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Are mergers and acquisitions contagious?

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Abstract

In traditional literature on mergers and acquisitions (M&As), the reasons to merge or acquire are largely described as strategies of the merging or acquiring parties. This article suggests that M&As are contextually driven. Based on six case studies, the article pinpoints how M&As among customers lead to M&As among suppliers, and vice versa. The article launches the concept of parallel M&As to describe this phenomenon, and asks the following question: in what ways are M&As among customers and suppliers a driving force for M&As by the other party? Matching, dependence and keeping a power balance are found as key explanations for parallel M&As.
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1. Introduction

Mapping completed mergers and acquisitions (M&As) over the past few decades would produce a line which roughly follows the fluctuations of the business cycle. The numerous M&As occurring in the late 1990s and in early 2000 mark the most recent peak (Bengtsson and Skärvad, 2001; Weston and Weaver, 2001), which was followed by a recession starting in late 2000 (Sevenius, 2003; Lundell, 2002; KPMG Corporate Finance, 2003; Förvärv & fusioner, 2004). Weston and Weaver (2001) describe this development as M&A waves, and refer to the most recent peak of mergers and acquisitions as the fifth M&A wave. Different peaks in the history of M&As have had different foci. In the 1960s and 1970s, diversification and the creation of conglomerates were common reasons for merging with or acquiring other companies (Shleifer and Vishny, in Rumelt et al., 1994; Weston and Weaver, 2001). In the age of economic globalisation, the M&As of the late 1990s and early 2000 were more international in scope, involving companies from more than one country; their focus was also more to bring intra-industry companies together (Bengtsson and Skärvad, 2001; Sevenius, 2003). This intra-industry focus could describe the M&As in the automotive industry and the IT-sector in the late 1990s, for example.

Motives for M&As as referred to in most literature describe M&As as ways to predominately reach additional market shares (Sevenius, 2003) or synergies (Walter and Barney, 1990; Porter, 1998; Schmitz and Sliwka, 2001; Ansoff, 1984). Such motives indicate that M&As are means to realise the strategies of the acquiring or merging parties. Discussing M&A motives from other perspectives adds additional dimensions to the picture: agency theory (Kesner et al., 1994), hubris (Weston and Weaver, 2001; Berkovich and Narayanan, 1993; Roll, 1986; Gupta et al., 1997; Seth et al., 2000) and empire building (Trautwein, 1990) indicate the existence of a second agenda for M&As. Still, these reasons to merge or acquire do not explain why M&As appear in waves; nor do they explain why certain industries undergo periods of intense M&A activities. To explain M&A waves, changes in tax and competition legislation are sometimes referred to (Erixon, 1988; Rydén, 1971). Deregulation could also explain to some extent the M&A intensity in certain industries (see e.g., the banking sector). Legislation and deregulation are contextually driven reasons to merge or acquire, rather than results of strategies within the companies involved. Context is thus acknowledged as a driving force for M&As.

This article focuses on M&As as a driving force for other M&As. More specifically, our focus is on how M&As among customers lead to M&As among suppliers, and the reverse. We

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launch the concept of parallel M&As to describe this phenomenon. In contrast to the arguments in Halinen et al. (1999) and Havila and Salmi (2000), for example, we argue that M&As are not only triggers to change but also responses to change, and further, that these changes need not be directly dyadically connected (cf. Hertz, 1998; Havila and Salmi, 2000), but can appear parallel to each other. Unlike the motives presented in most traditional M&A literature, this further means challenging M&As as being only the result of strategies within the acquiring or merging companies. Instead we argue that M&As are contextually driven.

2. Parallel M&As — A definition

By using the concept parallel M&As, we refer to mergers and acquisitions as a response to M&As among customer and/or supplier companies. These M&As appear sequentially in time, but parallel with regard to the actors; while customers merge or acquire, so do their suppliers (see Fig. 1). These parallel M&As may either be intra-industry responses, where customers and suppliers act within the same industry, or responses to M&As among customers or suppliers in separate industries. The particularity of parallel M&As includes an existing customer–supplier relationship between at least one party in each of the two parallel M&As. In contrast to vertical integration (e.g., Bjuggren, 1985; Chatterjee, 1991), the customer–supplier relationship remains external following the M&A. M&As appearing in these patterns introduce new ideas as to why companies merge or acquire, and a new angle on contextually driven M&As, where legislation and deregulation do not seem to provide enough explanation. The purpose of this article is to discuss the phenomenon of parallel M&As and to explore in what ways M&As among customers lead to M&As among suppliers, and the reverse.

