WHO OWNS A CUSTOMER RELATIONSHIP FOLLOWING A MERGER OR ACQUISITION?

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Abstract

This paper discusses how changes in management affect customer relationships. Management turnover is described widely in literature on M&As. Such turnover may help new owners to attain control over an acquired party, for example, but managers who leave an M&A party may also lead to customer losses. This paper shows that managers and other company representatives are important if customers are to be kept following an M&A. The findings indicate that customer relationships may well be "owned" by managers rather than by companies and also show that what managers and other representatives leaving an M&A party actually do is to make customers’ dissolution decision more probable.

Keywords: Merger, Acquisition, Customer relationship, Corporate governance, Conflict of interest

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1 Introduction

Mergers and acquisitions (M&As) are frequent and typical in business life. They target ownership transfer of companies or parts of companies (Capron, 1999; Hagedoorn and Duysters, 2002) and thus, M&As are connected with change. For control and cost saving purposes, such change may include the change of management. But managers may also choose themselves to leave an acquired company. Several researchers have focused on describing changes in management following M&As (e.g., Walsh, 1989; Krug and Hegarty, 1997; Choi, 2001). Changes of management may in turn affect the business relationships of the M&A parties. While it is the company that has the contracts with customers and other business partners, an important dimension of business relationships is the personal contacts between representatives of firms. Such dimensions are referred to as actor bonds or social ties (Håkansson, 1982; Håkansson and Snehota, 1995; Ford and Håkansson, 2006). If an M&A leads to changes in management, this may also affect the overall relationship between M&A parties and their business partners.

When Coutant (1936) stated that “customers are the real masters of the market – those who want to sell to them must consult their masters’ wishes” (p. 228), this was but one way of expressing the importance of customers to a company’s survival. It is the customers, after all, that create revenues for a company and this places them in a special niche among a company’s business partners. Customers are often considered important when an M&A is announced. Motives, including market shares and positions (Trautwein, 1990; Walter and Barney, 1990; Kelly et al., 2003; Sevenius, 2003) are ways of expressing expectations of customers following an M&A. When customers are included in M&A analyses, they are commonly expected to be transferable between the M&A parties. Using market shares as motive indicates that the acquired party’s customers are expected to remain with the M&A parties, and possibly that that the acquired party’s customers will also start buying from the acquirer. Such motives however fail to recognise that customers may react to an M&A and that such reactions may lead to a dissolution of customer relationships. Some few studies (Rydén, 1972; Dahlin et al., 2003; Öberg, 2008) show that M&As may lead to severe customer losses. Customer losses would in turn explain the high failure rate of M&As (cf. Kitching, 1967). Still, in research into M&As, the effect of M&As on customer relationships has received limited attention (Anderson et al., 2001; Homburg and Bucerius, 2005) and in most M&A research, focus remains on the M&A parties alone, while customer relationships are rarely part of the scenery. As Mazur (2001) expressed the situation:

“Nothing illustrates the undervalued role of marketing than what happens during a merger or acquisition. Unless the new company can create more consumer value than the component parts, it is doomed to fail. Yet while chief executives may think this is what they are doing, the results often suggest they were deluding themselves. Mazur (2001, p.1)“

With personal contacts being one dimension of customer relationships, it could be expected that changes in management and personnel would increase
the risk of customer losses. The purpose of this paper is to discuss how changes in management affect customer relationships. Management is given a somewhat wide meaning in the paper and includes not only top management, but also sales management, for instance. The paper addresses the question “Who owns a customer relationship following a merger or acquisition?”, which indicates that personal ties may create such strong links between companies, that customers choose to follow management, for instance, to new companies, rather than to stay with the M&A companies.

The paper contributes to research on mergers and acquisitions through including customer relationships. Further, it contributes to research into business relationships through highlighting the social dimension of relationships, and to research on corporate governance, through discussing how the separation of management from companies may lead to unexpected effects following an M&A. It could be important to consider the paper’s indicative findings when planning an M&A and when planning staff setups and corporate governance systems in an M&A.

