Corporate Acquisitions and Market Relationships

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Abstract

This paper aims at analysing and understanding corporate acquisition strategy adopting a process view centred on the role of customer and supplier relationships of the acquired companies: in particular, we focus on the effects that an acquisition process produces on main customer and supplier relationships of the acquired company and thus on its market position.

Within different literature approaches in the field of financing, strategic management, industrial economics and organization, companies' structural variables such as size, sector, culture, goals, have been mainly isolated as influencing acquisitions' results, valued in terms of profitability. A more recent multiperspective approach is rather process-oriented. It views acquisition's results - in terms of value creation and subsequent improvement of company's market positioning – as depending on the quality of the acquisition process and in particular on the integration process, rather than on structural elements. Its main focus is however on companies' "internal" variables and little attention is given to customer and supplier relationships as companies' resources which are to be combined and integrated.

Based on a sample of 12 acquisition processes involving acquired companies with a dense networks of downstream and upstream relationships with a number of actors, we aim at investigating if and how these supplier and customer relationships may be affected by acquisition processes. We also want to identify major variables which determine re-actions in company's relationship counterparts and changes in the net of relationships.

Keywords: Corporate acquisition process, market relationships, market positioning

Introduction

Corporate acquisitions represent frequent and significant critical events in business contexts. Among the many goals of a company, a greater market share, the entering into a new geographical or business market, the acquisition of know-how/new technology, the acquisition of a key customer or supplier, the investment of exceeding financial resources, pure diversification and political reasons (Galbraith and Stiles 1984; Link 1988; Lorenzoni et al. 1989) can be mentioned. All these goals are connected to the need for reinforcing company's market positioning through greater critical mass (Ansoff 1979) and positive operational, financial and management synergies (Hofer and Schendel, 1978; Porter 1985; Lorange, Kotlarchuck and Singh 1990; Rock 1990).

In spite of the fact that the "value" that the acquisition is supposed to generate very seldom is realised, mergers and acquisitions are a common strategic choice for many firms (Caves 1989; Goldberg 1983; Jensen and Ruback 1983). Acquisitions are not uncomplicated processes and many failures occur (Dick, 2001). Some of the main reasons for failure are connected to the need for a rapid terminating of the transaction and to the under-evaluation of problems connected to companies' integration, and especially to post-acquisition processes. Taking a process view, no ultimate rules exist to get success in the acquisition (Payne and Power 1984).

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Those authors who adopt such approach, focus on "combination benefits" (combinatory effects) stemming from integration of procedural, physical, managerial and socio-cultural capabilities and resources (Shrivastava 1986). Their main focus is however on companies' "internal" variables and little attention is given to customer and supplier relationships as companies' resources which are to be combined and integrated (Anderson, Havila and Salmi 2001). Our research centres the attention on such type of resources. In particular, we focus on the effects that an acquisition process produces on main customer and supplier relationships of the acquired company and thus on its market position.

Acquisitions, business relationships and market positioning

Acquisitions are aimed at reinforcing and enlarging companies' market positioning. Definitions of position stress in large part the competitive dimension of the position (Porter 1980). However positioning is not only referred to as an efficient use of given resources compared to market rivals but also to as effective combination of resources also by means of relationships with other market actors (Porter 1996). Customer and supplier relationships are valuable resources for all companies (Håkansson and Snehota 1995). Each company is not an island and its own main supplier and customer relationships define the distinctive capabilities of the company (Håkansson and Snehota 1989). Through its more important customer and supplier relationships a company mobilizes and combines knowledge and resources, gains learning and innovation advantages and obtains cost and transfer benefits (Powell 1990; Ford et al. 2002). Vertical market relationships therefore concur to define company's market positioning (Johanson and Mattsson 1992; Snehota and Tunisini 2003).

