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The impact of post-merger integration on the customer–supplier relationship

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ABSTRACT

While the impact of mergers and acquisitions (M&A) on internal stakeholders has generated considerable empirical study, comparatively little academic attention has been paid as to how external stakeholders such as customers are affected by, and respond to, M&A activity. This study adopts case-study methodology to illuminate how the customer–supplier relationship is affected by post-merger integration processes in the business-to-business context, with the aim of increasing our understanding of why customers respond to M&A in the ways that they do. The findings highlight the importance of a set of critical customer relationship variables through which post-M&A integration actions can influence customers' perceptions of the merged organisation and, ultimately, their purchase decisions. We also identify a set of specific individual integration actions that appear to trigger changes in the critical customer relationship variables. Together, the findings contribute to our understanding of the precise mechanisms through which M&A can affect customers' purchase decisions and the combining firms' market-related performance. More broadly, consistent with the stakeholder perspective, they reinforce the need to take account of external as well as internal stakeholders when considering the drivers of M&A outcome. Implications are discussed for future research as well as for B2B service industry executives involved in M&A.

1. Introduction

Mergers and acquisitions (M&A)[1] continue to be a popular form of corporate expansion, frequently undertaken as a route to market penetration and market entry (Weber & Dholakia, 2000). For example, the value of M&A announced globally in 2012 exceeded two trillion US dollars, despite the depressed economic environment in many developed nations. However, in a paradox to their popularity, empirical studies continue to find that almost half of all M&A fail to meet their original objectives and result in value destruction for acquiring firm shareholders (Schoenberg, 2006).

Stakeholder theory argues that business performance is best understood by examining the relationships between a business and all the groups who can affect or are affected by it (Freeman, 1984; Parmar et al., 2010). While there has been much debate on the relative importance of different stakeholder groups (Mitchell, Agle, & Wood, 1997), there is general acknowledgement that customers, suppliers, communities, employees, managers and financiers are key constituencies (Parmar et al., 2010). It is notable, however, that in seeking to understand the drivers of M&A outcomes, the majority of empirical research has concentrated on the role played by internal firm factors such as strategic relatedness, organisational fit and cultural compatibility (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Stahl & Voigt, 2008). This has generated considerable insights into how M&A impacts internal stakeholders, but in comparison relatively less academic attention has been paid as to how external stakeholders, such as customers, are affected by, and respond to, M&A activity.

The industrial marketing literature has long recognized the importance of a firm's relationship with its customers as a key driver of firm performance in business-to-business (B2B) markets (Evans & Laskin, 1994). The customer–supplier relationship has been shown to be one of the primary determinants of customer loyalty (Rauyruen & Miller, 2007), which in turn drives a supplier's performance in terms of share-of-wallet and ultimately market share and profitability (Rust, Zahorik, & Keiningham, 1995). Changes in the customer–supplier relationship as a result of M&A activity are therefore likely to be of key importance for firms undertaking M&A in B2B markets. Indeed, studies undertaken from a business network perspective have documented how M&A can bring about both planned and unexpected changes to a company's relationships with its business partners, including strengthening, deterioration, or even termination of the relationship with individual customers (Anderson, Havila, & Salmi, 2001; Öberg, Henneberg, & Mouzas, 2007). These studies have also suggested that the combining companies' internal M&A integration processes may play an important role in driving these external relationship changes (Bocconcelli, Snehota, & Tunisini, 2006). However, while this and other emerging research has established a link between post-M&A integration processes, customer retention and overall

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[1] The terms merger and acquisition are used interchangeably in this paper.

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acquisition outcome, we still know relatively little of the actual mechanisms through which post-M&A integration actions exert their impact on customers and their purchasing decisions.

This study therefore adopts case-study methodology to illuminate how the customer–supplier relationship is affected by M&A integration processes in the B2B context. Our aim is to increase our understanding of why customers respond to M&A in the ways that they do and the underlying determinants of whether they choose to maintain, increase or decrease their spending with the newly merged supplier firm. We believe the findings we report make two primary contributions. First, we highlight the importance of a set of customer relationship variables through which post-M&A integration processes appear to exert their impact on customer loyalty. It is these antecedents of customer loyalty that are directly impacted by M&A integration actions and which, in turn, drive changes in customers' perceptions of the merged organisation and, ultimately, their purchase decisions. Second, while prior studies in this emerging area have tended to consider post-M&A integration processes in relatively broad terms, we identify a set of specific individual integration actions that appear to trigger changes in the critical customer relationship variables. Together, these findings provide an important step towards understanding the precise mechanisms through which M&A can affect customers' purchase decisions and the merging firms' customer-related performance. More broadly, they support the need to take a stakeholder perspective in advancing our knowledge of the determinants of acquisition outcome and underline that future research should continue to look beyond internal stakeholders to the wider impacts of M&A activity on customers and other external stakeholders.

2. Literature review

Post-M&A integration is recognized as one of the critical phases of a merger or acquisition (Calipha, Tarba, & Brock, 2010). It has been defined as the period when the "firms come together and begin to work towards the acquisition's purpose" (Haspeslagh & Jemison, 1991, p. 105) and "the interaction and coordination between the firms involved" (Larsson & Finkelstein, 1999, p. 6).

The impact of post-M&A integration on internal stakeholders has been relatively widely researched (Cartwright & Schoenberg, 2006) and considerable insight has been gained into the impact of M&A on executives, managers and employees of the combining firms, on aspects ranging from their acculturative stress and social identity to their work productivity and collective learning. Schweiger and Goulet (2000) present a comprehensive review of this literature stream and therefore it is not discussed further here given our focus on customer impacts.

