Work-in-progress paper submitted to the
19th Annual IMP Conference, Lugano, September 4th-6th 2003

M&A Processes in Business Networks - Managing Connectedness

Helén Anderson[1]
Linköping University

Per Andersson
Stockholm School of Economics

Asta Salmi
University of Vaasa

in cooperation with

Aino Halinen-Kaila
Turku School of Economics and Business Administration

Virpi Havila
Uppsala University

Johan Holtström
Linköping University

Eero Vaara
Helsinki School of Economics

This paper analyses mergers and acquisitions from a network perspective and discusses the managerial challenges that are caused by different sides of connectedness. We will start by discussing the general phenomenon of M&As and by showing critical gaps in earlier managerial and research views to them. We propose that our approach, focusing on business networks, gives a proper ground for involving also the context. In fact, an increasing number of companies is continuously involved in processes of merger and acquisition, where one act follows another so quickly that it is not easy to see where one integration process starts and another ends. Similarly, the roles of companies may over night change from that of a buyer to that of a target. Thus, there seems to be no time to wait for e.g. reactions from the customers to an acquisition or a merger. The underlying assumption seems to be that the acquisition of a company includes its customers (and the customers' customers). The customers come so to say with the bargain. It is taken for granted that the target of an acquisition will keep to its customer relations, and sometimes this market extension is given as the key reason for a merger. We argue that reactions from customers – and suppliers as well – may have unanticipated effects on the process and performance of the merger or acquisition. These reactions may be positive or negative, which makes their anticipation difficult.

[1] Corresponding author: Helén Anderson, Linköping University, The International Graduate School of Management and Industrial Engineering (IMIE), Department of Management and Economics, SE-581 83 Linköping, Sweden. Phone: +46 13 28 25 17. E-mail: helan@eki.liu.se

This paper focuses on the *effects on connected actors such as customers and suppliers resulting from an acquisition or a merger*. Another important feature is that we regard *organisations as ongoing processes consisting of human interaction*. This approach reveals that any merger or acquisition is not one clear-cut process, but consists of many ongoing, interfering sub-processes both within and between organisations. Acknowledging the co-existence of several simultaneous processes disqualifies many of the rational arguments and motives put forward by most managers as the necessities for making a merger move. Our key message is to show that *connectedness in time and context,* is important, and we also propose an approach, which enables its consideration.

We exclude no type of M&A from our study. And we often discuss both mergers and acquisitions simultaneously, although we have several empirical examples of both types, and parts of the discussion are more relevant to acquisitions, while other parts would concern only mergers. Throughout the paper we will use the terms *merging process* and *merging units* freely to cover both merger and acquisition acts. The long list for motives prompting mergers includes: 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 over-dependence on geographical presence, acquisition of new technology, and exploitation of multiple synergies, and desire to grow rapidly. In aggregate, there seems to be four groups of incentives or motives to M&As. In sum, when relating the different types of motives for M&A we can recognise a relatively limited interest among researchers and managers to view the time dimension in other ways than contrasting ‘now’ and ‘future’. The other focus area of this paper - contextual importance - is only addressed in terms of gaining formal control, which means that relationships with other firms are not seen as interactive.

The development of inter-organisational theory has extended the focus in business studies from the perspective of the single firm to include the interaction between several firms. Especially in the area of analysing business-to-business markets and industrial marketing, interaction and long-term business relations have formed a central area of study. Business relationships are rarely constructed, but rather evolve over time. Our approach recognises and emphasises both ends of a relationship, interaction between the two parties and the strategies of both parties. As a result, relationships cannot be planned or controlled by one party alone.

The establishment and development of a business relationship is a time-consuming and resource-intensive process. It is also a process in which the two involved parties invest in different ways. Therefore established relationships form important assets for any company, although it has been only recently acknowledged that these market based assets increase shareholder value by accelerating and enhancing cash flows. Most importantly, interaction can be seen as forming market investments, which in turn form business relationships that give the company access to resources of other business firms. Such investments are cumulative and interdependent, commitments made in one relationship influence the company's opportunities to enter into and act within other business relationships. As far as M&As are concerned, it becomes a central issue to what extent these market assets, relationships, are transferable. That is, the outcome of any acquisition or merger depends on *whether already established relationships can be taken over*.

