Can You Buy a Business Relationship?

On The Importance of Customer and Supplier Relationships in Acquisitions

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Mergers and acquisitions have become a popular strategy for gaining growth. Studies show, however, high failure rates for acquisitions. Earlier literature concentrates on the strategic or organizational fit between companies and integration processes and fails to recognize the companies’ external business relationships. An implicit assumption seems to be that through acquisition the market position of the target firm can be taken over. We argue that it is not always easy or even possible to take over a company’s customer and supplier relationships. We elaborate on the various problems related to relationships that acquisitions may give rise to. Our conceptual discussion is illustrated with a case study from the graphics industry. © 2001 Elsevier Science Inc. All rights reserved.

INTRODUCTION

Mergers and acquisitions (M&A) have been, and continue to be, a very popular strategic alternative for company growth and/or diversification. Motives prompting mergers include increase of market share, reduction or elimination of competition, quick and economical entry into a business, impulse purchase of a bargain-priced business, reduction of overdependence on geographical presence, acquisition of new technology, exploitation of multiple synergies, and a desire to grow rapidly [1].
The phenomenon of M&A has attracted strong academic interest too. Studies have emerged in the fields of financing, industrial economics, strategic management, and organization theory. On the one hand, the literature concentrates on comparing the acquiring and the target firms: the strategic and organizational fit and synergy between the two companies [2, 3]. On the other, analysis of process—concerning, for example, premerger negotiations, acquisition behavior, postmerger integration, and performance—has been prominent [1, 4, 5]. Earlier literature shows that expected gains from takeovers seldom materialize and that most M&As fail [2, 4, 6]. By failure, it is meant that the acquisition or merger does not improve the performance or does not measure up to managers’ evaluations. Several studies [1, 5, 7] also suggest that failures in the integration process are important reasons for M&A failure.

The literature thus far has concentrated on the characteristics of the two merging companies and their integration. In our view, this focus fails to recognize the interdependence between a firm and its environment and is therefore too narrow. A large proportion of the M&A literature seems to be based on the assumption that managerial actions have a major influence on the success of the acquisition or merger (cf. [8]). The resource-dependence view, however, would argue that external factors greatly influence the success of any company operations [9]. In this article, we take the more contextual approach to acquisitions. We argue that another reason for failure may be lack of recognition of the context of the merging companies, that too much effort is concentrated on the mutual fit of the two merging companies.

To provide new understanding of the phenomenon of M&A, we focus on the merging companies’ external business relationships. We propose that an acquisition influences and is influenced by not only the two merging companies, but also by their customer and supplier relationships. And that the way these relations are influenced may have a decisive effect on the outcome of the acquisition. Moreover, as Johanson and Mattsson [10] point out, “. . . [T]he major aim of the acquisition may be to get control of the exchange relationships, to change their character, or to change the connections between exchange relationships. Control of exchange relationships through acquisitions is, however, never certain, since there are always two actors involved” (p. 217). We therefore raise the question whether external relationships, with regard to their character of being continuously formed through interaction, can be taken over, i.e., bought, when buying a company.

The purpose of this article is to discuss what type of effect—intended and unexpected—acquisitions may have on the existing customer and supplier relationships of the merging companies. Our discussion is conceptual in character but is illustrated with a case study. The empirical data concern the graphics industry. We focus on one Swedish company in particular that has been involved in several M&As. We point out that external business relationships should be given explicit attention in both premerger and integration phases.

In the literature, mergers and acquisitions often are discussed simultaneously and grouped under the heading
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