Comparatively less academic attention has been paid to how external stakeholders, including customers, are affected by M&A activity. A number of studies undertaken from a network perspective have provided insights into how a firm's external business relationships can be impacted by M&A within an industry. Havila and Salmi (2000) argue that M&A can be considered as critical incidents that cause radical changes in business networks, including the relationship between customers and suppliers, noting that some of the effects they observed were planned and intended, but many others were unexpected. In addition, Anderson et al. (2001) illustrate how customers' confidence in a supplier can be eroded following acquisition, observing that while some customers anticipated simplified purchasing processes and extended product ranges, others were concerned about potential price increases, constrained supply choice and reduced commitment towards them. Bocconcelli et al. (2006) studied 12 horizontal acquisitions and found that between 20 and 80% of the customer and supplier relationships were either broken or newly developed in the three year period following acquisition. The observed changes in customer relationships were seen to arise from increased formalisation introduced by the acquirer, for example greater use of formal contracts and standardised procedures, which also brought about a reduction in informal social and technical exchanges with customers (Bocconcelli et al., 2006). Other research in this tradition has highlighted that M&A may also affect managerial cognition and challenge both the firm's and customers' long held perceptions about the nature of their relationship, suggesting the importance of post-merger communication and symbolic activity (Öberg et al., 2007). These studies have generally utilised case studies of relatively small industrial acquisitions to facilitate a focus on changes in the network of business relationships and acknowledge that the interaction between internal M&A processes and the customer–supplier relationship is a fruitful area for future research (Anderson et al., 2001).

Other cross-sectional empirical work in the marketing and strategy fields has found that a high degree of post-M&A integration can be detrimental to both customer retention and market share (Homburg & Bucerius, 2005; Zollo & Meier, 2008), although the impact appears to be moderated when the integration has a strong customer orientation (Homburg & Bucerius, 2005). Further, these studies show that a deterioration in market-related performance, as measured by customer retention and market share, has a negative influence on the financial performance of the acquisition (Homburg & Bucerius, 2005; Zollo & Meier, 2008). Indeed, each of these authors concludes that customer-related issues have been neglected in the literature and may explain the reason why decisive factors for M&A success are still elusive.

This emerging set of empirical studies has established high level relationships between the extent of post-M&A integration, customer-related performance and acquisition outcome. However, we still know relatively little about the direct impact of specific integration actions on the customer relationship, or the causal mechanisms by which the former affect the latter. Therefore the primary research question for our study was "how and why do post-M&A integration actions undertaken at the supplying firm following its involvement in a merger or acquisition impact the customer–supplier relationship?"

3. Methodology

This research question was explored using case study methodology (Yin, 2009). The research site was a major pan-European B2B service provider (sales > Euro 15 Bn), which was formed as a result of a three way horizontal merger and that underwent full integration of the three separate business units between 2003 and 2005 ("the Merger"). The B2B service sector provides a particularly appropriate context for our study since the customer–supplier relationship has been established as a critical determinant of performance in this sector (Lam, Shankar, Erramilli, & Murthy, 2004; Rauyruen & Miller, 2007). Furthermore, the human and behavioural impacts of post-M&A integration actions are key to the outcome of service industry M&A (Saunders, Altinay, & Riordan, 2009). The focal Merger was the largest undertaken in its industry sector to date. It involved the full integration of three previously autonomous business units, two of which had been recently acquired by the parent company. Each of the business units operated across all of the major European nations, although two of the business units had separate and distinct service offerings, systems and structures in each country prior to the Merger. The broad objective of the integration was to restructure the three businesses into a single pan-European operation offering a "one stop shop" to multinational customers. The overall integration approach can be described as "absorption" in terms of Haspeslagh and Jemison's (1991) integration typology. The use of a single case design was considered appropriate given the exploratory nature of our study and since the case selected could be considered a unique example (Yin, 2009), offering particularly rich insights due to its size and complexity.

A series of semi-structured interviews were conducted with 18 major multi-national customers that had business relations with both the pre-merger businesses and the subsequent merged firm. The customer interviewees all had purchasing decision making responsibility and typically had job titles such as Procurement Director, European Operations Director or Supply Chain Director. Half of the customers interviewed had maintained or increased their purchase volumes following the Merger, while half had decreased volumes. A similar set of interviews were held with 20 senior Key Account Managers (KAMs) from the merged firm, all of whom had experienced the merger integration, to ensure the supplier perspective was also captured. All the interviews were conducted between October 2008 and February 2009, approximately five years after the Merger integration commenced.

Each interview employed a modified Q-sort methodology in order to capture both qualitative richness and quantitative standardisation (Carter, Kaufmann, & Michel, 2007; Donner, 2001) and to help facilitate senior executive engagement with the subject matter (Håkansson, 1982). A set of pre-printed Q-cards were prepared showing 31 variables identified from the business-to-business marketing literature as potentially influencing customer relationship quality and customer loyalty in a “business as usual” situation. Each Q-card gave the name and definition of one variable. The full set of variables and definitions used, together with their literature sources, are provided in Appendix A. After a brief introduction to the research topic and interview process, each interviewee was asked to rank order the Q-cards from most important (rank = 7) to most negligible (rank = 1) on a provided Q-sort template, using the question “which of the following variables do you think affect relationship quality and customer loyalty in this industry in a business as usual situation?” There was then an opportunity for the interviewee to add other variables, if they believed any were missing.

Initially interviewees were asked to complete the Q-sort procedure for the business-as-usual situation. They were then asked to consider the Merger integration period and how the rank order of the variables had changed during this period. Interviewees were also asked to articulate why they believed the relative importance changed during the Merger period.

The final and most critical stage of the interview aimed to identify how and why the key customer relationship variables were impacted, either positively or negatively, during the Merger integration. Interviewees were asked to consider all the variables they had ranked as important during the Merger integration period (ranks 5 to 7 in the above procedure). They were then asked to pick each of these variables which, based on their own experience, had been impacted during the merger integration and position them on a grid ranging from very negative impact (−2) to very positive impact (+2). Again this procedure was accompanied by an open ended question to explore how and why the variables had been impacted by the Merger integration, allowing participants to recall the events with examples (following Watts & Stenner, 2005). These open ended responses were digitally recorded and later analysed to identify perceived causes and effects, as described in Section 4.3 below.

We also accessed secondary information sources on the Merger process and integration actions, including both public documentation (e.g. annual reports, press releases and industry databases) as well as company archives (e.g. management presentations and other archival data).

4. Analysis and results

4.1. Importance of customer relationship variables

Overall, the Q-sort results lend support to the antecedents of customer relationship quality and customer loyalty identified from the literature and listed in Appendix A. Only 3 of the 31 literature derived variables were classified as low importance (mean rank < 4) and these were all contextual – company size, cultural distance and market dynamism – and therefore perhaps not surprisingly viewed as peripheral by the individual firm-level respondents. The most important customer relationship antecedents in a business-as-usual situation were service performance (mean importance rank 6.3 out of 7), customer orientation (6.2), account management quality (6.2), product cost (6.1) and complaint handling (6.1). Interestingly, the perceptions of key account managers and customers were well aligned, although key account managers did rate their own importance rather more highly than the customers did (6.4 vs. 6.1).

