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Market growth through mergers and acquisitions: The role of the relationship marketing manager in sustaining performance

R. Glenn Richey Jr.[a,*], Timothy S. Kiessling[b,1], Mert Tokman[c,2], Vivek Dalela[d,3]

[a] The University of Alabama, Culverhouse College of Commerce and Business Administration, 129 Alston Hall, Tuscaloosa, AL 35487, United States
[b] Bond University, University Drive, Robina, Gold Coast, Queensland, 4229, Australia
[c] James Madison University, College of Business, MSC 0207, Harrisonburg, VA 22807, United States
[d] The University of Alabama, Culverhouse College of Commerce and Business Administration, Tuscaloosa, AL 35487, United States

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Abstract

This research suggests that firms considering a merger and acquisition strategy need to pay attention to the relationship marketing managers of the target firm and the implicit agreements that have kept them with the target firm. The results of this study convey that the joint activity of maintaining the implicit contracts and retaining the relationship marketing managers have a stabilizing and positive impact on the productivity of subordinate marketing employees. These employees are a key success factor that enables the target firm to function effectively after the acquisition.
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1. Introduction

The 1980's were a time of great emphasis on corporate and brand acquisition as a growth strategy. Despite some popular beliefs that mergers and acquisitions are past history, the strategy is actually still going strong. In fact, in 2004 global mergers and acquisitions deals worth $1.95 trillion were announced, which was a 41% growth from 2003 (Wall Street Journal, 2005a), and in 2005, global mergers and acquisitions transactions were estimated to be worth $2.9 trillion (Wall Street Journal, 2005b). Some recent examples of strategic mergers and acquisitions include Computer Associates purchase of Concord Communications for $330 million, Time Warner and Comcast purchasing Adelphia Communications Corporation for $17.6 billion, Wachovia buying Palmer and Cay Insurance (revenues of $400 million), and Omnivision buying CMD optics for $30 million. It seems apparent that organizational growth strategists will continue to utilize mergers and acquisitions as a viable means to grow their market offerings in the 21st Century. Yet, from a firm process perspective, it is still unclear how firms turn new acquisitions into successful ventures in a marketing context.

A review of 343 mergers and acquisitions indicates that most are "friendly" in nature and the target firm is typically in a related industry (i.e., in a similar industry or product line) (Venture Reporter, 2004). In terms of marketing strategy, "These days, there's a trend toward focused companies making closely related acquisitions, and hardly any new conglomerates are forming" (Wall Street Journal, 2004, p. 6). Despite the continuance and popularity of merger and acquisition strategies — firms quite often see fleeting or negative returns on investment (Bergh, 2001). We suggest the one reason is likely related to the retention of the relationship marketing managers (RMMs) of the target firm and the employees they manage.

In many mergers and acquisitions, one of the most valuable resources of the target firm is its RMM(s). These managers include key account managers, supply chain managers, and nearly any manager who is involved in building, growing, and

* Corresponding author. Tel.: +1 205 348 8922.
E-mail addresses: grichey@cba.ua.edu (R.G. Richey), tim.kiessling@eku.edu (T.S. Kiessling), mtokman@cba.ua.edu (M. Tokman), vdalela@cba.ua.edu (V. Dalela).
[1] Tel.: +61 7 559 51111.
[2] Tel.: +1 540 568 3254.
[3] Tel.: +1 205 348 6696.

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maintaining inter-organizational exchange relationships in a marketing environment (Seshadri & Mishra, 2004). Despite the importance of the RMMs in maintaining post-acquisition inter-organizational relationships, much of the existing research on mergers and acquisitions has specifically focused on top management teams rather than those fostering and cementing relationships (Hubbard & Purcell, 2001; Adobor, 2004; Bijlsma-Frankema, 2004; Walsh & Kosnik, 1993; Cannella & Hambrick, 1993). The use of mergers and acquisitions as a market growth strategy suggests that the marketing human resources of the target firm are valuable assets due to the importance of long-term growth through consistency. Suitable efforts need to be made to retain these key managers after the acquisition.

In terms of maintaining relationships with acquired RMMs, the organization's culture, strategy, and dynamics are largely dependant on the RMMs of the acquired organization (Cyert & March, 1963; Pfeffer, 1981; Salancik & Pfeffer, 1977) and as such, key managers need to be retained for the continued good performance of a successful target firm (Finkelstein & Hambrick, 1996; Koch & McGrath, 1996). In this study we suggest that key success factors such as implicit contract maintenance, RMM retention, and subordinate marketing employee performance impact a firm's post-acquisition performance through an employee mediated relationship.