Firstly, acquisition as such is not one-party activity and not easy, as expressed by e.g. Marcus and Geffen (1998): 'Acquiring a competence […] is a complicated process. It involves socially constructed elements […] Key players are likely to interpret the conditions they face and assign meaning to the actions they take in fairly idiosyncratic ways. They make moves as much by experimentation, trial and error, opportunism and accident as by planning […].' (p.1147) Thus people in the merging units have their own interpretations of the other party and of the context where the merger takes place. Secondly, as noted, existing customers and suppliers are usually too much taken for granted – but if we accept the argument that other business parties as well act on the basis of their interpretation, this assumption is not valid anymore. As we see it, neither customers nor suppliers are likely to passively accept a merger or an acquisition.

Network analysis has been a key interest area for analysts of industrial markets as well with focus on external relations of the companies, rather than inner organisational issues. We rely heavily on this research tradition and on the major argument that not only individual relationships and their connections deserve special attention. Our main point of departure is that of illuminating the merging companies as parts of business network structures. Viewing firms as interconnected through interaction not only requires an interest in context but actually sets ***the contextual connectedness*** in focus.

In our view one explanation for high rates of failures of M&As is negligence of external exchange relations in analysis and implementation of acquisitions. Although an acquisition mainly influences the dyadic relationship between the merging parties (e.g. through integration processes), this confined change often becomes connected change and changes spread in the network. A key issue for development is how actors perceive changes in the dyad and the network effects. We have proposed that acquisitions have both planned and intended, and unexpected effects on external relations. Taking a look at the structural features of the network may help managers to analyse potential changes in relationships. Change, in turn, relates to the other important issue - connectedness in time. Dynamics are always present in business networks as shown e.g., when contrasting position and role, or when considering interaction in a relationship as investment behaviour. These time aspects express ***processual connectedness*** present in business networks.

The network approach is fundamentally non-normative and aims at describing and understanding business network developments rather than giving clear recommendations for business actors. Therefore, it is common to pose questions like "What happens in networks, how do they develop and why?", while answers to "What should a manager do?" –type of questions are often out of reach. Due to the fundamental interest on *interaction* between two parties and results thereof, it is never possible to know what the counterpart will do, although a manager can anticipate or find reasons for certain types of reactions. Therefore, the management of networks and management of certain activities – mergers and acquisitions – within networks are tricky issues.

The Empirical Part

This paper (which is a book to be) is built around five case studies from different contexts and industries. The cases all demonstrate the complexity in process and context that mergers and acquisitions are part of. Furthermore we will see the connectedness in the activities taken on by the parties directly involved in the M&A processes. As we particularly address customers and suppliers we will discuss the effects on their businesses and also their actions.

We start by discussing the *network effects* of M&As and by showing how change may spread in a business network as a result of M&As. Here, we particularly stress the importance of handling and managing connectedness between firms, managing the parallel process of several M&A integration processes, handling domino effects, and taking care of negative customer reactions. The first case is from the Nordic graphics industry. Having one printing company, Almqwist and Wiksell, as our point of departure we can follow a number of merger and acquisition processes that the company has been part of, sometimes as an active part sometimes as an affected part.

This discussion will show the extensiveness of network effects that M&As may give lead to. This example is also exceptional as researchers or managers very rarely have access to the views of several actors in a network. Therefore large parts of networks are not often described or extensively analysed as is the case here. This is also the reason for our different focus in the rest of the paper: we will concentrate on the directly connected suppliers and customers.

Next, we analyse the effects on the *supplier side* of merging companies. Very frequently, synergy advantages are given as a major motivation for a merger or acquisition. To some extent these are also quantifiable and can be measured for convincing shareholders and general public for the reasons for merging. We look at these expected synergies and compare them to the realised synergies. We investigate particularly the procurement operations by analysing an empirical case of StoraEnso –company and its two different and sequential acts. The first is the creation of the company through a merger between the paper and pulp companies Swedish Stora and Finnish Enso. The second is the acquisition of the American company Consolidated.