In general the rank-order importance of the variables did not change from the business-as-usual situation as the firm undertook its Merger. As the interviewees explained:

> The customer did not care, either we were in a process of big changes or not. They required the same level of quality as before even during the integration period. (Supplier KAM)

> One supplier's M&A or integration does not affect our way of thinking. This rating applies to all providers all the time, so no difference …. What's important to me and our organization didn't change during [the supplier's] integration period. (Customers)

It is noteworthy that a proportion of customers believed that account management quality became slightly more important during the Merger integration period (mean rank 5.9 vs 6.1):

> During M&A it's important that you have some dedicated people who are very close to the customer …. Account manager is the one who helps the transition as a channel to the new organization, helps us to solve the potential service issues. (Customers)

4.2. Impact of merger integration on customer relationship variables

The interviewees' ratings of the extent to which the variables were impacted during the Merger integration revealed that eight variables were particularly affected. Service performance (overall mean rating = −0.8 on the scale of +2.0 to −2.0), complaint handling (−0.5), account management quality (−0.6), customer orientation (−0.6), supplier employee satisfaction (−0.5), supplier employee turnover (−0.5) and flexibility (−0.4) were all believed to have been negatively impacted by the Merger integration. Only product and service breadth was seen to have been enhanced (+0.5). Both sets of interviewees agreed that these variables experienced the highest impact. There were two other areas where the Merger impact was slightly less strong but is nonetheless noteworthy. First, customers felt both communication and information sharing and their psychological contract, defined as the perceived future inputs and outputs promised by the supplier (Kingshott, 2006), were somewhat negatively impacted during the integration (−0.3), although interestingly the KAMs themselves did not appear to recognize the perceived deterioration in this area. Second, competitive intensity was seen to rise as a result of competitors' responses to the Merger (negative impact of −0.5 as perceived by the supplier KAMs). The issue of competitor reaction is returned to later.

Inspection of archival documentation confirmed that the overall market performance of the Merging organisation fell in line with the deterioration in the critical customer relationship variables. Although the Merger had propelled the organisation to industry leadership in terms of sales revenues, the combined business lost market share to rivals during the Merger integration period. Year-on-year organic sales growth was flat and materially below that of its nearest rival and the market as a whole. Indeed, the firm's organic growth did not show signs of recovery until four years after the launch of the integration programme. Internally, the firm's own employee opinion survey showed considerable drops in the categories of customer orientation, leadership and communication during the integration period.

In order to explore the interrelationship between purchase volumes and perceived integration impacts more directly, the customers interviewed were divided into two sets: first, those that had maintained or increased their volume of business during the focal period and, second, those who had reduced or withdrawn their business. The mean Q-sort ratings for each set were then calculated. Customers in the first set showed neutral merger impact ratings (mean = 0.1), while those in the second showed negative ratings (mean = −1.2),

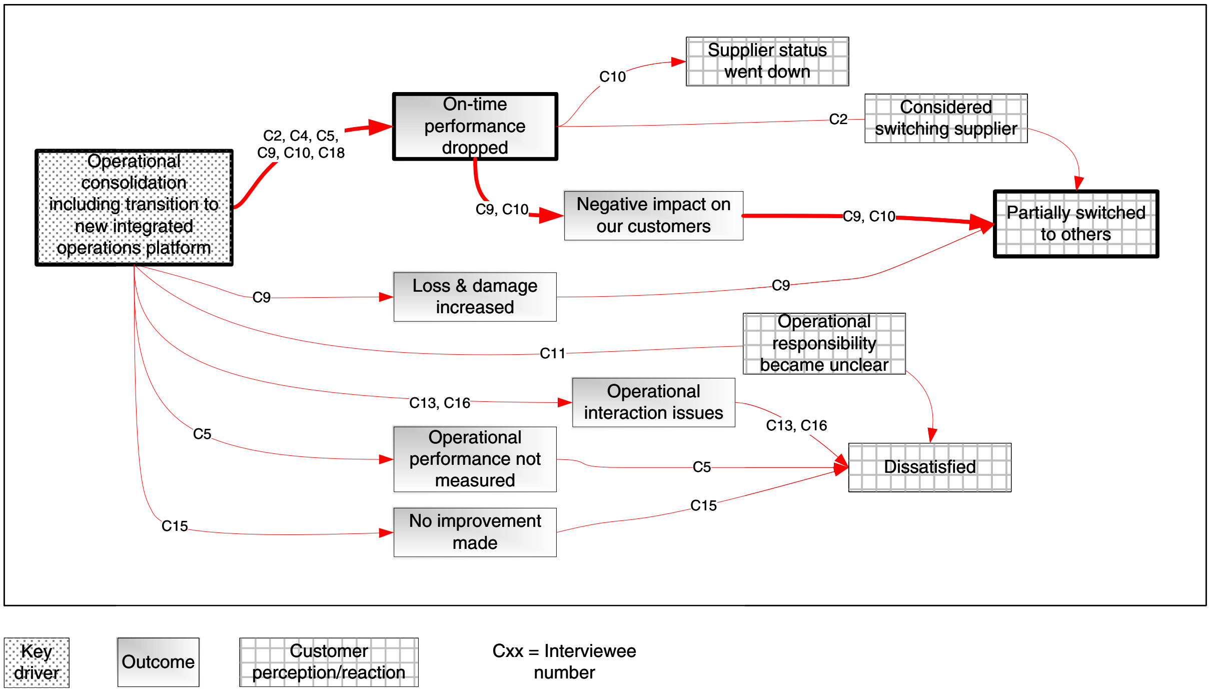

Fig. 1. Causal map for service performance derived from customer interview data (partial map shown).

consistent with the assertion that customers who perceived a deterioration in the underlying customer variables during the Merger integration reduced the volume of business they conducted with the Merging organisation.