That appear clearly in analysis of industrial districts where companies' market positioning is strictly connected to the set of relationships with other companies located in the same area (Tunisini 2003). Through the acquisition, the acquiring company gets access not only to an individual isolated organization but to the set of its consolidated market relationships (Forsgren 1989). However, re-action to the acquisition process by relationship counterparts may be different and not necessarily positive. Moreover, these relationships have to be combined with the acquiring company's market relationships and the process may not be easy. The acquisition process has therefore an impact, and it is also influenced by, the relationships that the involved companies have with market actors and, in particular, with main customers and suppliers. How these relationships are integrated to each other and, especially, how counterparts in the relationships re-act to a traumatic process as an acquisition has an important and conclusive effect on the results of the operation (Anderson, Havila and Holstrom 2003; Anderson, Havila and Salmi 2001; Havila and Salmi 2000).

The main problem is that such effect is not identifiable a priori. As observed, the control over an exchange relationship through an acquisition is not certain because it always involves two actors and it is difficult to know what impact the reaction of counterparts in the acquisition process has on the business relationship (Johanson and Mattsson 1992). Relationships are differentiated events. Each relationship has its own substance and each actor in the relationship has its own goal expectations that influence its position in the relationship in a different way and its re-action to changes affecting the relationship. This picture is complicated by the fact that the acquisition has an impact not only on the dyad but on the set of other interconnected relationships, i.e. the network.

The empirical field: object and methodology

We collected our data on cases of acquisition processes using a semi-structured questionnaire centred on the effects that the acquisition had in the network of customers and suppliers of the acquired companies. For each case we interviewed at least one person occupying a significant role in the CEO or in the purchasing/marketing area of the acquired company. In most of the cases it was necessary (depending on the role occupied by the interviewed) to contact more than one person to fulfil the information we needed in order to have a picture as complete as possible of the acquisition "path", one from the purchasing area one from the marketing/commercial side of the firm, one from the CEO. In all the cases the interviewed people have been working in the company during the acquisition process and still are working there or, if "new", they have been employed just after the official date of the acquisition and have experienced the acquisition process.

We focus our analysis on 12 cases of acquisition processes (see table 1 below) where all the acquired companies have the following characteristics:

a) they are very "locally rooted companies", i.e., they are located within industrial districts, being involved in dense networks of downstream and especially upstream relationships with a number of actors (suppliers and customers) located in the same geographical area;
b) they are characterized by an entrepreneurial governance style i.e. low formalization, flexible organization, high influence by the entrepreneur, intense social exchange, no planning (Hofer and Charan 1984; Ansoff 1984; Marchini 1995);
c) they act within the same industry in which the acquiring company is active (thus providing an "horizontal integration") or in a very correlated one (thus providing a sort of "vertical integration") (Haspeslagh and Jemison 1992).

The choice of companies characterized by an entrepreneurial governance style with dense network of relationships with co-located actors and active in the same business of the acquiring firm is useful for our purpose in three dimensions: firstly because looking at companies with consolidated relationships gives more significance to the effects of acquisitions in a "network perspective"; secondly because companies with a dense network of relationships located in the same geographical area helps us to reflect on the role of some "place variables" in acquisition processes and to elaborate some reflections on the consequence of the acquisition on the development of the geographical district in which the acquired company is located; thirdly because acquisition processes in correlated business (not related to a diversification objective of the acquiring firm) makes more sense in the analysis of the impact of the acquisition processes on market relationships of the acquired company and vice versa as customers and suppliers of the two companies – acquiring and acquired - are much more interconnected.