The paper is structured the following way: First, the lack of research on the customer, related to M&As is described. Secondly, customer relationships as an important area for corporate governance and the personal levels of such relationships are discussed. This is followed by a short description of management turnover. The research design is outlined, followed by some empirical examples of social ties affecting customer relationships following M&As. Management turnover and customer relationships following M&As are discussed in more general terms thereafter. The paper ends with a concluding discussion.

2 Customers in mergers and acquisitions

Integration, synergies and culture have attracted a relatively large number of researchers on M&As (e.g. Goldberg, 1983; Shrivastava, 1986; Larsson, 1990; Trautwein, 1990; Gertsen et al., 1998; Vaara and Tienari, 2002), while the inclusion of business partners such as customers and suppliers, has been notably absent in M&A research. According to a literature review, most M&A literature focuses on the M&A parties alone (Öberg, 2008, see Table 1 for details on reviewed articles). Similar conclusions are made by Homburg and Buc incur (2005) and Mazur (2001), who have highlighted the limited attention to marketing in M&A literature. The acquirer’s motives, problems of integrating the acquirer and the acquired party, and the outcome, often based on accounting or on stock exchange data of the acquirer and the acquired party (see e.g., Cox, 2006), all indicate a focus on the M&A parties.

Table 1. Journals reviewed for literature review in Öberg (2008). The table indicates a limited number of articles on M&As in marketing journals

<table>
<thead>
<tr>
<th>Name of journal reviewed</th>
<th>Volumes included in the review</th>
<th>Numbers of articles dealing with mergers, acquisitions and/or takeovers</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Marketing Review</td>
<td>1990 Vol. 7 Issue 1 - 2003 Vol. 20 Issue 6</td>
<td>4</td>
</tr>
<tr>
<td>Journal of Marketing</td>
<td>1990 Vol. 54 Issue 1 – 2004 Vol. 68 Issue 2</td>
<td>1</td>
</tr>
<tr>
<td>Journal of Marketing Management</td>
<td>1990 Vol.6 Issue 1 - 2004 Vol.20 Issue 1</td>
<td>1</td>
</tr>
<tr>
<td>Journal of Strategic Marketing</td>
<td>1993 Vol. 1 Issue 1 - 2004 Vol. 12 Issue 1</td>
<td>1</td>
</tr>
<tr>
<td>Organization</td>
<td>1999 Vol. 6 Issue 1 - 2004 Vol. 11 Issue 3</td>
<td>1</td>
</tr>
<tr>
<td>Organization &amp; Environment</td>
<td>1999 Vol. 12 Issue 1 - 2002 Vol. 15 Issue 2</td>
<td>0</td>
</tr>
<tr>
<td>Organizational Dynamics</td>
<td>1990 Vol.18 Issue 3 - 2004 Vol. 33 Issue 1</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>126</td>
</tr>
</tbody>
</table>

The focus on customers is thus limited in M&A literature. But it is not only a question of M&A literature largely excluding customers from the analysis. It is also a matter of how customers are seen when they are included in the literature. In literature on M&A motives, it is common to mention customers, but the customers themselves are not considered as actors affecting and being affected by M&As. Instead, motives seem to imply that customers are transferrable between M&A parties and that customers will remain faithful to the M&A parties beyond the M&A. Moreover, it is expected that customers remain with the companies involved in the M&A and will not follow individuals representing those companies. Rydén (1972) showed that mergers and acquisitions may lead to customer losses ranging...
from between twenty-five and fifty percent of the acquired party’s customers. While this could help to explain the high failure rates of M&As (Kitching, 1967; Slowinski et al., 2002), Rydén (1972) did however not research why such customer losses could occur. Based on research showing that social ties between actors are important for the longevity of relationships, management turnover could perhaps help to explain customer losses following M&As. The other side of the coin is that when managers remain with the M&A parties, this contributes to continuity of relationships.

3 Customers relationships – an important area for corporate governance

From a corporate ownership perspective, mergers and acquisitions are performed to increase shareholders’ wealth. Expectations of increased shareholders’ wealth would be the anticipation regardless of the type of M&A, while in reality all M&As are not equally successful in that sense (Gross and Lindstädt, 2005/2006). Practitioners have devoted considerable efforts to making managers act according to the will of shareholders (Kesner et al., 1994; Lane et al., 1998). Still, it is not the managers alone that decide over the success or failure of a company.

