Spread of Change in Business Networks: 
An Empirical Study of Mergers and Acquisitions 
in the Graphic Industry

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Abstract

This paper investigates spread of radical change in business networks, and focuses on critical events as triggers of radical change. Our analytical framework compiles the mechanism, nature and forces of change in business networks. The paper includes an empirical analysis of mergers and acquisitions (M&As) in the Nordic graphic industry.

Introduction

The dynamics and change in business networks have recently aroused increasing interest among researchers of industrial marketing. Research has covered a broad range of issues, from the development and change of individual business relationships (e.g. Ford, 1980; Halinen, 1997; Wilson & Mummalaneni, 1986) to change processes in marketing channels (Wilkinson, 1990), small nets (triads) (Easton & Lundgren, 1992; Havila, 1996; Smith & Laage-Hellman, 1992) or in networks more generally (Håkansson & Henders, 1995; Håkansson & Snehota, 1995b; Mattsson & Hultén (eds.), 1994).

While there is increasing interest in the dynamics of business networks, we still know very little about how networks change and what the underlying forces behind their change are. Until today, incremental evolution has been seen as the main mode of network change. The focus has rested on change through gradual and incremental steps as network actors interact and adapt to each other (Håkansson & Snehota, 1995b, pp. 283-284). Radical changes or revolutions have been viewed as possible but unusual (Easton, 1992, p. 24). In most recent discussions, the possibility of revolutionary change has been brought up more openly, and authors have resorted to e.g. the punctuated equilibrium paradigm to form an understanding of network evolution (Easton & Araujo, 1994; Halinen, Salmi and Havila, forthcoming; Salmi, 1995).

Discontinuities and radical change is also a frequent empirical phenomenon in business networks – as illustrated e.g., by bankruptcies and the contemporary waves of merges and acquisitions in various fields of business – and should therefore be examined in models of network change. Recently, Madhavan, Koka & Prescott (1998) have shown...
that networks evolve as a response to specific events. Halinen, Salmi & Havila (forthcoming) in turn, relate critical events directly to radical change of networks. Moreover, their division between confined and connected change provides tools for analysis of spread of change in networks.

The aim of this paper is to elaborate on [spread of] radical change in business networks, and focus on triggers of radical change. For this purpose we use the concept of critical event. Our conceptual discussion is based on the analytical framework for change developed in Halinen, Salmi & Havila (forthcoming), which compiles the mechanism, nature and forces of change in business networks. We will examine spread of change and critical events by studying the phenomenon of mergers and acquisitions (M&As) in the Nordic graphic industry.

Our paper offers empirical illustrations of network change within the graphic industry in Finland and Sweden. Especially we focus on one company (Alpha) and its relationships to other actors over time. We show how the company has been involved in various mergers and acquisitions, and how these M&As have affected its relations with key suppliers and customers. The data includes interviews on the managerial level. We look at the role of mergers and acquisitions as change triggers. and, in particular, we aim at finding and describing the character and scope of the change spread through relationships to other actors (connected change).

The structure of the paper is as follows. First, we shall briefly discuss our theoretical framework which involves both connected and confined change, and also distinguishes between radical and incremental change. Next, we shall focus on the concept of critical event, that is on the question what triggers [radical] change in business networks. Section 4 presents the graphic industry and discusses methodology of our study. In Section 5 we offer empirical illustrations of network change and critical events in the Nordic graphic industry. A discussion part concludes the paper.

The Conceptual Framework of Change in Business Networks

This Section is based on the paper by Halinen, Salmi & Havila (forthcoming). Their analytical framework of change in business networks includes mechanism, nature and forces of change. The view of the mechanism of change emphasises the central role of business relationships, i.e. dyads and their role as both generators, recipients and transmitters of change in networks. Secondly, focus on the nature of network change, brings to the fore both an incremental and radical shift. The forces of change in business networks are examined through inertia and critical events. Inertia, i.e. tendency to maintain the deep structure of the network, leads to stability. It is suggested that the concept of the critical event encompasses radical change in particular. The mental process of “enactment” and the intentionality and interdependence of business actors are seen as important explanations of both network change and stability.
Single dyads play a central role in the change mechanism of business networks. Substantial changes are initiated and carried out in interaction between the companies. It is obvious that the development of a business network is also influenced by various forces external to it e.g. general economic conditions. Such changes will, however, be transformed into or at least combined with endogenous change through the networking process, where relationships are involved.