4.3. Causal analysis of integration effects

The Q-sort procedure was accompanied by an open-ended question asking interviewees to explain how and why the customer relationship variables they identified had been affected during the Merger integration period. The interviewees' explanations were digitally recorded and later transcribed. The interview transcripts were coded manually using the following approach. First, the transcripts were searched for arguments relating to each customer relationship variable that was impacted by the Merger. Structured datasheets were then constructed by variable, bringing together all the arguments relating to that variable from across the full set of customer interviews and, separately, for the full set of supplier KAM interviews. Next, each datasheet was analysed to identify perceived causes and effects, with each word or phrase classified as either: key driver, sub-driver, outcome, or customer perception or reaction. These key phrases and the relationships between them were then mapped with arrows to produce a visual causal map for each variable. As an illustrative example, Fig. 1 shows part of the causal map developed from the customer interview data for service performance, the variable that was most impacted by the Merger. As we discuss in more detail below, this revealed that the deterioration in service performance was triggered by operational consolidation following the Merger, with the fall in on-time performance causing some customers to switch to competitors, driven by concerns about knock-on consequences for their own consumers.

The causal maps developed for each variable were subsequently combined into consolidated maps, one from the supplier KAM perspective and one from the customer perspective, by focusing on causal links mentioned by two or more interviewees. The consolidated supplier map revealed the underlying post-merger integration effects within the organisation, although it gave relatively limited information on customers' perceptions and reactions. In contrast, the customers' map provided extensive information on their perceptions and reactions, while its observations on the internal integration effects were somewhat simplistic. Although some researchers have reported considerable differences in the mental maps of suppliers and customers (Rughase, 2002), we found many commonalities and no particular conflicts between the two perspectives in our case. Therefore, as a final step, the two maps were synthesised into a single holistic map that captured both perspectives. This is shown in Fig. 2 and provides an overall picture of the perceived causal relationships.[2] Most significantly, it reveals the specific underlying post-merger integration actions that caused changes in the customer relationship variables during the Merger period and so, in turn, the customers' perceptions of the Merged organisation and their purchase decisions. We outline these integration actions below, drawing on both the visual map in Fig. 2 and the original interview data.

4.3.1. Operational consolidation

A major part of the Merger integration involved the transition to a new integrated operations platform, which brought together over 20 separate country operations into an integrated pan-European network. The transition of operations to the new consolidated platform damaged the organisation's service performance, prompting some customers to partially switch to other providers to avoid the risk of disappointing their own consumers:

> Through the period of integration we closed offices, established new ones with new applications etc. During the transition phase, our performance dropped, customer complaints went up … we could not provide stable services to the customer. (Supplier KAMs)

> The performance dropped a lot during the transition and we had to seriously consider changing supplier … on-time performance is always critical, we've been dependant on [the Merging business] but the performance was not very good during the period … we opened a relationship with [competitor] at that time because we didn't want to risk our [own] customers. (Customers)

[2] Fig. 2 is included to illustrate the overall cause and effect relationships and the attendant level of detail derived from the qualitative analysis. An electronic copy of the Figure, which can be enlarged, is available upon request from the authors.

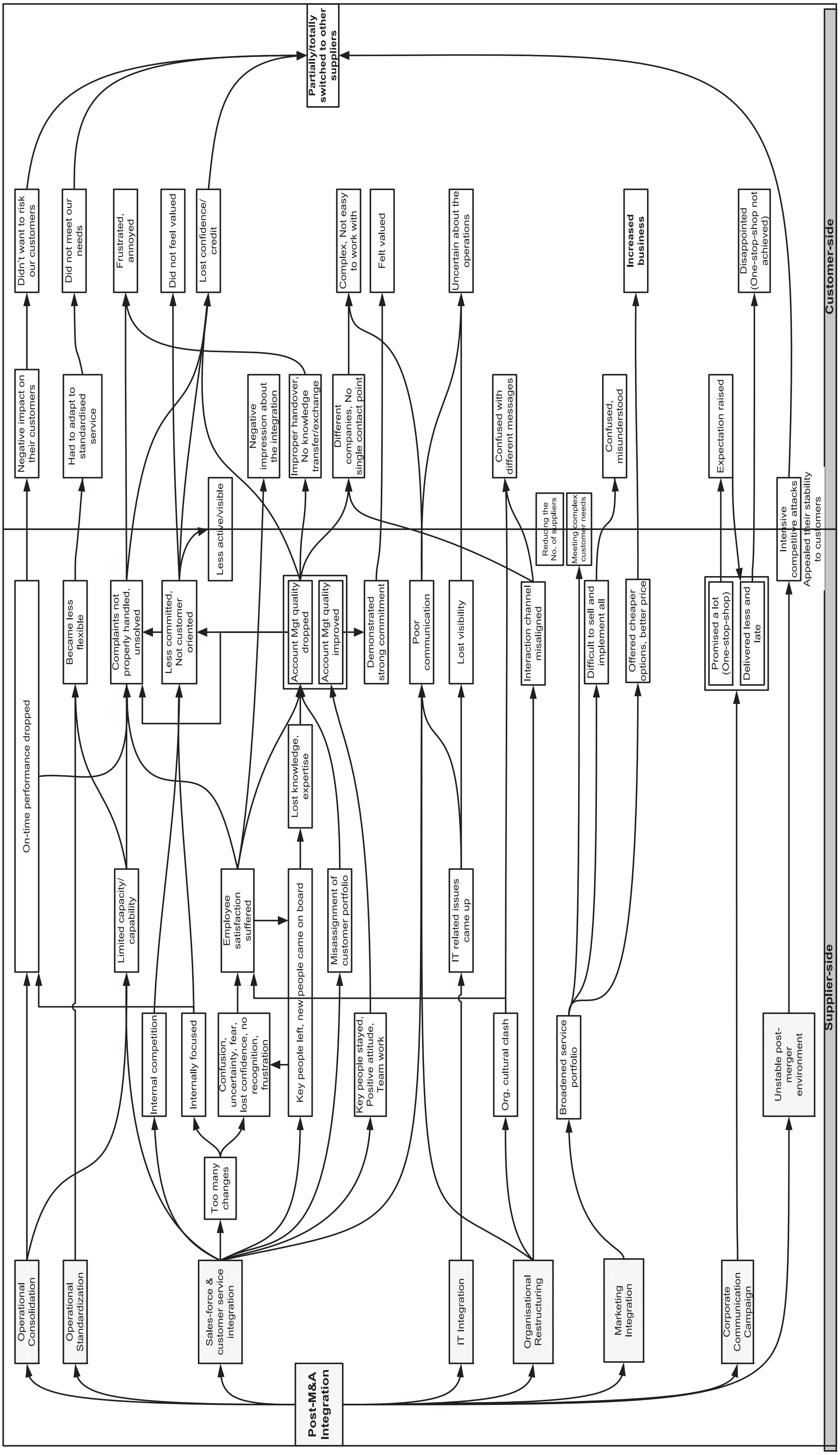

Fig. 2. Visual representation of overall cause and effect relationships combining supplier KAM and customer perspectives.

