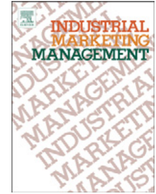
Industrial Marketing Management 46 (2015) 24–35

Contents lists available at ScienceDirect

Industrial Marketing Management



Creating or destroying value through mergers and acquisitions: A marketing perspective

Mahabubur Rahman *, Mary Lambkin

Smurfit Graduate Business School, University College Dublin, Blackrock, Co Dublin, Ireland

ARTICLE INFO

Article history:
Received 23 October 2013
Received in revised form 15 August 2014
Accepted 18 August 2014
Available online 11 March 2015

Keywords:
Mergers and acquisitions
Post-merger performance
Marketing
Synergy
Value

ABSTRACT

A majority of mergers and acquisitions are horizontal, combining companies within the same industry. They are most frequently motivated by a desire to achieve revenue and profit growth through market expansion or by adding new product lines, with cost efficiencies being a secondary agenda. However, the modest body of literature on post-merger performance using marketing metrics indicates that marketing objectives such as sales revenue and market share growth are rarely achieved. This paper reports on a detailed study of 45 M&A deals undertaken to develop a deeper understanding of how marketing performance is affected by mergers and acquisitions. Our results show that marketing performance improved along two dimensions — sales revenue growth, and a reduction in selling, marketing and administrative costs as a percentage of sales revenue, suggesting the realisation of synergies in these areas — economies of scale and scope. However, these benefits did not follow through into better returns on sales suggesting that the marketing cost economies are not sufficient to outweigh cost diseconomies in other parts of the business.

© 2015 Elsevier Inc. All rights reserved.

1. Introduction

It is well-known by now that mergers and acquisitions (M&As) come in waves and we have witnessed a major wave through the 1990s and up to 2007 when the value of deals reached an all-time record level of $4.1 trillion, representing 76,000 M&A deals (Martynova & Renneboog, 2008). Thomson Reuters recorded a total of 752,000 deals around the world from 1985 to the end of 2012, demonstrating the enormous scale of this phenomenon. Deal activity slowed dramatically in 2008 and 2009 due to the global financial crisis but resumed again in 2010. Global deals numbered 37,000 in 2012, with a total value of US$2.4 trillion (Reuters, 2012).

Given this very active market for corporate assets, mergers and acquisitions have received extensive research attention from several disciplines, with most from economics, finance and accounting, and least from marketing (e.g. Anderson, Havila, & Salmi, 2001; Bahadir, Bharadwaj, & Srivastava, 2008; Havila & Salmi, 2000; Homburg & Bucerius, 2005; Öberg & Holtström, 2006; Weber & Dholakia, 2000). Each discipline looked at M&A deals through its own lens, with one section of the literature concerned with the causes and characteristics of M&A deals, and another concerned with the gains and losses resulting from M&A deals.

The evidence shows that a majority of M&A deals are horizontal, meaning that they involve the purchase of another company in the same industry, either at home or abroad (Andrade, Mitchell, & Stafford, 2001; Kengelbach & Roos, 2011). According to UNCTAD (2006), horizontal M&As accounted for approximately 80% of all M&A deals worldwide in the 1990s and 2000s. Such horizontal acquisitions imply a motivation to increase revenues by expanding market scope and/or market share, and possibly by adding new products to the portfolio. They also suggest a pursuit of synergies in various aspects of operations, with an impact both on revenues and cost efficiencies (Gugler, Mueller, Yurtoglu, & Zulehner, 2003).

Whether these synergies are actually realised is an empirical question which has attracted a great deal of research effort in several disciplines. By now, there is a large body of research evidence in the economics and finance literatures to indicate that mergers and acquisitions actually have a poor record of success, with the main beneficiaries being the sellers of businesses who reap a one-off gain from the premium paid to acquire their firm (Andrade et al., 2001; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009).