Perceptions of suppliers to an acquisition affect the way they will react to it and behave in their relationships to the new customer structure. There are various demands that are posed for suppliers as well in order to reach all the goals of a merger. We look at this issue by looking at the engineering manufacturing business: the global automobile industry and cross-border acquisitions, as we analyse how the suppliers to Volvo perceived the acquisition of Swedish Volvo by the US Ford. Particularly outstanding are the expectations that the suppliers 'have to have' and the delayed effects due to the fact that the businesses of both buyer and supplier are heavily integrated already in their respective work on platforms for car production.

After this we will turn into the *customer side* of mergers and acquisitions. It seems that interpretations and expectations concerning customers may be quite different among the merging units. This becomes evident in our discussion on a furniture company ISKU, which takes us into a cross-cultural (Finnish-Swedish) acquisition within the retailing business of office wear and furniture. It points out the necessity to be prepared for different interpretations and reactions among customers and retailers.

Our discussion of customers ends by providing an example of how customers can be explicitly considered. The final case takes us into the business of medical components and systems; the Nobel-Biocare case deals with a merger between two producers (Swedish and

American) of dental surgery and implants. The case particularly demonstrates the importance of managing inter-personal, social, relationships as well as proactively managing temporality in a merger process.

Connectedness can be viewed as a long-term change process. The AWT case illustrates clearly this fact. To manage connectedness resulting from mergers and acquisitions is a matter of managing continuously changing patterns of connectedness. In the AWT case, this became also a matter of managing the increased internationalisation and consolidation resulting from the M&A processes. An important issue for management in the involved companies was to understand and react on the changing patterns of cooperation and competition. Managing connectedness in this case also included handling the consequence of such (sometimes unanticipated) domino effects of the M&A process, including also customers', sometimes negative reactions to the M&As. This also illustrates the fact that management during phases of industrial changes needs to handle connectedness between several consecutive M&A processes. Although the learning effects can be significant - bringing in experiences from preceding M&As - the situation and the structure of connectedness that needs to be handled, will always be new.

The case of Stora-Enso puts focus on management's role in understanding and managing the discrepancy between the expected and realised synergies of M&A processes, including expected and realised new patterns of connectedness. Managing and realising the synergies (including connectedness) from M&A processes is a long-term learning process for the merging companies. For two big manufacturers like Stora and Enso, a central part of such learning processes will, as illustrated in the case, be connected to handling new, merged supplier networks. This is even more obvious in the case from the automotive industry. It also illustrates the importance of being able to handle suppliers' different reactions to changed connectedness as a consequence of the M&A process. As in the AWT case, it will often be a matter of handling the many ambiguities connected to the fact that M&A processes can be embedded in other, ongoing strategic change processes in the network. The case of the automotive industry is probably also the best example for illustrating the complexity of handling changed connectedness, involving several tiers of suppliers.

Managing differing internal interpretations of the behaviour and reactions of the customers of the merging companies are discussed in the next case. In the Isku case, a different perspective and a different managerial focus are presented reflecting a more traditional intraorganisational analysis rather than network approach. However, also here analysis is directed to the views concerning connected companies.

The final case on Nobel Biocare puts focus on the importance of using pro-active measures when handling customer relationships in an M&A, including planning for new organisational contacts between the customers and the merging companies. As also illustrated, this is often based on the management of inter-personal social relationships in the merger processes, to cope with the changing patterns of contacts and connectedness. Lastly, the case also put a focus on various temporal elements. Handling different aspects and dimensions of temporality in merger processes in order to cope with connectedness - timing, speed, order of consideration etc - becomes important.

Discussion and conclusions

With our preceding M&A cases as background, what are the implications for management? What can be learned about the way to handle the connectedness in M&As? What are the major managerial issues involved? Any answers to these and other managerial questions depend on the perspective taken on the phenomenon. Management of M&As become primarily concerned with coping with connectedness and thus with a variety of market relationships, to customers, to suppliers, to partners and others. One obvious consequence of such a perspective is that management activities will not be confined to the handling of internal integration problems. Our perspective draws attention to, for example, the handling of the diffuse organisational boundaries between the merging companies and their context.

With a relationship perspective, managing an M&A will be a highly varied management activity as each business relationship – to suppliers, customers or partners – will have its own specificity and demands, requiring a high degree of adaptability. First, we emphasise that due to the complexity of network ties, mergers and acquisitions often create unanticipated consequences for both the merging organisations and other actors. Second, we point out that we are going through a period of continuous industrial restructuring, the pace of which does not seem to slow down. This means that the managerial tasks that have previously been more separate in terms of their execution and timing now have to be synchronised. In brief, sequencing one's actions becomes a new cumbersome managerial challenge. Third, managers should understand the ambiguities involved when coping with changing network connections and structures but also see the possibilities in creating new cultures and identities around the post-merger organisations.