As Håkansson and Snehota (1989) put it; “no business is an island”, which indicates that all companies are part of a wider setting, that affects and is affected by single companies’ activities. Although single companies might well try to manage such networks of companies, they would not be successful in doing so. Ford et al. (2003) showed that as single companies attempt to control their networks, they will introduce changes and be met by reactions, that may mean that the companies’ intentions are not realised.

With the fundamentals that construct the day-to-day reality of many companies in a business-to-business setting, individual customers may represent a substantial portion of overall sales, and the longevity of relationships is emphasised (see e.g., Webster and Wind, 1972; Axelsson, 1996). The relationships can be described with characteristics such as interdependence, adaptation, trust and commitment (Blankenburg Holm, 1996; Ritter and Germünden, 2003) and consist of activity links, actor bonds and resource ties (Håkansson and Snehota, 1995) or ties of technology, knowledge, social relations, administrative routines, systems and legal matters (Hammarkvist et al., 1982).

Following an M&A, such ties may be deliberately broken-off. This could be the result of product replacements (Öberg, 2008), but also of owners deciding to replace managers. Chen and Xi (2008) and Torabzadeh and Dube (2007) showed that companies changing top management following an M&A performed better than those that did not replace managers. But replacing managers may be costly for the companies, as it may jeopardize customer relationships, for instance. While replacing managers leads to increased control for the acquirer, business relationships are not part of what the acquirer will get control over. Instead, replacing managers may lead to a decreased network of customers. Such consequences may only appear in the long-run, as contracts may underpin relationships in a short term perspective. This can in turn explain why Chen and Xi (2008) and Torabzadeh and Dube (2007) failed to capture the consequences of management turnover on customer relationships.

3.1 Personal level of relationships

In business relationships, individuals as representatives of companies become important. Firstly, they create links between exchanges. Secondly, they impact decisions made on a company level (Webster and Wind, 1972 (1995)). Thirdly, they learn about the other company’s needs and thereby help companies to adjust to each other, in turn creating stronger links between companies (Hallén et al., 1991). Structures of ties between companies (Hammarkvist et al., 1982; Håkansson, 1982; Håkansson and Snehota, 1995) mean that business relationships may stay robust even when environmental issues changes. According to marketing scholars, it is less expensive to continue to sell to existing customers than to establish new relationships or sell to continuously new customers on a transactional basis (e.g., Kotler et al., 2001). Thus, there is often a wealth-contributing reason for keeping relationship ties intact. The importance of social ties in the creation of long-term business relationships is widely recognised (e.g., Hammarkvist et al., 1982). Social ties have come to play a significantly important role to stabilise or trigger a change of business relationships. Perrien (1995) showed that the most common reason for a business relationship to dissolve was that the manager of the supplying party changed jobs (cf. Anderson et al., 2001), and Hocutt (1998) and Alajoutsijärvi et al. (2000) explored how relationships may not continue when an individual is replaced. Equally, Grönhaug et al. (2000) pointed at the relative ease of dissolving relationships if social ties were weak and Seabright et al. (1992) pointed at how social ties may decrease the likelihood of changing suppliers.

4 Management turnover following M&As

In M&A research, several scholars have highlighted the issue of management turnover following M&As (Walsh, 1989; Krug and Hegarty, 1997; Choi, 2001). Management turnover is most common at the acquired company. It may be result of managers not feeling like staying with the new owner. Conflicts of interest, problems of representing a previous competitor and the career step-backs of moving from being a manager of an independent company to holding a position in a subsidiary, are but a few of the
reasons for managers to leave following an M&A. Control and integration issues could be motives for owners to force managers to quit.

There is however a risk with making managers quit and with managers leaving the M&A parties. This risk results from the managers’ ties with representatives of customers, for instance. Rather than it being the companies that “own” the relationships with customers, these relationships may be highly connected to individuals in the companies. Inkpen et al. (2000) described the importance of individuals in M&A organisations the following way:

“If the assets walk out the door every evening, the acquirer had better make sure that they want to come back the next morning.”