4.3.2. Operational standardisation

New, standardised, service delivery systems were introduced as part of the operations platform consolidation. This standardisation decreased operational flexibility and led to pressure on customers to adapt to new processes (e.g. ordering). Customers whose needs were not fulfilled by the standardisation switched to other providers.

> We focused on standardisation … we offered less customization even for the most important and demanding customers …. We had stripped all the cost out of the network, there was no money in the operation for us to be flexible … the client didn't want that … we started to be a big machine … we lost business. (Supplier KAMs)

> We had to take what was available … they were telling to the customer like "if you want to do business with us this is the way you do" so the customer had to adapt … maybe that was the way they had to do it to make it happen but I can assure you [they] lost a lot of customers. (Customers)

4.3.3. Sales force and customer service integration

The sales force and customer service centres from the three merging businesses were co-located and integrated, as were the three previously separate sales and customer service functions. This included a headcount reduction of approximately 15%. The restructuring created a number of serious internal problems including capacity limitations, misassignment of customers to salespeople and employee dissatisfaction leading to turnover and loss of expertise. These problems had a direct negative impact on three of the key customer relationship variables: complaint handing, customer orientation and account management quality.

First, constrained capacity in customer service led to complaint handling issues:

> We merged the customer service … and the expertise was not developed …. The customer was not satisfied with our service because he never got the answers he needed due to lack of expertise. (Supplier KAMs)

> Problems we had in England couldn't be fixed by our account manager in the Netherlands …. They were committed to do what they had to do although they couldn't be flexible … they had enormous trouble with complaint handling. (Customers)

Second, the scale of the sales force and customer service restructuring created an internally focused attitude amongst the merging organisations' employees and an uncertain environment:

> All our employees were confused, were uncertain even for their job, for redundancy, "what am I going to do, that guy is covering the same area as me or the same customer as me, so one single contact, which one, him or me" …. There were too many changes, the strategy was not clear, the communication was not clear enough, we did not explain to our people what we wanted to achieve and therefore in a period of uncertainty the employee was unsatisfied …. It took 10 months from the announcement to know the final result, either I got the job or not. (Supplier KAMs)

This internally focused attitude harmed the organisation's customer orientation and made customers feel less valued:

> I've said this many times to [the Merging organisation] all the focus was on the internal things …. I didn't feel valued by [the Merging organisation] during the period. I had a feeling that customers were not important … they didn't care about us anymore. (Customers)

The uncertainty felt by employees led to internal dissatisfaction and high employee turnover, which resulted in a leakage of knowledge and expertise and damaged account management quality:

> No one had the experience of selling the whole new product portfolio …. Without properly retained expertise, customer knowledge and personal relationship with the customers, we could not offer high quality services to the customers. (Supplier KAMs)

> The experienced people left and they were replaced by less experienced people …. I needed to tell the same things to them, our products, our customers and our need etc., again and again …. A lot of the key persons left. I worked with three account managers from [the Merged organisation]. The first one left, the second one came and then soon left and the third one, but he left also. (Customers)

4.3.4. IT integration

The Merger integration included the consolidation of IT infrastructure, with a new service centre established in Eastern Europe. This IT integration caused related IT issues and the organisation lost operational visibility, which made the customers uncertain about the Merged organisation's operational ability and performance.

> We were not having the right system to support European shipments from one country to another country …. [For example] all shipments when they entered Italy, they were off the system, we couldn't see when they would be delivered. (Supplier KAM)

> If you suddenly had a delay for delivery, then the problems started for the people to find out where the [item] was, so the normal operations worked but the systems behind them, to really keep track of them, were not working properly yet. (Customers)

4.3.5. Organisational restructuring

The Merger involved the combination of three previously independent businesses into a single corporate structure, requiring the integration of multiple diverse business models, processes and systems in over 20 countries. This brought a number of negative effects.

Customers commented that the organisation became complex and more difficult to work with, characterised by confusion over lines of responsibility and poor communication. This was compounded by a perceived fall in account management quality:

> We always want to know who is operationally responsible for our [orders] …. This became unclear especially during the integration … [the Merged Organisation] became huge and there's not enough clarity in terms of organisational structure …. I didn't know who I needed to contact and where I could find necessary information …. Key account manager should be a single point of contact for us. But during the integration they couldn't tell us exactly what's happening operationally within the organisation. There's no transparency and it's confusing for us. (Customers)

Further, the three-way integration caused organisational cultural conflicts that not only damaged employee motivation but also confused customers:

> Red didn't like Blue and Blue didn't like Red, there was a strong friction … a lot of people hated each other …. [One of the merging businesses] was internationally driven, while [the] others focused on national or local businesses. It's really a huge difference in culture …. The average age within [one of the merging businesses] was 32 but that of [the others] was 53. Imagine how difficult it was for

employees of 53 years old who had been working for the company more than 20 years to change their ways. (Supplier KAMs)

We had a feeling that there was a clear difference in organisational culture between [the merging businesses], and also a different approach towards the customer. The operations guys there were criticising each other like “we're ok but they have problems”. (Customers)

4.3.6. Marketing integration

The Merger also involved the creation of a unified marketing function, operating under a single brand, which was able to offer a broadened product portfolio as a result of the Merger. This had the positive impact of allowing the organisation to better meet its customers' complex needs and to offer cheaper options, which enabled customers to reduce the number of suppliers and led to an increase in business for the Merged organisation.