Considerable research evidence exists to show that the generally poor outcome of acquisitions results from the fact that the hoped for synergies are rarely realised (Ficery, Herd, & Pursche, 2007; Homberg, Rost, & Osterloh, 2009). The research on this topic tends to be largely from finance and accounting and focuses predominantly on financial measures, and cost savings in production and related issues. The marketing dimension of post-merger performance has received very little attention despite the fact that the motivations for mergers are frequently stated in marketing terms. Moreover, the few existing studies on post-merger marketing performance typically examined only one dimension of the construct such as sales or market share, while

* Corresponding author. Tel.: +353 894820031.
E-mail addresses: Mahabubur.rahman@ucdconnect.ie (M. Rahman), mary.lambkin@ucd.ie (M. Lambkin).

http://dx.doi.org/10.1016/j.indmarman.2015.01.003
0019-8501/© 2015 Elsevier Inc. All rights reserved.

marketing performance is actually a multidimensional construct (Ambler & Roberts, 2008; Seggie, Cavusgil, & Phelan, 2007; Stewart, 2009).

This paper sets out to advance our understanding of post-merger performance from a marketing point of view, as an addition to the wider literature on post-merger performance. A further contribution rests in the fact that the study reported here uses multiple measures of marketing performance in order to provide a more comprehensive understanding of the value drivers in post-merger performance. This study is based on a sample of 45 M&A deals that took place in the United States between 1990 and 2000, a period in which such deals were believed to be motivated primarily by value enhancement (Haleblian et al., 2009; Martynova & Renneboog, 2008; Roll, 1986; Seth, Song, & Pettit, 2000; Trautwein, 1990). The study examined detailed marketing and financial metrics on both the acquirers and the targets to investigate their behaviour and performance for the three years pre-merger and the three years post-merger.

The paper is organized as follows. In the next section, following this introduction, the literature on post-merger performance is reviewed, with particular attention to post-merger marketing performance. The third section of the paper delineates the relevant theories underpinning the topic of post-merger marketing performance and develops a set of testable hypotheses. Section 4 describes the study reported in this paper, the data and the methodology. Section 5 presents the findings of the study, as well as a discussion of the implications of these findings for theory and practice. The paper concludes with a discussion of the limitations of this study and suggests fruitful directions for future research.

2. Post-merger performance: a review

Post-merger performance is usually defined as the amount of value created as a result of a merger or acquisition (King, Dalton, Daily, & Covin, 2004), and the concept of value creation is synonymous with that of synergy — the $2 + 2 = 5$ effect (Ansoff, 1957; Seth, 1990). The existing literature examined a number of potential reasons for mergers and the most commonly studied motive for M&A is achievement of synergy (Agrawal & Jaffe, 2003; Haleblian et al., 2009; Trautwein, 1990). Synergy occurs when the combination of two firms results in increased efficiency (i.e. lower cost) and/or increased effectiveness (i.e., more appropriate allocation of scarce resources, given environmental constraints) than operating as separate entities (Lubatkin, 1983). Furthermore, value can be created in horizontal mergers through both cost-based synergy and revenue-based synergy (Capron, 1999).

The critical question is whether merging companies do actually generate sufficient value through the exploitation of synergies to repay the premium paid to acquire the target firm, and to provide a satisfactory return for shareholders. An enormous empirical literature on this issue exists, beginning in the 1960s and continuing right up to the present day (Haleblian et al., 2009; King et al., 2004; Tuch & O'Sullivan, 2007). Post-merger performance has received attention from several different disciplines including Accounting, Finance, Economics, Industrial Organization and Management (Zollo & Meier, 2008; Zollo & Singh, 2004). Despite the extensive volume of research and the variety of the methodologies applied, the evidence is extremely mixed, with a broad consensus that mergers and acquisitions do not add value (Andrade et al., 2001; King et al., 2004; McNamara, Haleblian, & Dykes, 2008; Tuch & O'Sullivan, 2007).