Inkpen et al. (2000, p.53)

The assets Inkpen et al. (2000) referred to were people working with innovations in technology firms, and the assets mainly referred to their know-how and innovation skills. Managers and other company representatives are important also in other senses however. As described above, they may be the reasons for customers staying with a supplier (e.g., Seabright et al., 1992). With management turnover, customers and M&As as three cornerstones, the following questions are raised:

- In what way are managers and other company representatives reasons for customers to stay with suppliers following an M&A?
- How do changes of managers and other company representatives become a reason for customers to dissolve their relationships with suppliers?
- How do managers and other company representatives delimit the transfer of customer relationships between M&A companies?

5 Research design

This paper combines data from two data collections; one built predominately on interviews and the other a survey built on accounting data. The survey helps to highlight the correlation between management turnover and customer losses. The data collection built on interviews presents illustrative examples and explains why customers made the decisions they did following the replacement or continuity of individuals.

The study built on interviews adopts a multiple case study method (Bonoma, 1985; Eisenhardt, 1989; Yin, 1994; Woodside and Wilson, 2003; Halinen and Törnroos, 2005; Dul and Hak, 2008). It comprises nine M&As and illustrates the perspectives of both M&A parties and customers (see Table 2). The case study approach enables the capturing of companies and connections between these (Holmlund, 2004). Case studies are often used in studies of business relationships as they mean an ability to grasp a detailed view on the connections of companies:

“Case study research consists of a detailed investigation that attempts to provide an analysis of the context and processes involved in the phenomenon under study. No attempt is made to isolate the phenomenon from its context, but instead, the phenomenon is of interest precisely because of its relation to its context.”

Johnston, Leach and Liu (1999, p.203)

The downside of case studies is the trade-off between details and generalisations. Quantitative data allow for the generalisation of findings to a larger extent than do in-depth studies focusing on a limited number of cases. On the other hand, case studies manage to capture details, but also causes and effects in a manner not accomplished in quantitative studies. Transferability (Hirschman, 1986; Guba and Lincoln, 1989) means that while being built on a limited number of cases, findings from studies may well be applicable in wider settings (Easton, 2004). Similarities between studied cases support such transferability (cf. Yin, 1994; Saunders et al., 2007).

Table 2. Interviews representing various parties’ views

<table>
<thead>
<tr>
<th>M&amp;A (acquirer – acquired party)</th>
<th>Acquirer’s perspective</th>
<th>Acquired party’s perspective</th>
<th>Acquirer’s customer</th>
<th>Acquired party’s customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT – Raymond</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BT – Cesab</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toyota – BT</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td>Momentum – Structurit</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>BasWare – Momentum Doc</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>ADB Gruppen – Verimation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>NetSys – Verimation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Nexus – Verimation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>IdaSystems – Infront</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Customers refer to relationships prior to the M&A. In some cases an acquirer’s customer became a customer to the acquired party, or reverse, following the M&A.
The nine cases represent two sets of companies: (i) companies engaged in IT-services, and (ii) manufacturers of material handling equipment. In the following M&As, ownership and management of the acquired company were separate already prior to the M&A: BT Industries/Raymond, Toyota/BT Industries, ADB Gruppen/Verimation, NetSys/Verimation and Nexus/Verimation, while for BT/Cesab, IdaInfront, Momentum/Structurit and BasWare/Momentum Doc either the original owners or owners active in the acquired company sold their shares, leading to a separation of ownership and management. Apart from BT/Cesab, no attempts were made to replace the management of the acquired company. In the BT/Cesab acquisition, the acquirer wanted to have access to the products of the acquired company and was not particularly interested in the acquired company’s customers. The M&As of IdaInfront and BasWare/Momentum Doc resulted in managers and other company representatives leaving the acquired company.

In total, sixty-four interviews were conducted. The interviewees were managers and sales staff representing the acquiring and acquired companies, and managers, procurement staff and users representing customers of these companies. Owners of the acquired parties were also included. The category customers comprised previous customers, present customers, and customers that had started buying from the M&A parties since the M&A. The interviewees were encouraged to tell their individual story of the M&As, rather than to answer predefined questions (Starrin and Renck, 1996; Saunders et al., 2007). The reasons for conducting non-standardised interviews were to minimise steered answers and overestimations of individuals’ importance for the continuity of the relationships. The choice of interviewees could be referred to as a snowball sampling (Sarantakos, 1998; Johnston et al., 1999; Saunders et al., 2007), where interviewees were chosen from recommendations by other interviewees. As data was collected some years after the M&As, long-term effects could be captured. To minimise memory gap and retrospective rationalisation effects, the interviews were complemented with a newspaper data search (cf. Welch, 2000).