The change occurring in a single dyad may have different consequences on other connected relationships. We suggest that part of the change always remains within a business-relationship dyad, whereas some part of change may also affect other relationships and actors in a network. The former we call confined change and the latter connected change. (Halinen, Salmi & Havila, forthcoming).

Network theorists have emphasised the coexistence of stability and change in business networks. The stability of existing business relationships provides a platform for continuous interaction and change (Easton, 1992, p. 23). The overall pattern of business relationships seems to be relatively stable, even though existing business relationships change in content and strength (Håkansson & Snehota, 1995b, p. 269). Confined changes characterise this seemingly "stable situation" in a network. They remain within a dyad and are not received or acted upon by other actors in the network. Various types of change may be confined to a business relationship. For example, the number of persons involved may increase or decrease, the perceived trust between the parties may deepen or weaken or the activities performed in cooperation may change in character with no effects on other relationships.

As soon as a change in one business relationship also influences some other business relationship(s), it can be characterised as connected change. Halinen, Salmi and Havila define connected change as a change in one relationship that is received and acted upon by other actors in the network. The notion of connected change includes the idea that a dyad may function both as a receiver and transmitter of change. Håkansson & Snehota (1995a, pp. 39-41) call this the "network function" of a business relationship.

A change which is spread to another business relationship may cause a "domino effect" among several connected business relationships (see Hertz, 1998). Because of various network interdependencies, indirect relationships relatively distant from the focal dyad may be affected. And changes in the connected relationships may vary in their strength and character. According to Halinen, Salmi and Havila (forthcoming) change always emerges at the level of dyads, where it is potentially generated, received and transmitted to other business relationships. From the perspective of business dynamics, this type of connected change is of particular interest.

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Incremental and Radical Change in Networks

Network change has usually been regarded as an evolutionary process. The focus has rested on change through gradual and incremental steps as network actors interact and adapt to each other. However, the recent waves of mergers and acquisitions in various fields of business have shown that discontinuities and revolutionary change can also happen in business networks and should therefore be examined in models of network evolution.

Halinen, Salmi & Havila (forthcoming) argue that stable and radical phases alternate. Periods of stability are relatively long-term and thus represent the “usual” standing of a network. During the periods of stability, the relationships between actors remain, but their character may change. That is, actor bonds, activity links and resource ties which the network actors have built between each other over time may change in character and strength. This, in turn, means that the fundamental choices sets of business actors have made concerning who they are connected to (i.e. deep structure) remain essentially the same.

During revolutionary periods the underlying structures of networks are fundamentally altered. Such periods imply radical change in individual dyads. Change can be considered radical when a relationship between two actors is broken or a new relationship is established. This may happen, for instance, when one actor disappears from the network together with connections to other actors or a new actor enters the network, so initiating new relationships.

Halinen, Salmi and Havila thus suggest that the evolution of business networks involves both incremental and radical change. The two types of change are viewed as empirical categorisations. Confined change at the level of dyads may manifest itself either as gradual and incremental, or instant and radical. Where the change also affects other connected business relationships and thus becomes a network change, it may similarly appear as incremental or radical. Incremental change in a business network involves changes in the nature and content of single relationships, while radical change means that relationships are dissolved or new relationships built.

The propositions concerning the spread of change are summarised in an analytical framework of network change, presented in Figure 1. In this framework the focus is on connected change, the most interesting form from the perspective of network dynamics. Key elements in the framework are: 1) dyadic change and network change, 2) radical change circle and incremental change circle, and 3) transfers from one circle to another.

In the framework the two units, dyad and network, are important to the understanding of network dynamics (cf. the left and right halves of Figure 1). Change always emerges at the level of dyads. It may be confined to a single relationship or spread to others and thus become a network level change. Change may be incremental or radical. Incremental dyadic change refers to change in the character of a relationship, whereas radical change...

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means that a relationship is terminated or established. Similarly, network change may be incremental, involving changes in the character of relationships, or radical and frame-breaking.

Two important concepts that reflect the impact of various change forces behind network dynamics are inertia and critical events. Inertia, defined as the tendency to maintain the deep structure of the network, manifests the various interdependencies between companies and thus keeps the network in a stable state, where only incremental change and adjustments occur. By contrast, critical events that result from the interplay of different change forces, trigger radical change in dyads and break connections i.e. actor bonds, activity links and resource ties. What is perceived as critical and in need of prompt action depends on the perceptions and intentions of business actors.

The framework identifies different change patterns in business networks. Halinen, Salmi & Havila (forthcoming) suggest that two circles of change dominate network evolution: the incremental change circle, owing to inertia, and the radical change circle, triggered by critical events (see the inner and outer circles in Figure 1).

The incremental change circle involves the idea that incremental changes in a dyad tend to cause only incremental changes in a business network and vice versa. Actions taken by business partners or events occurring in the business environment are perceived as minor issues that require only small incremental changes in relationships with other actors — thus, a period of stability prevails. Technical and institutional
interdependencies, among other stabilising forces, create inertia that keeps the circle viable.

The radical change circle, on the other hand, suggests that radical change in a dyad is likely to lead to radical changes in the surrounding network as well, and vice versa. The interplay of various change forces become manifest in critical events that are perceived and acted upon by other actors in the network. It is easy to find examples: for instance, in times of economic recession, fundamental changes spread from one industry to another due to strong connections.

Most interesting from the perspective of network dynamics is a transfer from the incremental change circle to the radical or vice versa. There seem to be situations where radical changes take place within an individual dyad, while the business network remains basically the same. For instance, when a marginal customer decides to stop ordering from one large wholesaler and starts to buy from another, the breakdown of one relationship causes only minor changes in the character of other connected relationships.

Another option in the Figure is that of an incremental dyadic change leading to a radical network change. Depending on the connected relationships, a relatively small change in one dyad may eventually trigger dramatic changes in the business network. This happens if the small initial change is perceived as important by other actors, and consequently promotes major responses.

Change is not only uni-directional but circular. This means that incoming impulses from the network may also lead to a transfer from the incremental change circle to the radical change circle (i.e. incremental network change becomes radical dyadic change) and vice versa. This is illustrated by the corresponding arrows in the lower half of Figure 1.

Since radical changes occur in business networks, it is logical to ask what triggers these changes, an issue to be analysed next.

What Triggers Radical Change in Business Networks?

In studies of business relationships, the concept of the critical event (or critical incident) has been used, when referring to those events that have a decisive effect on relationship development (Elsässer, 1984, p. 163; Halinen, 1997, p. 272).

Madhavan, Koka & Prescott (1998) show that industry networks evolve over time and in response to specific events. Furthermore, they argue that industry events may be either structure-reinforcing or structure-loosening. Their analysis focuses on structural change; an event focuses the evolution of an industry network over time by examining structure through various "windows" of time.
Halinen, Salmi & Havila (forthcoming) aim at a processual analysis of network
dynamics. They define the term critical event as an incident that triggers radical change
in a business dyad and/or network. Accordingly, it is a manifestation of the change
forces inherent in networks. A critical event has the potential to break the deep structure
of a dyad i.e. the connection between two parties. To develop a radical change in a
business network, the effects of the event have to be received in several relationships.

A critical event should be seen as an impulse that sets the stage for radical change (cf.
Gersick, 1991, p. 22). The need for such change may have developed over time as
various conflicting forces – some cementing inertia, others inducing change – create
tensions and the potential for instability. Whether a revolutionary period is started or not
depends ultimately on the actions and intentions of the companies in the network. It is
not the mere event itself that is critical but the way the parties of a focal and other dyads
react to it. A critical event is the impulse that allows tensions to be released and the
network to reconfigure. It may also be the “last straw” in a series of developments that
finally leads to major company action. (Halinen, Salmi & Havila, forthcoming)

The perceptions and intentional behaviour of business actors are thus decisive for
change. What can be considered a critical event is ultimately an empirical question. It is
business actors and their interpretations that determine what is critical and what is not.
The actions taken by companies in their business relationships, and the degree to which
these actions are received and acted upon in other connected relationships, ultimately
determine whether any frame-breaking changes occur in a business network. The degree
of revolutionary change may also differ according to the number of actors and
relationships that become part of it. (Halinen, Salmi & Havila, forthcoming)

To summarise, we find it important to look into events in order to analyse network
changes. Here, we elaborate the concept of events by noting that in the stream of events
some may be interpreted as specific, in the sense that managers take extraordinary
actions or there are some distinguishable outcomes to the relations or network as a result
of these events. In addition, some of these special events are critical, meaning that they
lead to disruption or establishment of a relationship, and thus to radical network change.

In the next two sections we shall look into our empirical material. We shall first present
the part of graphic industry in focus and discuss the methodology. Then we shall
investigate spread of change in our case by way of looking into connected change. We
thus show that connectedness is critical for mergers and acquisitions. Thereafter we
shall discuss mergers and acquisitions as triggers of radical network change, i.e. as
critical events.

Empirical Analysis of Mergers & Acquisitions:
Discussion on the Graphic Industry and Methodology

The Graphic Industry

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Our empirical data originates in the graphic industry, which represents both the traditional manufacturing industry with old and proud traditions and handicrafts and an emerging modern mass-communication industry. Few changes took place within the industry during its first 500 years, i.e. since Johann Gutenberg invented book printing. Due to technological changes and new media developments during the 80s and the 90s this industry has gone, and is still going, through revolutionary changes. In recent years, for example, digital data transfer has dramatically changed the industry's structure. Another reason for changes in the industry structure in some of the Nordic countries was the recession in the beginning of the 90s, which, among other things, led to over-capacity with regard to printing and to several bankruptcies among the printing companies (SIKONGruppen, 1995). For a more detailed discussion on the Nordic graphic industry, see Salmi et al. (1998).

A current phenomenon within this industry which reflects the companies' will to survive and seek new roles and positions in the industry is mergers and acquisitions. This was expressed by one of the financial managers interviewed for our study in 1997 as follows: "You must be big if you are going to survive." One example of the trend towards acquisitions in this industry is the recent reorganisation of the Nordic calendar industry; the Finnish calendar publisher Ajasto acquired the leading publishers in Sweden and Norway. Mergers have taken place in the related paper industry too: Swedish Stora and Finnish Enso merged in 1998 and became one of the leading producers and marketers of paper and packaging board in the world. Early 1999 StoraEnso sold its subsidiary Tervakoski Oy to the Austrian company Trierenberg AG. Tervakoski has been a small but very profitable producer of thin printing papers and paper for the cigarette industry. This disposal was in line with StoraEnso's strategy of focusing on its core business areas and of securing the future development of Tervakoski (StoraEnso Press Release, 10 Feb, 1999).

In general, mergers and acquisitions have become a popular strategy for gaining growth. Studies show, however, high failure rates for acquisitions. It has been argued that one key reason for this is negligence of external exchange relations in connection with merger and integration (Anderson, Havila & Salmi, 1998). An implicit aim in connection with M&A's seems to be at confined change, managers are not sensitive enough to the issue of connectedness of change in business networks. Therefore, this issue will be examined here.

Method

The empirical data presented in this article has been collected within an on-going larger research project which analyses dynamics within business networks.² Inasmuch as our
aim is to study network changes over time, a longitudinal approach is needed and accordingly the method we have chosen is case study (Merriam, 1998; Pettigrew, 1997). For the sake of anonymity at this stage of the study process we will refer to the focus companies as Alpha, Beta, Theta (in Sweden) and Gamma (in Finland).

We have collected data through managerial interviews in these companies (see Table 1). In addition, three personal interviews were carried out in three connected companies. In total, we have made eight personal interviews in Alpha, one in Beta, three in Theta, and three in Gamma. Ten different managers representing both general management and separate fields of operations have been involved. Thus, our analysis is based on different viewpoints: we have learned from the perceptions of several companies, of several business areas and operations, and also of several individuals. Our research group includes Finnish and Swedish researchers so we have been able to interview each respondent in his/her native language. The interview data was complemented with archival material such as annual reports from the companies and with newspaper articles.

<table>
<thead>
<tr>
<th>Company</th>
<th>Interviewed persons</th>
<th>Interview Months</th>
</tr>
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<tbody>
<tr>
<td>Beta (in Sweden)</td>
<td>CEO</td>
<td>October 1998</td>
</tr>
<tr>
<td>Gamma (in Finland)</td>
<td>CEO, Production Manager</td>
<td>February 1998, June 1998, February 1999</td>
</tr>
</tbody>
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Table 1. Personal Interviews

Our discussion focuses on the following acquisitions where Alpha has been “in one way or another” involved: the acquisition of Alpha in January 1992, the merger between Alpha and its competitor, Beta, in January 1998, and the acquisition of one of Alpha’s customers, Theta, by Gamma in February 1998. The next section, which discusses spread of change in the network, provides a brief description of the case companies and the M&As they have been involved in. Thereafter we use our empirical material for specific illustrations of critical events.

For the project, empirical data from the Nordic graphic industry has been collected, including written material (statistics, annual reports, journal articles, books) and interviews with managers and experts within the field. 

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Spread of Change in the Graphic Network

Connected Change in the Graphic Network

Alpha, the company in focus here, has been involved in several acquisitions: in 1973, twice in 1992, in 1995 and 1998. It is a Swedish company and was founded in 1839. Since the end of the 19th century Alpha has operated under a well-known name.

In 1973 Alpha was acquired by another Swedish company (below called the Conglomerate) and became one of this company's divisions. At that time the number of employees in Alpha was approximately 400. Later on the Conglomerate decided to concentrate on its core business, and accordingly, Alpha along with some other businesses was sold in January 1992. Alpha was bought by a person, who came from another business field. Among business people he had a reputation of not being trustworthy. This had an immediate negative effect on Alpha's supplier relations in the meaning that the most important suppliers increased their prices and refused to give any credit to Alpha. Alpha also lost some customers who refused to do business with the owner; in addition, Alpha was forced to lower its prices to some other customers. As a result, about 150 employees were laid off. In November 1992 Alpha went into bankruptcy but got a new owner the day after. This owner, who already operated within the graphic industry in Sweden, employed only some of the members of the former staff of Alpha.

In the beginning of 90s Alpha acquired a small company, Delta, located in another town. The reason for this acquisition was that Alpha wanted to increase its production facilities regarding the last step in its production process. Most of Alpha's competitors (such as Beta) do not have this last step in-house, but instead buy it from companies specialising in this type of production. After the acquisition several of Delta's former customers started to buy from other companies. The reason was that they did not feel confident that AlphaDelta would give the same priority to their orders as Delta had done. Although customers were in principle offered better service by ensuring that all steps of production were made in-house, they were not confident that AlphaDelta would be committed to them anymore. (cf. un-intended effects of M&As, in Anderson, Havila & Salmi, 1998)

In 1995 Alpha was sold to a holding company, the owners of which had the intention of further developing their business within the graphic industry. Accordingly, in 1997 the holding company decided to acquire a competitor to Alpha, that is Beta. Beta is a Swedish company located about 200 kilometres from Alpha.

So Alpha and Beta became members of a Group from 1 January 1998. Alpha and Beta have different local markets and are therefore not competitors with regard to the local customers. The companies aimed at maintaining existing exchange relationships with local customers and at continuing to deal with them in the earlier manner. The parties

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were not allowed to enter into each other’s territory. This indicates that the management regarded the existing exchange relationships to be important and that the local customers were not expected to be influenced by the merger. Alpha expected to get new customers through Beta since Alpha's production process was more complete compared to Beta's. Earlier Beta had been buying the last step of production process from specialised companies, but after the acquisition it was going to use Alpha for this function.

During the planning of the division of the work between Alpha and Beta, Alpha was informed that one of its main customers, Theta, had been sold to a Finnish graphic company, Gamma. According to Gamma’s CEO, Alpha had sustained losses during the 90s and was expected to go bankrupt soon again. Therefore, Gamma planned to stop using Alpha as a supplier for Theta and instead increase its own in-house production. Since Gamma had free production capacity, clear synergy advantages were expected to be reached as a result of moving production from Alpha in Sweden to Gamma in Finland. An additional reason for Gamma to acquire Theta was that in this way they expected to get somewhat better prices from suppliers. Regarding some suppliers, this proved soon to be right.

Theta had been an important customer for Alpha: it had been buying about 95 per cent of one product group and had accounted for a large share of Alpha's turnover. For Alpha the loss of this customer meant concentration on other types of products than earlier. It also meant dis-investments and the dismissal of a number of the personnel. Also Alpha’s suppliers were influenced as Alpha’s production was cut down and less material was needed. In September 1998 Alpha had 80 employees left. One reason for Alpha's survival, despite a loss of one third of its turnover “over a night”, was that Beta had started to use Alpha for the last step in the production process. In this way Alpha got new customers which to some extent could compensate for the one it had lost.