2. Relationship managers in a marketing context

The inclusion of the employee as a key link in post-acquisition performance can be viewed from a relationship marketing perspective. Relationship marketing (RM) is seen as relationships and network interactions in which two or more parties (supplier, customer, competitor, etc.) create value for each other through joint effort (Gummesson, 1997). RM is part of the developing network paradigm which recognizes that competition occurs increasingly between employees' networks amongst firms (Thorelli, 1986). These networks are defined by inter-firm interactions of enduring buyer–seller relationships where emphasis is placed on the social and economic interaction of the actors (Ford & Håkannsson, 2006). This research's foundation is largely attributed to the work of the Industrial Marketing and Purchasing Group (IMP) (Brennan, 2006) and has progressed in attempting to explain the interconnectivity of the network through individual relationships (Håkansson & Snehota, 2000).

The properties of RM (ex. trust, honesty, benevolence, reliability, commitment, and diligence) are required as these are knowledge-creating relationships (Oliver, 2004). These relationships have exposed the true nature of networks (individual business relationships and networks) (Dittrich, Jaspers, van der Valk, & Wynstra, 2006) which now suggest that firms act interdependently (Ford & Håkannsson, 2006). Overall, RM presents a paradigm shift in marketing thought (Gummesson, 1997). The marketing thought shift towards relationship marketing is highly apparent in the recently developed Service-Dominant Logic (SDL) (Lusch & Vargo, 2006). First, SDL is a firm's competence in developing collaborative relationships is a key resource in attaining a sustainable competitive advantage (Lusch, Vargo, & O'Brien, in press). That is because the ability to build collaborative relationships leads to an improved capability in obtaining tacit information and/or knowledge from its value chain, allowing firms to become more adaptive and flexible in dynamic and complex environments. In this regard, a firm's RMMs play a very important role in building, maintaining, and growing such collaborative relationships. Secondly, SDL calls for co-creation of value between the firm and its value and supply chain partners and suggests that firms gain competitive advantage by engaging supply chain partners in value co-creation initiatives (Lusch et al., in press). When the partners are integrated into the value-creation process, they develop a sense of ownership in the market offerings of the interconnected firms. This sense of ownership leads to enhanced customer experiences and ultimately to improved customer loyalty. Once again, the firm's RMMs perform a critical function in understanding how business partners uniquely integrate and experience the firm's value offerings. Thirdly, SDL suggests that firms can develop superior market offerings if they adopt collaborative pricing methods that minimize risk for the buyer and allow the firm to share gains with the partner (Lusch et al., in press). RMMs are an essential part of such collaborative agreements as the firm's agent that understands the risks for the buyer and thus can develop a win–win solution for both parties.

Relationships and collaborative value creation are central to SDL (Vargo & Lusch, 2004). The RMMs are a key to supporting the SDL's view of inter-firm co-value creation. A relationship manager's role in the SDL context can be viewed as: (1) building, maintaining, and growing collaborative relationships; (2) understanding how the value chain partners can be integrated into the firm's value-creation processes; (3) developing collaborative agreements as the focal firm's agent in understanding the risks for the buyer and creating a win–win solution for both parties. These three dimensions of relationship marketing activities can be found separately in extant literature — however, SDL is a view that brings together all three dimensions and therefore provides a comprehensive understanding of a relationship manager's role in the marketing context.

2.1. Relationship marketing managers in practice

The RMMs within a firm can hold a number of roles, responsibilities, and positions. Although RMMs are boundary spanners, they differ from the simpler classification of boundary spanners as they are heavily involved in managing the complexities of firm to firm relationships that foster a market oriented strategy. Research suggests that frontline personnel may not accurately assess the client's reality (Paulin, Perrien, Ferguson, Salazar, & Seruya, 1998) and thus RMMs may be needed to guide these personnel. While RMMs are heavily involved in boundary spanning activities, positions like credit managers and compliance officers are boundary spanners, but are not necessarily involved in fostering market based relationships. One such example of fostering long-term relational orientation as a RMM is that of the Key Account Manager (KAM). The KAM maintains numerous key relationships – through strategic relational interactions – between vital partner firms and his/her