The annual report survey used annual reports and newspaper items as data sources. Data about auditors and auditing firms were collected for thirty-five companies that had Arthur Andersen as their auditing firm before Swedish Arthur Andersen was acquired by Deloitte & Touche. The customer companies were in turn selected from a dataset comprising 206 companies. The thirty-five selected cases were the only ones of these 206 companies that had once had Arthur Andersen as auditing firm. This dataset was analysed to see whether companies chose to continue with the acquirer or change to another auditing firm, and whether this was impacted by auditors changing firms.

In the analysis procedure, the data from the two studies was analysed to find out how personal relationships affected decisions to remain with or dissolve relationships with the M&A parties. The effects of social ties on the customer relationships were categorised and recombined to create patterns of effects (cf. Glaser and Strauss, 1967; Strauss and Corbin, 1998). The categories aimed to find causal powers and tendencies with regard to the impact of individuals on customer relationships following M&As (cf. Easton, 2004; Jessop, 2005). Section 6 presents categories derived from the datasets.

6 Some empirical examples on the importance of social ties

In all the M&As researched for this paper, individuals as representatives of M&A parties played an important role for customers remaining with the M&A parties. The other side of the coin is that individuals as representatives of firms may have made it difficult for acquirers to connect directly with the customers of the acquired party and also for the acquirers to keep customers, if representatives of the acquired party left the M&A parties.

This section describes how social ties affected customer relationships following M&As. The section begins with a description of the correlation between individuals remaining with the M&A companies and the continuity of customer relationships following Deloitte & Touche’s acquisition of Swedish Arthur Andersen. This is followed by other illustrative examples from the M&As studied.

6.1 A correlation between individuals remaining with the M&A companies and continuity of relationships

The case of Deloitte & Touche’s acquisition of Swedish Arthur Andersen may be used to illustrate and give a preliminary understanding for the effects individuals may have for the continuity of customer relationships. Deloitte & Touche and Arthur Andersen were two worldwide leading auditing firms. The acquisition was a result of the Enron scandal as Arthur Andersen was the auditor of Enron. Arthur Andersen had approved Enron’s accounts and the board’s work, and further, Arthur Andersen had also provided Enron with consultancy services and destroyed documents related to Enron’s activities (Dagens Industri, 2002). The approval of illegal transactions and the destruction of documents resulted in the end for Arthur Andersen. Arthur Andersen attempted to find a new partner, but these attempts failed. Instead, various auditing companies acquired parts of Arthur Andersen on a national level. In Sweden, Arthur Andersen was acquired by Deloitte & Touche in June 2002 (Deloitte & Touche AB, 2002; Deloitte & Touche AB, 2003).

Some of the Arthur Andersen auditors decided to leave the combined company following the M&A,
while others remained with the M&A parties. The thirty-five researched customer relationships clearly indicate a correlation between customers remaining with the M&A parties and auditors staying with the combined company. Fifteen of the relationships on an individual-to-customer level continued as before the M&A, which also meant that Deloitte & Touche was able to keep these customers. However, there is also a strong correlation between companies changing auditor and moving away from the M&A parties (see Table 3).

Table 3. Number of companies changing auditor and/or audit firm per year

<table>
<thead>
<tr>
<th>Year</th>
<th>Before 2002</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Deloitte &amp; Touche</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>changing auditor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 2002</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not changed</td>
<td></td>
<td>15</td>
<td>18</td>
<td>15</td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>2</td>
<td>18</td>
<td>35</td>
</tr>
</tbody>
</table>

Such correlations indicate that it might be the representatives of the M&A parties, rather than the companies as such, that own the customer relationships. While contracts are normally signed on a company-to-company level, in the minds of customers, representatives of the M&A parties may be more important than the companies in themselves. The case studies built on interviews provide similar patterns as the Deloitte & Touche/Arthur Andersen M&A:

(i) There are correlations between customers staying with the M&A parties if managers and other company representatives continued with the parties.
(ii) There are correlations between individuals leaving the M&A parties and the risk of customer relationship dissolution.
(iii) Further, there are examples showing that M&A parties did not manage to transfer customer relationships between the M&A parties, as the relationships were strongly connected to individuals rather than to the companies and their owners.