Table 1: The 12 acquisition cases

Acquiring / *Acquired*	*Size*	*Sector*	*Localiz.*	*Date*
MTS (Merloni Termosanitari)	large	Electric Appliances/Sanitary	Italy (Macerata)	1996/ 2001
Itema	small	Sanitary/wellness	Italy (Macerata)	
Villeroy & Boche	large	Home porcelains	Germany	2001
MTS	large	Electric Appliances/Sanitary	Italy (Ancona)	
FAB	medium	Furniture components	Italy (Pesaro)	1994/ 1997
New Perform	small	Furniture components	Italy (Pesaro)	
Rexnord	medium	Mechanical Power transmission/conveying comp.	Usa/Netherlands	1994
Marbett	medium	Plastics/Conveying components	Italy (Reggio Emilia)	
Ahlstrom Paper Group	large	Pulp/paper	Finland	1998/ 2000
Ascoli Paper	medium	Pulp/paper	Italy (Ascoli Piceno)	
SCM	large	Woodwork. Machinery	Italy (Rimini)	1991
Morbidelli	small	Woodwork. Machinery	Italy (Pesaro)	
Biesse	large	Woodwork. Machinery	Italy (Pesaro)	1993
Comil	small	Woodwork. Machinery	Italy (Pesaro)	
Biesse	large	Woodwork. Machinery	Italy (Pesaro)	2000
Shelling	large	Woodwork. Machinery	Austria	
Scavolini	medium	Furniture (kitchens)	Italy (Pesaro)	1996
Ernestomeda	small	Furniture (kitchens)	Italy (Pesaro)	
Febal	medium	Furniture (kitchens)	Italy (Pesaro)	1991
RB Rossana	small	Furniture (kitchens)	Italy (Bergamo)	
Febal	medium	Furniture (kitchens)	Italy (Pesaro)	1998
Prodomo	small	Furniture (kitchens)	Italy (Pesaro)	
Bonfiglioli	large	Mechanical/Power transmission	Italy (Bologna)	2001
Tecnoita	small	Mechanical (components)	Italy (Bologna)	

Our research attention is devoted, adopting a management perspective, to the impact of acquisition processes on consolidated customer and supplier relationships of acquired companies.
We take the assumption that such relationships, viewed as a locus of combination and integration of resources and capabilities, may be an opportunity as well as a burden influencing in this way the results of the acquisition process.

We examine how the re-action of relationship counterparts in the acquired company to the acquisition process determines changes in the relationship and thus has an impact on the results of the operation. We must take into account that each actor has its own partial perspective over the network and the acquisition effects and, as a result, reactions, in terms of reinforcing or weakening the relationships and creating management problems, are subjective and changing. They change in different relationships and are always relative, as dependent on the actors' attributes and on the substance of the acquisition process.

In our research we aim at understanding if and how supplier and customer relationships may be affected by acquisition processes. We also want to identify major variables which determine re-actions in company's relationship counterparts and changes in the net of relationships, affecting on their part the acquisition process itself.

First results

The impact of acquisition

From some first results of the research we observe changes both in the structure of the network of relationships of the acquired companies and in the substance and function of relationships themselves.

In relation to the changes in the structure of the net of upstream and downstream relationships of the acquired companies we observe:

a) the terminating (interruption) of relationships;
b) living relationships;
c) new relationships (very new or replacing others).

These structural changes have been partly planned by the acquiring companies (sometimes in co-operation with the acquired ones) and partly have been the results of the dynamics of the relationship processes themselves:

- *planned changes*: in some situations structural changes in the network of relationships of acquired companies have been defined "a priori" by the acquiring company. The goal was the creation of synergies between the two companies' network or the reduction of conflicts between the two networks or the reduction of costs. These planned changes have generated serious problems as they assumed it was easy a simple replacement of one supplier relationship with another. That was not true and the acquired company lost many resources and had great problems within the new relationships. That occurred because the acquiring companies assumed relationships as structural elements and not as processes which have impact on the acquisition process.
- *emergent changes:* changes in the structure of relationships are mainly generated by changes emerged within the relationship process in its substance and function as a result of the re-action of relationship counterparts to the acquisition processes. Such re-actions have produced the effects of terminating the relationship, reinforcing it, adding new ones.

In relation to the changes in the substance and function of relationship processes, if we focus on consolidated relationships of the acquired companies we observe that these relationships are not the same in their substance and function. In particular we observe changes in:

a) the degree of formalization;
b) the intensity of the technical exchange;
c) the intensity of the social exchange;
d) the function: focus on efficiency, related to a high degree of standardization or focus to problem solving related to the customisation of the offering stemming from the exchange process.