Mergers and acquisitions seem to often create surprising consequences for actors that are not directly involved with the merger or acquisition in question. This means that important changes in the network in which the company is embedded, may remain hidden, but also, that many potential – either negative or positive effects – of strategic actions of other companies in the network cannot be anticipated. They are not seen before their effects are realised, which forces the company into reactive rather than proactive behaviour.

There is no panacea for dealing with such unanticipated consequences. It is, however, worthwhile emphasising that key decision makers should strive to broaden their *network horizon* to be able to understand how one's own operations and actions are influencing and influenced by others' actions. Broadening one's network horizon may, at best, result in an understanding where images of organisations as bureaucracies, armies, machines, organisms etc. are complemented with a view where the organisation is seen as created by complex network ties.

Unfortunately, even if aimed at, it is not easy to expand the network horizon. Business relations and networks are by definition opaque, and each involved party forms own unique perception of interaction, not to mention outsiders who can only guess on the basis of partial information what is taking place. At best, managers with a broad network horizon should become proactive leaders that are able to make sure that the interests if one's own organisation are protected and pursued in industrial restructuring. . This rather emphasises a need to develop *a managerial preparedness to act* when the opportunity or need arises.

One way of adopting a network perspective is to analyse the structural features of the network where the M&A take place. We see this only as one dimension of networks, which needs to be complemented by processual analysis as well. In this section we bring forward eight empirically inspired observations on structural connectedness in business networks emanating from M&As:

- *Evaluation* of relationships
- Difficulties in *controlling and monitoring* intangible market-based assets

- Creation of *strategic partnerships* as an aim for M&A
- *Termination* of relationships
- Changing positions on the market
- Ensuring the maintenance of relationships
- Evaluation of the *performance* of the M&A

A general implication of the case studies, highlighted specifically in the printing industry case is that a merger or an acquisition should not be seen as clearly demarcated, separate strategic move. Instead, it seems that many industries – and consequently – organisations are facing and going through parallel or simultaneous change processes. From a managerial perspective, these simultaneous and parallel pressures create a need to sequence one's actions, as our cases clearly indicate. How companies in M&As handle the dynamics of these processes can become an important determinant of the outcomes. The following, in particular, are crucial issues:

- The *initial timing* of the M&A event in relation to *other ongoing network processes*
- The *timing* of the M&A in relation to the *long-term processes of change and evolution* in the network, including the history of other M&As
- The *handling of other network processes* in the context *during* the actual M&A process, including unpredicted *domino effects* of the M&A
- The handling of *sequences* and the *order* in which different steps in the M&A processes are taken
- The handling of the *speed* of the M&A process in the network
- The handling of the *continuity* of the M&A process
- The handling *consecutive* integration processes
- The management of *internal change programs and processes*

A clear managerial challenge from a network perspective is to recognise the crucial role of social identification and social relationship-building both internally and externally. Internally, this means challenge such as how to cope with resistance that is bound to emerge when changes are being planned and implemented. Externally, this means a need to take seriously the social networks that form the environment of the organisation and invest in relationship-building. For example, several cases clearly indicate the priority given by the companies to the handling of social relationships (with customers for example) during the merger process. Judging from this, an important part of the planning for a merger should be to prepare for e.g. the following:

- The *handling social relationships in the preparations and initial phases to minimise disturbances* in established relationships with customers and suppliers
- The *careful handling (i.e. handing over/taking over) of relationships* in reorganisation processes when e.g. sales forces are merged
- The *handling of social relationships to safeguard correct information exchange* and *to make more effective necessary negotiations*

In order to consider all the simultaneous and complex issues of connectedness and to somehow simplify the key areas of attention. We propose that one has to involve the business relationships within both the pre-merger phase where strategic evaluations are made, and the integration-phase of a merger. Crucial for the success of the M&A is to acknowledge that the potential positive economic gains depend on the willingness and ability of various actors to develop further and exploit existing business relationships.