This article has the following structure: (i) a discussion of the role of customers and suppliers in traditional M&A motives, (ii) M&As in a network perspective, (iii) research method, (iv) a description of parallel M&As built on examples from six case studies, and (v) a concluding discussion.

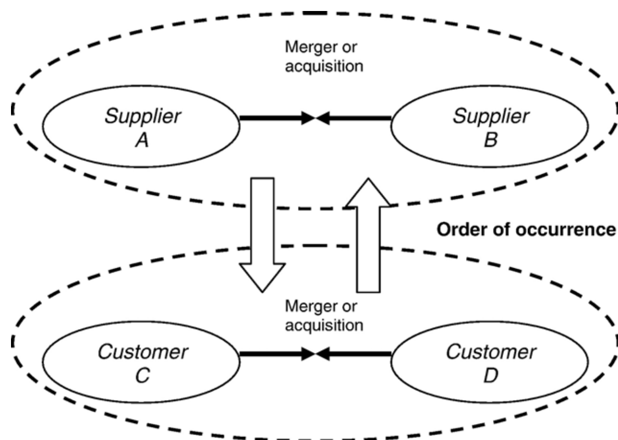

Fig. 1. The phenomenon of parallel M&As.

3. Customers and suppliers in M&A motives

The M&A literature gives several examples of motive taxonomies. Walter and Barney (1990) refer to economics of scale and scope, interdependence, expansion of product lines or markets, entrance into new businesses, and maximization and utilization of financial capabilities as motives for M&As. Trautwein (1990) describes motives in terms of efficiency, monopoly, raider, valuation, empire-building, process and disturbance theories. Erixon (1988) distinguishes between monopoly and economies of scale, growth maximization, spread and reduction of risk, transaction cost, managerial competence, taxes and politics, and speculation theory. Berkovich and Narayanan (1993) and Weston and Weaver (2001) point out three main groups of motives: efficiency or synergy, hubris and agency problems.

Some themes are recurrent in the taxonomies of motives. These are synergies (Ansoff, 1965) through economics of scale or efficiency, growth (Penrose, 1959) to possibly reach monopoly (Tombak, 2002) or add market shares (Sevenius, 2003), and diversification to reduce risk (Goldberg, 1983). Other motives include personal reasons (hubris; Roll, 1986, or empire-building; Trautwein, 1990; Sudarsanam, 1995) and legislatively driven motives (Erixon, 1988; Rydén, 1971). Apart from legislatively driven motives; the message is largely that the merging or acquiring parties 'lead the actions'. As Sudarsanam (1995:13) expresses it: "Acquisition motives may be defined in terms of the acquirer's corporate and business strategy objectives".

Research in the area of M&As focuses on the merging companies (Anderson et al., 2003), rather than considering M&As as activities which influence and are influenced by the context in which they take place. Customers and suppliers are largely (i) ignored or only dealt with indirectly (Anderson et al., 2003; Öberg and Anderson, 2002), or (ii) are referred to as one of the parties in the M&A.

When the motives driving M&As are market shares and synergies, there is an indirect customer or supplier dimension; adding market shares implies a possible transfer of a customer base, and cost synergies could indicate changes affecting suppliers. Common for this indirect treatment is that the interplay with customers and suppliers is regarded as maneuverable by the acquiring or merging parties; these motives do not acknowledge possible customer and supplier reactions. Moreover, they do not acknowledge that activities among customers and suppliers are a driving force for M&As.

Motives for M&As which are related to risk management and control (Goldberg, 1983) target a dependence on others. A resource dependence view (Pfeffer, 1972; Finkelstein, 1997) of M&As acknowledges the interconnectedness between companies. The focus however remains on the interdependence between the acquired and the acquiring companies, where one alternative is to acquire former customers or suppliers. In this sense, M&As could be considered as an alternative to co-ordination through market transactions and co-ordination through cooperation. More specifically, we could describe M&As as a transfer from co-ordination through cooperation or market transactions to co-ordination through direction/hierarchy

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