We became able to think more about offering solutions than offering products which brought us closer to matching the customer's expectations …. We doubled our service menus, which made us possible to respond to customers' ever changing needs …. It also helped the customers to reduce the number of suppliers. (Supplier KAMs)

[The Merged organisation] brought more options, more possibilities. (Customer)

4.3.7. Corporate communication campaign

A major corporate communication campaign, designed to communicate what was referred to as the “one stop shop” concept, was carried out at the beginning of the integration. This raised unrealistic customer expectations, which, when less than fully delivered, resulted in negative customer perceptions of the new organisation.

We were a victim of our own success in terms of the marketing of the […] brand because they then perceived us as a one stop shop whereas in reality we were not …. We promised to harmonize service portfolio in a couple of years but after 5 years we are still tackling that …. The customer was certainly expecting to have one single contact being the expert in all the products … keep on dreaming and it never happened. (Supplier KAMs)

[The Merged organisation] communicated a lot but I didn't see any benefits at all, not so far, only problems, I think [they] did acquisitions only for financial reasons …. The promise made before or during the integration was not delivered …. When [the Merged organisation] brought the famous one stop shopping concept, I thought it's great. But it took too much time and still not there … it would take forever. (Customers)

4.3.8. Unstable post-merger environment

In combination, the above integration actions created an operational and commercial environment that was characterised by change and instability. This unstable environment was exploited by the Merged organisation's rivals who launched competitive attacks to win business from them. Interestingly, competitors did not appear to lower prices, but directly exploited the unstable environment and customer uncertainty through mis-information about the changes taking place at the Merged organisation.

Our competitors used this opportunity as much as possible to play on customers fears that we would no longer be able to service their requirements …. They tried to change the customer perception and the customers who experienced bad service listened to the competition …. Since the personal relationship was coming under pressure during the integration, the customer started to look for alternatives … as soon as an account manager left, [competitors] knocked on the door. (Supplier KAMs)

The performance dropped a lot during the transition and we had to seriously consider changing supplier …. [Competitor A] was a back up during [the transition period] but actually we realised that their performance was not so bad. So after a couple of years we rebuilt a relationship with [competitor A] and we now use them as a main provider. (Customers)

We have outlined above the integration actions identified through the causal analysis as triggering the Merger's impact on the customer–supplier relationship variables. A review of archival documentation revealed that the Merger also involved several other integration actions, which did not appear to impact the customer relationship. These were primarily internal administrative initiatives including the harmonization of Customer Relationship Management processes, accounting standardisation and the integration of the HR function to a shared services model.

5. Discussion

5.1. Key findings and implications for future research

This research set out to enhance our understanding of how customers are affected by M&A, by focusing on the customer–supplier relationship and exploring the mechanisms by which this relationship is affected by post-M&A integration actions.

Our exploratory study has revealed three primary insights. First, and perhaps unsurprisingly, we found that in general the same set of factors determined the strength of the customer relationship in the period following the Merger as in a business-as-usual situation. Second, the Q-sort data also revealed eight antecedents of the customer relationship that were particularly impacted during the Merger integration period: the suppliers' service performance, customer orientation, flexibility, account management quality, complaint handling, employee satisfaction, employee turnover and product/service breadth. It was changes in these critical customer relationship variables that primarily led to the observed deterioration in customer relationship quality and customer loyalty during the Merger integration.

The important role we observed for service performance (Doney & Cannon, 1997), customer orientation (Kingshott, 2006), account management quality (Doney & Cannon, 1997), complaint handling (Homburg & Fürst, 2005) and supplier flexibility (Homburg, Grozdanovic, & Klarmann, 2007) is consistent with that reported in the B2B marketing literature and our study suggests that the critical influence of these relationship antecedents continues within a merger situation. The impact that a merger can exert on employee satisfaction and employee turnover is already well established in the M&A literature (Krug & Aguilera, 2005), as is the role that these can play in sustaining the customer relationship (Bendapudi & Leone, 2002).

Finally, the accompanying qualitative interview data provided rich insights into the processes by which these critical customer relationship variables were impacted by the Merger integration. Causal analysis revealed six primary integration actions which ultimately determined how customers responded to the Merger: operational consolidation, operational standardisation, sales force integration, IT integration, organisational restructuring and marketing integration. In addition two secondary integration effects exerted an important influence: a corporate communication campaign, which overly raised customer expectations, and the overall uncertain environment that the integration changes collectively created. It was these specific integration actions that triggered changes in the critical antecedents of the customer–supplier relationship, which in turn led to a deterioration in customers' perceptions of the merged organisation and the consequent observed reduction in its market performance.

It is noteworthy that each of the primary "trigger" integration actions we identified formed part of an overall post-M&A integration approach that can be classified as "absorption" integration (Haspeslagh & Jemison, 1991). The ability of such an integration approach to deliver cost savings is widely recognized in the literature (e.g. Haspeslagh & Jemison, 1991; Schoenberg & Bowman, 2010). M&A scholars have also frequently warned of the potential for negative internal organisational consequences accompanying such complete integration, including culture clashes, reduced employee commitment and employee turnover (e.g. Krug & Hegarty, 2001; Schweiger & Goulet, 2000). However, it is only relatively recently that empirical work has established a link between integration processes, customer retention and the market related performance of an acquisition (Homburg & Bucerius, 2005; Zollo & Meier, 2008). Our findings contribute to this emerging stream by isolating the impact of individual integration actions and illuminating the mechanism through which these actions can impact customers and the merging firms' market related performance. In particular, our study has revealed the important role played by critical customer relationship antecedents, through which post-M&A integration actions appear to exert their impact on customers' purchase decisions. We hope that these insights will help researchers in the design of future studies in this important area. To this end Fig. 3 presents a summary framework of our findings, which could usefully be tested for generalisability in larger scale empirical work.

Interestingly, while our focus was on customer responses to M&A, the importance of competitor responses also emerged as a theme in our interviews. The internal and external uncertainty that was created by the scale of the integration changes at the Merged organisation increased the number of approaches that competitors made to the firm's customers, in some cases leading customers to change where their business was placed. This is consistent with the notion in the competitive strategy literature that the visibility of a firm's market action is positively related to the level of retaliatory response (Chen & Miller, 1994). The potential salience of competitor responses to M&A has been recognized by some scholars (e.g. Meyer, 2008; Schweiger & Very, 2003), although this is a further area where empirical research has been lacking to date. Our study suggests that at least one fruitful area for investigation is the relationship between the overall extent of post-M&A integration, the magnitude of competitor response and the resulting impact on customers' purchase decisions.

More generally, consistent with stakeholder theory (Freeman, 1984; Parmar et al., 2010), our findings reinforce the need to take account of external as well as internal stakeholders when considering the drivers of M&A performance. Our case study Merger has illustrated how post-M&A integration actions designed to reduce the internal cost base can also lead to a fall in customer relationship quality and, in turn, the volume of business customers placed with the Merged entity. This was reflected in static organic growth and a fall in market share during the integration period, illustrating the importance of considering external customer and market impacts alongside those of internal costs and organisation. It is noteworthy that two meta-analyses of prior empirical studies on the drivers of M&A performance, which focused on frequently studied internal characteristics of combining firms, both concluded that a large proportion of the variance in M&A performance remains unexplained (King, Dalton, Daily, & Covin, 2004; Stahl & Voigt, 2008). A more complete understanding of what determines acquisition performance is only likely to come when the impact on all salient stakeholders is considered. Future research seeking to develop more fully specified models should embrace a stakeholder approach, including specific consideration of customer and competitor impacts, to allow us to develop a more holistic understanding of the drivers of M&A outcome.

5.2. Implications for executives

Our study has several implications for B2B service industry executives planning a merger or acquisition. We found that the underlying determinants of customer relationship quality and customer loyalty most impacted during the Merger period were the suppliers' service performance, customer orientation, flexibility, account management quality, employee turnover and product/service breadth. Executives contemplating a merger or acquisition need to consider carefully, as part of their pre-bid planning, how intended post-M&A integration actions are likely to affect each of these critical customer relationship factors. Once the transaction is completed, particular attention needs to be paid to maintaining or improving these factors during the post-merger period. Here, we identified a number of specific post-M&A integration actions which appeared to trigger a deterioration in the critical relationship factors, including the integration of operations, IT, sales and marketing. Integration in these functions is often pursued solely with cost cutting objectives in mind and our findings serve as a cautionary note that pursuit of post-M&A consolidation in these areas is likely to lead to a deterioration in the customer relationship and, in turn, customer loyalty. When planning such integration actions, cost considerations clearly need to be balanced with customer and revenue considerations.

Changes in service performance during the merger period exhibited the strongest negative effect on the customer relationship, making this area worthy of particular managerial attention. While some service disruption as a result of operational consolidation following a merger

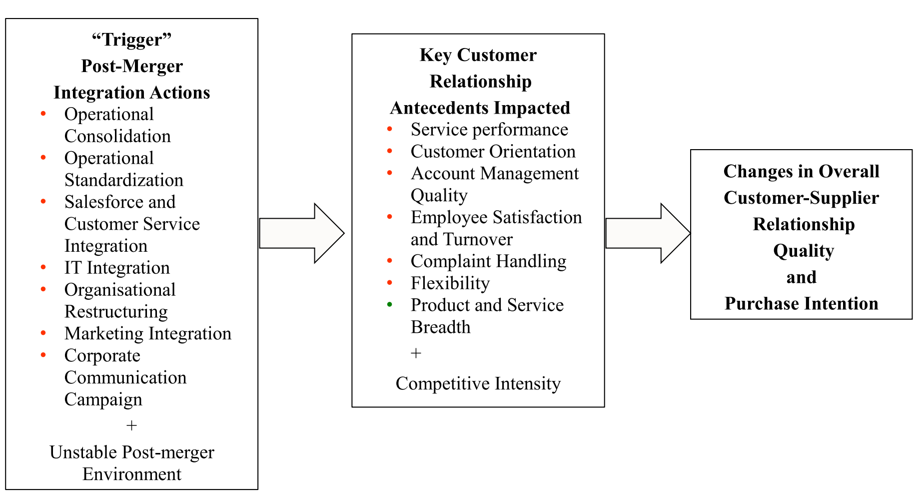

Fig. 3. Summary framework of how post-merger integration actions impacted the customer relationship within the case-study Merger.

may be inevitable (Clemente & Greenspan, 1997), our interviewees acknowledged a number of ways in which this risk might be mitigated. These included: (i) assigning a dedicated account management team to each key customer with responsibility for handling all their communications and issues, (ii) minimising the absolute amount of change that customers themselves experience, and (iii) the need to complete IT integration prior to consolidating operations to ensure a stable service platform is in place before location and other changes are made.

These interviewee recommendations are consistent with our Q-sort results, which revealed that customers felt communication, information sharing and their psychological contract with the supplier were negatively impacted during the Merger integration. Rather worryingly, our data also highlighted that the supplier key account managers themselves did not appear to recognize the deterioration in these areas. This reinforces the importance of developing an explicit communication strategy around any merger, which reaches out to external as well as internal stakeholders. Good communication has a crucial role to play in reducing the level of customer anxieties about future service performance, as illustrated by the comments of one of our interviewees,

> "The key contact person came here and announced the merger … in a very positive way to take our fears away … they looked motivated and that's why they succeeded in convincing us." (Customer)

It is also important to recognize that implementation of such a strategy may not necessarily be straightforward, since account managers themselves may be anxious and confused following a merger and, for the best performers, possibly subject to headhunting offers from competitors. This points to the need for senior executives to provide timely and comprehensive communication to internal employees as a precursor to good customer communication, as well as the need to train KAMs on the heightened role that communication plays in maintaining the customer relationship during merger integration.

5.3. Limitations

Our study has been exploratory in nature and a number of limitations should be noted. First and foremost, this study has focused on a single merger situation. The Merger was the largest undertaken in its industry sector and involved the integration of three previously separate businesses on a pan-European scale, with combined revenues in excess of Euro 15 Billion. The complex nature of our case study merger has provided rich insights, but further work is now required to establish the generalisability of our findings both within the B2B service sector and more widely within other industry and geographic contexts. Second, while we have attempted to capture both supplier and customer perspectives on the nature of their relationship, the supplier KAMs we interviewed were all "survivors" of the Merger process. This raises the possibility of a positive bias towards the Merger events from the supplier interviewees, although their responses show that they were certainly prepared to disclose negative aspects. Finally, our methodology required interviewees to retrospectively recall a merger integration that occurred up to five years previously. This recall period, while long, is generally not considered excessive (Miller, Cardinal, & Glick, 1997). Furthermore, the size of our focal Merger meant it had significant impact within its industry and the recall of important organisational events has been found to be generally accurate and complete (Huber & Power, 1985). This was borne out during the Q-sort ranking exercise, where the qualitative commentary revealed that interviewees were readily able to recall Merger events and provide rationales and examples to a high level of detail in support of their ranking decisions.