The two most common perspectives taken by studies on post-merger performance are the shareholder perspective, measuring returns based on share value, and the accounting-based perspective, measuring operating profits. The measurement of shareholder return through an event study methodology seems to be the most popular research approach, underpinning a majority of the studies by economists and finance scholars (Andrade et al., 2001; King et al., 2004; McNamara et al., 2008; Tuch & O'Sullivan, 2007). It is based on capital market efficiency theory, which assumes that current stock prices reflect future earnings potential (Duso, Gugler, & Yurtoglu, 2010). In respect of post-merger performance, the evidence suggests that the short-term announcement effect of takeovers is at best insignificant, and long-term performance is overwhelmingly negative (Martynova & Renneboog, 2008; Tuch & O'Sullivan, 2007). Furthermore, there is no evidence that takeover performance improves over time; indeed, there is some evidence that more recent takeovers may have been the most detrimental to shareholder wealth (Haleblian et al., 2009; Martynova & Renneboog, 2008; Tuch & O'Sullivan, 2007).

Accounting research tries to evaluate post-merger operating performance, defined as profitability and efficiency changes in the combined entity following mergers or acquisitions, compared to the performance of the two entities separately. Typically these studies examine operating margins and return on assets over one, two or three years after the merger. A meta-analysis based on the results of 93 studies representing 206,910 companies conducted by King et al. (2004) provides a comprehensive summary of the accounting and finance research. They studied post-merger performance of acquiring firms measured by return on assets (ROA), return on equity (ROE) and return on sales (ROS) over a series of event windows (days 1–5, 6–21, 22–180, 181–3 years and greater than 3 years), using both operating performance and stock market data. They found that, after the day when the merger is announced, all of the 'abnormal returns', that is, returns over and above the norm for the industry, for the acquiring firms are either insignificant or negative. These results strongly suggest a conclusion that anticipated that performance outcomes are not realised by acquiring firms.

In sum therefore, despite extensive research in this area over the last three decades, the evidence suggests that post-merger performance tends to fall short of expectations, both in terms of real operating performance and in terms of stock market value. However, the evidence across all of this research is at best mixed and at times conflicting. These mixed findings may be attributed to two factors: differing definitions of the construct "post-merger performance" and the wide variety of methodologies used to measure it. We would like to argue in this paper that a marketing perspective on post-merger performance may help to resolve some of this confusion.

2.1. What is marketing performance?

It is widely acknowledged that there is a dearth of research on how to measure marketing performance (Eusebio, Andreu, & Belbeze, 2006), leading the Marketing Science Institute to suggest "Assessing Marketing Productivity (Return on Marketing) and Marketing Metrics" as its highest research priority for 2002–2004 (Rust, Lemon, & Zeithaml, 2004). This effort has been further hampered by a lack of unanimity on how to define and measure marketing performance. There are a few aspects of marketing performance measurement upon which there is agreement, however, which provide a reasonable starting point for this study.

First of all, marketing researchers agree that *marketing performance* is a multidimensional construct similar to overall firm performance (Morgan, Clark, & Gooner, 2002). Literature on *firm performance* defines it as the process of quantifying outcomes and the two most fundamental dimensions are efficiency and effectiveness (Neely, Gregory, & Platts, 1995). In essence, effectiveness means doing the right things while efficiency means doing things right. Put simply, efficiency refers to an input–output ratio or comparison and effectiveness refers to an absolute level of either input acquisition or outcome attainment (Ostroff & Schmitt, 1993).

These same two fundamental principles can also be applied to marketing performance. *Marketing effectiveness* may be defined as the degree to which companies' marketing goals are achieved; in other words, it may be viewed as "doing the right things" and, when companies do the "right things", they not only keep current customers but also may attract new customers leading to increased sales and enhanced

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
✓ امکان دانلود نسخه ترجمه شده مقالات
✓ پذیرش سفارش ترجمه تخصصی
✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
✓ دانلود فوری مقاله پس از پرداخت آنلاین
✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات