to the wider impacts of M&A activity on customers and other external stakeholders.

2. Literature review

Post-M&A integration is recognized as one of the critical phases of a merger or acquisition (Calipha, Tarba, & Brock, 2010). It has been defined as the period when the "firms come together and begin to work towards the acquisition's purpose" (Haspeslagh & Jemison, 1991, p. 105) and "the interaction and coordination between the firms involved" (Larsson & Finkelstein, 1999, p. 6).

The impact of post-M&A integration on internal stakeholders has been relatively widely researched (Cartwright & Schoenberg, 2006) and considerable insight has been gained into the impact of M&A on executives, managers and employees of the combining firms, on aspects ranging from their acculturative stress and social identity to their work productivity and collective learning. Schweiger and Goulet (2000) present a comprehensive review of this literature stream and therefore it is not discussed further here given our focus on customer impacts.

Comparatively less academic attention has been paid to how external stakeholders, including customers, are affected by M&A activity. A number of studies undertaken from a network perspective have provided insights into how a firm's external business relationships can be impacted by M&A within an industry. Havila and Salmi (2000) argue that M&A can be considered as critical incidents that cause radical changes in business networks, including the relationship between customers and suppliers, noting that some of the effects they observed were planned and intended, but many others were unexpected. In addition, Anderson et al. (2001) illustrate how customers' confidence in a supplier can be eroded following acquisition, observing that while some customers anticipated simplified purchasing processes and extended product ranges, others were concerned about potential price increases, constrained supply choice and reduced commitment towards them. Bocconcelli et al. (2006) studied 12 horizontal acquisitions and found that between 20 and 80% of the customer and supplier relationships were either broken or newly developed in the three year period following acquisition. The observed changes in customer relationships were seen to arise from increased formalisation introduced by the acquirer, for example greater use of formal contracts and standardised procedures, which also brought about a reduction in informal social and technical exchanges with customers (Bocconcelli et al., 2006). Other research in this tradition has highlighted that M&A may also affect managerial cognition and challenge both the firm's and customers' long held perceptions about the nature of their relationship, suggesting the importance of post-merger communication and symbolic activity (Öberg et al., 2007). These studies have generally utilised case studies of relatively small industrial acquisitions to facilitate a focus on changes in the network of business relationships and acknowledge that the interaction between internal M&A processes and the customer–supplier relationship is a fruitful area for future research (Anderson et al., 2001).

Other cross-sectional empirical work in the marketing and strategy fields has found that a high degree of post-M&A integration can be detrimental to both customer retention and market share (Homburg & Bucerius, 2005; Zollo & Meier, 2008), although the impact appears to be moderated when the integration has a strong customer orientation (Homburg & Bucerius, 2005). Further, these studies show that a deterioration in market-related performance, as measured by customer retention and market share, has a negative influence on the financial performance of the acquisition (Homburg & Bucerius, 2005; Zollo & Meier, 2008). Indeed, each of these authors concludes that customer-related issues have been neglected in the literature and may explain the reason why decisive factors for M&A success are still elusive.

This emerging set of empirical studies has established high level relationships between the extent of post-M&A integration, customer-related performance and acquisition outcome. However, we still know relatively little about the direct impact of specific integration actions on the customer relationship, or the causal mechanisms by which the former affect the latter. Therefore the primary research question for our study was "how and why do post-M&A integration actions undertaken at the supplying firm following its involvement in a merger or acquisition impact the customer–supplier relationship?"

3. Methodology

This research question was explored using case study methodology (Yin, 2009). The research site was a major pan-European B2B service provider (sales > Euro 15 Bn), which was formed as a result of a three way horizontal merger and that underwent full integration of the three separate business units between 2003 and 2005 ("the Merger"). The B2B service sector provides a particularly appropriate context for our study since the customer–supplier relationship has been established as a critical determinant of performance in this sector (Lam, Shankar, Erramilli, & Murthy, 2004; Rauyruen & Miller, 2007). Furthermore, the human and behavioural impacts of post-M&A integration actions are key to the outcome of service industry M&A (Saunders, Altinay, & Riordan, 2009). The focal Merger was the largest undertaken in its industry sector to date. It involved the full integration of three previously autonomous business units, two of which had been recently acquired by the parent company. Each of the business units operated across all of the major European nations, although two of the business units had separate and distinct service offerings, systems and structures in each country prior to the Merger. The broad objective of the integration was to restructure the three businesses into a single pan-European operation offering a "one stop shop" to multinational customers. The overall integration approach can be described as "absorption" in terms of Haspeslagh and Jemison's (1991) integration typology. The use of a single case design was considered appropriate given the exploratory nature of our study and since the case selected could be considered a unique example (Yin, 2009), offering particularly rich insights due to its size and complexity.

A series of semi-structured interviews were conducted with 18 major multi-national customers that had business relations with both the pre-merger businesses and the subsequent merged firm. The customer interviewees all had purchasing decision making responsibility and typically had job titles such as Procurement Director, European Operations Director or Supply Chain Director. Half of the customers interviewed had maintained or increased their purchase volumes following the Merger, while half had decreased volumes. A similar set