These three scenarios will be illustrated in further detail below.

6.2 Individuals as reason to continue with the M&A parties

The M&As studied provide several examples of how customers decided to stay with the M&A parties as a result of company representatives remaining with the M&A parties. To exemplify:

Verimation was founded in 1985 and managed to establish a strong customer base in the latter part of the 1980s and in the beginning of the 1990s. This customer base made Verimation attractive for M&As. Over the years, the company was acquired a number of times and also approached with acquisition attempts that were never fulfilled. While the initial owners of Verimation had a long-term perspective for the development of the company, some of its later owners mainly saw Verimation as a connection to new customers. NetSys was one of the acquirers of Verimation. The acquirer ran into profitability problems and ended up in bankruptcy, but also managed to create turbulence leading to price rises and a newspaper scandal. Customers were indeed lost, but those who remained did so as a result of the strong personal ties between the managers and staff of Verimation and the customer company representatives. One such example is IKEA, a customer of Verimation since the foundation of the company. Although the turbulence in Verimation during the NetSys’ period came to IKEA’s notice, the fundamentals that maintained stability were the person-to-person relationships which had developed over the years. With much of the business relationships relying on these personal ties, there was the risk that customer relationships would be challenged if new people entered IKEA or Verimation. As new people enter with different values – with us and with Verimation, but especially with us, that do not have the history; I think history has been of a great importance helping us to keep a cool head and trust the company.

IT-manager, IKEA (customer of Verimation)

Other M&As also show that personal ties were important in times of turbulence. BT Industries acquired companies such as Raymond and Cesab and was acquired by Toyota. In all these M&As, integration was quite limited. However, the M&As did cause some organisational changes and also changes in deals with customers. The situation in the industry also meant that local deals were replaced with centrally negotiated ones. During times of change, the preserved person-to-person relationships contributed by giving stability. Furthermore, although companies were governed by centrally preferred supplier deals, if possible, local representatives often chose to continue with BT Industries based on personal relationships.

It is basically built on relationships. You know them and what they do. But perhaps we should look at other things as well, to put some pressure on BT.

Responsible purchase, Volvo Bus Corporation (customer of BT Industries)

It is the same people, it does not matter what the sign says. It is like when they called me when it was decided we would be DHL. ... What the sign reads does not actually matter, as long as the contacts are good.

Branch manager, DHL Solutions (customer of BT Industries)

In the M&As involving Structurit/Momentum Doc too, personal relationships were strong and
guaranteed the continuity of customer relationships. In these M&As, this was also especially apparent in times of turbulence. When BasWare acquired Momentum Doc and decided to replace Momentum Doc’s product with BasWare’s, personal ties with Momentum Doc staff made customers less inclined to change suppliers. However, the product replacement had consequences for customer relationships as the product replacement led to staff leaving the M&A parties.

6.3 Individuals leading to dissolution of customer relationships

Staff leaving the M&A parties and the dissolutions of personal ties, were consequences of integration strategies, which also worked as driving forces for customer actions. To exemplify this, the decision to replace Momentum Doc’s product with BasWare’s meant that some people who had worked with an upgraded version of Momentum Doc’s products left the company. This dissolved personal business relationships between representatives of customer companies and Momentum Doc, and meant a further incentive to change suppliers.

There were some people that chose not to continue after the acquisition; someone on sales, someone on development that were important in the old Momentum Doc team.

CEO, BasWare

We were about twenty people in Momentum Doc [at the time of the acquisition], and out of these, no more than ten are here today. The rest have left over time. ... Firstly, they did not want to work for another party, three or four people quit for that reason. And then we have the more recent ones; I think these are the result of us here in Finlan not having been given the attention that we used to have, when we were the head office. BasWare has its head office in Finland och its Swedish office in Stockholm.

Owner, Momentum Doc

Saab was one of the customers that were affected by the fact that staff left Momentum Doc/BasWare. This was especially troublesome since those that had worked most closely with a specific customer were also those who knew what customisations were made for that particular customer.