6. Conclusion

This paper has sought to illuminate the ways in which post-M&A integration actions impact the customer–supplier relationship and the mechanism by which they do so. Our study has isolated the impact of specific integration actions and highlighted the role played by a set of critical customer relationship variables, through which post-merger integration processes appear to exert their impact on customer loyalty. These findings represent another step towards understanding the precise mechanisms through which M&A can affect customers' purchase decisions and the combining firms' market performance. More broadly, in illuminating the impact of M&A on the customer–supplier relationship, our findings also support the need to take a stakeholder perspective in advancing our knowledge of the determinants of acquisition outcome. Further research, as outlined above, is now required not only to establish the wider generalisability of our findings but, more generally, to continue to build our understanding of how customers and other external stakeholders are impacted by M&A activity.

Appendix A. Variables influencing B2B customer–supplier relationship used in Q-sort procedure

Variable	Definition	Source
(i) Supplier's marketing, sales and operational activities influencing relationship		
Account management quality	Perceived contact quality (e.g. appropriateness of visit/call), characteristics (e.g. friendliness), attitude (e.g. proactiveness) and power (e.g. resource access) of the supplier account manager	Doney and Cannon (1997)
Bonding activities	Perceived strength of legal bonds (ties at company-level, e.g. contractual agreement) and social bonds (ties at individual-level, e.g. friendship, social network) with the supplier	Gounans (2005)
Commitment to people	Customer's motivation to maintain the current relationship due to positive feelings (employee-level)	Rauyruen and Miller (2007)
Communication, information sharing	Supplier's open info-sharing about sensitive/critical issues and/or advance info-sharing about changes (e.g. price, service)	Cannon and Perreault (1999)
Complaint handling	The supplier's complaint handling speed and quality (e.g. process, behaviour, compensation)	Homburg and Fürst (2005)
Cost, price	Direct cost, acquisition cost and operations cost	Lam et al. (2004)
Customer benefits	Perceived core benefits (e.g. service features, required by customer) and add-on benefits (e.g. know-how, personal interaction, not required/clarified by customer)	Homburg et al. (2007)
Customer involvement	Involvement of the customer decision-making unit for supplier/solution selection.	Bennett, Hartel, and McColl-Kennedy (2005)
Customer orientation	Supplier's attitude/behaviour to 'put the customer first' and nurture the current relationship	Kingshott (2006)
Customer status	Perceived privileges provided by the supplier (e.g. higher priority, better service, lower price…)	Palaima and Auruskeviciene (2007)
Employee turnover	Turnover of the supplier's key contact employee(s)	Bendapudi and Leone (2002)
Employees satisfaction	Perceived job satisfaction of the supplier's frontline employee(s)	Homburg and Stock (2004)
Expertise, capability	Perceived capability and expertise of the supplier's employee(s)	Liu and Leach (2001)
Fairness, benevolence	Perceived fairness of the supplier (e.g. its willingness to satisfy both parties)	Patterson, Johnson, and Spreng (1997)
Flexibility, adaptation	Supplier's capability/willingness to make changes (in process) to meet customer (changing) needs	Homburg et al. (2007)
Multi-channel integration	Customer's awareness of sales channel options (e.g. account mgr, customer service, Web) and perception of cross channel consistency	Madaleno, Wilson, and Palmer (2007)

(*continued on next page*)

Appendix A (*continued*)

Variable	Definition	Source
(i) Supplier's marketing, sales and operational activities influencing relationship		
Pre-service expectation	Expected service features based on supplier communications as well as past experience, needs and word-of-mouth	Parasuraman, Zeithaml, and Berry (1985)
Product/service breadth	Breadth of the supplier's service portfolio compared to its rivals	Wathne, Biong, and Heide (2001)
Satisfaction	Overall satisfaction with the supplier	Homburg and Rudolph (2001)
Service performance	Competitiveness of the supplier's service features, reliability and technical/after-sales support	Doney and Cannon (1997)
Service quality	Perceived gap between expected service quality and actual service quality	Parasuraman et al. (1985)
Supplier commitment	Supplier's desire and effort to maintain the current relationship with customer	Homburg et al. (2007)
Supplier initiative	Supplier's proactive actions to improve its customer's competitive position	Brush and Rexha (2007)
Switching cost	Associated cost, effort, time and risk to switch the current supplier to alternative suppliers	Lam et al. (2004)
Trust in company	Perceived credibility/reliability, openness and trustworthiness of the supplier (company-level)	Doney and Cannon (1997)
Trust in people	Perceived credibility/reliability, openness and trustworthiness of the supplier's people (employee level)	Doney and Cannon (1997)
Value	Perceived 'Benefits–Costs'	Ulaga and Eggert (2006)
(ii) External and conditional factors		
Acceptable alternatives	Availability of acceptable alternative suppliers for the target services	Cannon and Perreault (1999)
Company size	Supplier's company size relative to customer's company size	Doney and Cannon (1997)
Competitive intensity	Competitive intensity of the market (e.g. service and price competitions between competitors)	Workman, Homburg, and Jensen (2003)
Cultural differences	Difference in national culture characteristics between customer and the supplier	Homburg et al. (2007)
Market dynamism	Degree and frequency of changes in service preferences	Workman et al. (2003)
Psychological contract	Perceived future tangible outcomes (financial/non-financial benefits) and inputs (e.g. resource and support) promised by the supplier	Kingshott (2006)
Relationship length	Length of the customer–supplier relationship	Stock (2005)
Supplier reputation	Overall reputation of the supplier compared to its rivals	Hansen, Samuelsen, and Silseth (2008)
Supply complexity	Complexity of customer's needs, supplier's services and purchase decision making	Cannon and Perreault (1999)
Supply importance	Strategic, financial and operational significance of the purchase to company	Cannon and Perreault (1999)

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