These changes have produced different re-actions by different counterparts of the acquired companies and in particular:

- *positive re-actions:* partners have decided to invest more into the relationship and to reinforce it;
- *problematic re-actions*: conflicts have emerged that produced the weakening or the terminating of the relationship.

The problematic re-actions are related to different motivations. In the most of cases under analysis the increased degree of formalization generated problems to partners not get used to such formalization but, rather, used to informal relationships. Very often, lower intensity in social exchange created problems to partners used to personal contacts. Moreover changes in the function of the relationships had a great impact on the reactions: on a hand, focus on problem solving created problems to partners used to focus on efficiency (and vice versa), on the other hand, demand for greater standardization of product and procedures generated problems to partners used to customisation (and vice versa).

Summing up, if we consider such reactions we may say that greater re-actions and more serious problems within the relationships were dependent on two elements concerning the partners involved in the acquisition (see table 2):

1) the *distance in the governance style*: entrepreneurial vs. managerial (that impact on the formalization, standardization and social exchange); in particular we observed greater problems in those cases where the acquired company had a very entrepreneurial governance style while the acquiring company forced a strong managerial management style and the partners were used to informal relationships and social exchange;
2) the *distance in the strategic focus* (efficiency vs. problem solving); we observed greater re-actions and problems in those cases where the change in the strategic focus and thus in the function of the relationship did not correspond to the strategic focus of the counterparts, thus creating problems between the partners who had a different view of the goals and function of the relationship.

Table 2

Distance in governance style		Distance in strategic focus: ***low***	Distance in strategic focus: ***high***
	high	Problematic relationships	Very problematic relationships
	low	Not much problematic relationships	Problematic relationships

Some management issues

Our analysis suggests some managerial issues for companies involved in a acquisition process.

First of all, when acquiring a very rooted company (as a district company), its different market relationships must be considered to be affected by different re-actions by counterparts in function of two main variables -distance in governance style and distance in strategic focus. So one must take into account of such "distance" and handle a portfolio of relationships taking care of different re-actions and problems.

Secondly, as such distance creates greater problematic re-actions, the more is the distance in governance style and strategic focus the more you must give to the acquired company the autonomy to handle its market relationships in order to reduce any possible negative re-action; we may say that the managerial acquiring company should promote a sort of "managerial entrepreneurship" (Marchini,

1995) in the acquired company in the handling of its market relationships. The importance of market autonomy by the acquired company is also demonstrated by many researches in Italy showing that acquisitions of district companies rarely are absorptive in nature. Acquiring companies leave a large autonomy to the acquired company especially in the handling of its business relationships. The idea behind is that actors dealing with counterparts since long time are in a better positions to understand and manage relationships when some traumatic event is affecting the relationship.

The third managerial consideration is related to second one and mainly concerns distance in governance style. In order to avoid a traumatic shift from one to another management style a "connector" is necessary. We observe that in many cases, the entrepreneur founder of the acquired company has played a very strategic role in guiding its company in the shift from one governance style and market positioning to another.

Concluding remarks

Acquisition processes determine changes in the acquired company's network of relationships. They are changes both in the structure of the network and in the substance and function of relationships. These changes are not only positive. Many times they create problems and they can affect the effectiveness of the acquisition process (in terms of difference between expected and realized value).
Changes within relationships are not easy to identify a priori and that makes it difficult to plan and handle the integration of relationships in an acquisition process. The acquiring company can assume that certain effects will occur and it can try to guide the integration process. Mostly, however, the relationship process affects and guides the integration process. In these terms the integration process is not linear but interactive and it is not definable a priori.
This "emergent" component of change in and within relationships shows the relevance of the relationship process in affecting post-acquisition integration and combination. We have attempted to identify come variables playing a role in acquisition processes where the acquired company is a district company with characteristics of entrepreneurial leadership. In these cases two variables appear relevant and affecting its market relationships: distance in governance styles and distance in strategic focus. This "distance" level can be reduced in their negative effects giving business autonomy to the acquired company.

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