As Momentum dissolved, one of their development managers, Stefan Wallin, and some other people left. ... There was fewer and fewer that knew the StairWay [Momentum Doc’s] product. This we experienced successively and it certainly was a setback for us when Stefan Wallin left, since much was built on his knowledge about StairWay – our installation and our customisations.

Manager accounting systems, Saab (customer of Momentum Doc)

In all, BasWare/Momentum Doc lost some twenty percent of Momentum Doc’s customers following the product replacement and the staff leaving Momentum Doc.

Following a reorganisation after Toyota’s acquisition of BT, contact persons of BT Industries were partly replaced. This resulted in some previous relationships being broken off. This reorganisation was met with resistance among customers who experienced difficulties in reaching the right people and who perceived the situation as turbulent.

My thoughts about BT are somewhat indecisive since they started centralising. I feel that the staff of BT feels a bit anxious. You feel these kinds of things without them being expressed in words. It is in the air. People are not as happy and feel worried about their future. That is sad. When you talk to someone who does not feel secure then you immediately feel that he is not a hundred percent engaged in the deal. This is your first thought.

Salesman, Servera (customer of BT Industries)

Few of the examples provide actual evidence of customers that followed company representatives to new companies. One reason therefore may be that those individuals leaving the M&A parties rarely transferred to competing products. So in that way customers did not have the option to follow the company representatives to a new company. However, it is clear that customers chose to remain with the M&A parties if company representatives stayed with the companies. Several examples can also be found of the person-to-person relationship between representatives of the M&A parties and customers remaining also once the business relationship was dissolved. Such relationships may be personal, but may also lead to new deals further on (cf. Havila, 1996).

6.4 Individuals disabling transfer of relationships

Besides individuals remaining with the M&A parties making customer losses less likely, while staff leaving the M&A parties may make customers more hesitant about the customer company, individuals also played the role of disabling transfer of relationships. M&As are often performed to attain control over customer relationships and to transfer customer relationships from the acquired party to the acquirer, or reverse (e.g., Kelly et al., 2003; Sevenius, 2003). The strength of personal relationships may however disable such transfers. This could indicate that it would be better to replace individuals of an acquired party. None of the situations studied would however had led to customers staying with the acquirer if the representatives of the acquired party had been replaced. Rather, that customers did not build relationships with the acquirer while continuing with the acquired party was the only alternative for the customers.

Following NetSys’ acquisition of Verimation, IKEA refused to have further contacts with the acquirer.

We had a close relationship with IKEA and had had for years. So one day when I came to them after we had been merged with NetSys for a while I was told that: “You have to make sure that we do not get any visits from anyone from NetSys. You are greatly welcome, but none of them. We do not want them here.” And that is not funny after having had a customer relationship with IKEA since 1985.

Sales manager, Verimation
Individuals from the acquired party and customers allied, and no relationships were transferred to the acquirer.

IdaInfront illustrates a similar situation. IdaSystems acquired Infront to strengthen the original company, and to reach company representatives on Infront’s geographical markets. The idea of strengthening the acquiring company however came to nothing. The customers of the acquired company were too closely connected to individual employees of the acquired company, making it difficult for IdaSystems to develop relationships with them. Infront’s customers? They were closely connected to individuals of the acquired company. They disappeared, and did so before the personnel left the company. And then there was no renewal. The customers disappeared, and then Infront disappeared.

Owner and CEO, IdaSystems

The case of IdaInfront illustrates that it may be difficult to actually attain the expected benefits of an M&A due to transfer matters. Brands and the like are certainly transferable between organisations, but the values of such brands may not be. In the value of a brand lies the requirement that customers continue to buy from the parties; but customers may choose other alternatives. Customer choices may in turn be impacted by how individuals from M&A parties act. The NetSys/Verimation and the IdaInfront M&As illustrate that while customer relationships may be built almost exclusively on social ties, such ties cannot easily be transferred to other individuals or companies.

7 M&As, management turnover and customer relationships

In the literature on management turnover, it is often concluded that management turnover may be severe following M&As. The literature further shows that management turnover may increase the performance of the M&A parties (Torabzadeh and Dube, 2007; Chen and Xi, 2008). This connects directly to corporate governance, as management turnover may lead to a separation of ownership and management, but may also be a means for new owners to attain control over an acquired company.

The literature however fails to recognise the effects of management changes on customer relationships. This paper described three scenarios of customer relationships connected to company representatives: individuals as reason to continue with the M&A parties, individuals leading to dissolution of customer relationships, and individuals disabling transfer of relationships. Taken together, the scenarios provide examples of how managers and other company representatives create important ties with customers. While none of the managers in the cases studied transferred to a competing company, it is apparent that managers and other representatives strengthened the existing relationships, making dissolution less probable provided that these individuals stayed with the M&A parties.

This paper raised three questions: In what way are managers and other company representatives reasons for customers to stay with suppliers following an M&A? How do changes of managers and other company representatives become a reason for customers to dissolve their relationships with suppliers? And, how do managers and other company representatives delimit the transfer of customer relationships between M&A companies? The empirical examples used in this paper present answers to these questions: Managers and other company representatives become ties of continuity when a company is acquired. As these representatives presumably know the customers’ needs better than the acquiring company and as M&As may cause changes in terms of product replacement, for example, such representatives may be the only tie of continuity and stability for customer relationships. Customers may decide to dissolve relationships with M&A parties when managers or other company representatives leave the M&A parties. Just as company representatives create continuity, them leaving means interruptions in continuity. Furthermore, knowledge about the customer may be lost, with the result that the M&A parties are not able to meet customers’ wants and needs. Managers and other company representatives may delimit transfer of customer relationships in at least two ways. Firstly, customers may consider that they have relationships with those representatives rather than with the companies they represent. Customers do not necessarily see the value of the customer transfer. Secondly, the ties between company representatives and customers may well be stronger than those between the M&A parties. This could result in a sub-optimisation on the level of the combined M&A parties if representatives of the acquired party and customers ally.

Management turnover may be lucrative in the short-term perspective as it makes control over an acquired party easier to accomplish and it may result in cost savings. However, in the long-term perspective, management turnover could lead to weakened or dissolved customer relationships and revenue losses well outweighing cost savings (cf. Mazur, 2001).

8 Concluding discussion

This paper is titled “Who owns a customer relationship following a merger or an acquisition?” The question tackles how M&As may introduce changes in customer relationships as a result of changes in company representatives. Customers may decide to follow the previous managers rather than to continue with existing supplier companies. This in turn would mean that the M&A parties lose the customers the acquirer may have aimed for.

That managers and other company representatives are important components in the relationships between customers and suppliers could
indicate that customer relationships are owned by individuals within firms rather than by companies themselves. Contracts however are outlined on a company-to-company level, which would mean that the consequences of changes in management only become apparent once contracts expire. It could further be expected that the strength of personal ties varies with for instance the longevity of the relationship, closeness between companies and closeness between company representatives (cf. Håkansson, 1982), and types of companies and products. In certain companies, it would be the product that “carries” the relationship, while in others, individuals are the keys to relationships, for example. Based on the examples provided in this paper, social ties are especially important for continuity when changes are introduced in the company-to-company relationship. Whether it is product replacement or turbulence related to the new owner, social ties are critical as carriers of the relationship when other ties or companies in the relationship are questioned. In M&As, it is critical to understand what components – or ties – in the relationships towards customers are the most important. This helps in planning for company integration and also in planning for which representatives to keep on certain positions in the companies.

However, it is important to realise that while the discussion above seems to indicate that it is the representatives of the companies that own the customers relationships, such relationships cannot be owned by a single party. Customer relationships are made up of suppliers and customers together, and neither side of a relationship can “own” the relationship on its own (cf. Ford et al., 2003). It is not a matter of managers walking out the door with the company’s customer relationships, it is customers deciding to follow their contact persons to a new company or to dissolve a relationship with an existing supplier as a result of a company representative leaving the supplier. But such decisions may be easier to make when there is a lack of social ties between the customers and the suppliers.

8.1 Further research

For further research it would be interesting to measure correlation between managers leaving and the loss of customers following M&As. This paper can function as a basis for developing hypotheses for such a quantitative study. The scenario of customers following company representatives to new firms could also be quantitatively measured through such a study. Effects of management turnover on other business relationships would also be interesting to study further.

References

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