The fact that Alpha and Beta now belong to the same Group means that they use each other's free production capacity. In this way Alpha and Beta are able to compete by way of shortening the time between order and delivery, which has a positive intended effect on both old and new customer relationships. Another intended effect (which has been put into practice) is that Alpha has got new customers through Beta who now uses that part of Alpha's production process which Beta itself is missing. The merger did not influence Alpha's and Beta's business relationships to local customers, the two were 200 kilometres apart. Traditionally in this industry it has been important to have the supplier located in the neighbourhood. The intention of the companies was that the relationships with local customers would not be influenced (cf. intended effects of M&As on customer relationships, Anderson, Havila & Salmi, 1998).

Besides the local customers, Alpha and Beta have earlier competed for some non-local customers, meaning that some of their salesmen visited the same customers. Since the two companies offered a similar product, the main way to compete had been to offer a lower price. After the merger, the two companies have been coordinating their sales

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forces so that only one seller will visit each non-local customer. This is one of the
intended effects on the relations with non-local customers. It may lead to higher prices
for these customers due to the fact that there is one competitor less. From the
perspective of the non-local customers and their possibility to choose between different
suppliers, this coordination is a change for the worse. One of the customers expressed
this as follows: "If you want to know my honest opinion, I don't like it." On the supplier
side the intention is to be able to negotiate better prices due to increased size. Whether
this will occur or not is still to be seen.

To summarise, when we look at Alpha and its direct relations to suppliers, customers
and competitors we can see that not only confined (dyadic) change but also connected
(network) change can be found. Examples of connected change due to a merger or an
acquisition are the following:

- When Alpha was acquired in January 1992, some of the suppliers increased their
  prices and refused to give any credit. To the extent that Alpha raised its own selling
  prices, this had an impact on Alpha's customers. Due to the acquisition some of
  Alpha's customers stopped buying too, which, in turn, influenced Alpha's suppliers
  as they now received less orders from Alpha. In the end, these multiple and
  multiway effects affected Alpha which went bankrupt in November 1992.

- As a consequence of Alpha's acquisition of Delta, several of Delta's former
  customers stopped buying from AlphaDelta. The reason was that the customers
  perceived the new entity as unreliable, in spite of its actual better opportunity to
  offer full service.

- Merger between Alpha and Beta in 1998 means from the point of view of their non-
  local customers that instead of two there exists only one supplier.

- Gamma’s acquisition of Theta and decision to terminate the relationship between
  Theta and Alpha had several spill-over effects.
  - Alpha lost an important customer and was in serious trouble. It would probably
    have gone bankrupt if there had not been the merger with Beta in 1998. Via
    Beta, Alpha could reach new customers and build new customer relations.
  - Exchanges (product flows) within the network changed after Gamma’s
    acquisition and decision to move the production from Alpha to its own facilities:
    printed products to Theta are coming from Gamma (Finland) instead of Alpha
    (Sweden). Alpha now concentrates on other products in its production.

Our case shows that mergers and acquisitions not only influence the relationship
between the merging companies but in addition may cause connected change, i.e.
network change. In the following section we will discuss whether some of the mergers
and acquisitions can be seen as critical events that trigger radical network change.

Radical Change in the Graphic Network

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According to our definition, radical change in a network means appearing or disappearing of relationships. The following examples of this type of change can be found in our case:

In January 1992 Alpha was bought by a person, who had "bad" reputation. Connected actors did not trust him: some of the customers refused to continue to deal with Alpha and some suppliers demanded immediate payments. Consequently, several relationships with customers were disrupted and after some months Alpha went bankrupt. This can be seen as an unintended (and negative) effect of the acquisition on customer and supplier relationships. It shows that the persons representing a company and their reputation may play a decisive role in acquisitions and cause radical network change, which was not intended in this case. Moreover, in this case the effects of the critical event were received in several relationships, thus it developed radical network change.

Alpha's acquisition of Delta meant that several of Delta's former customers stopped buying from AlphaDelta. The reason was lacking trust on the new entity. This shows that the acquisition caused radical network change in the network surrounding Delta.

While not directly involved in the acquisition by Gamma in February 1998, Alpha as one of the main suppliers to the target firm, Theta, felt its effects. The Finnish company who acquired Theta had the intention to terminate Alpha's and Theta's relationship. This has occurred and Theta is now buying a large part from its mother company in Finland. For Alpha, the acquisition meant a sudden and unexpected loss of an important customer. Alpha lost one third of its turnover and was forced to lay off personnel and sell out machines. Also Alpha's suppliers have been affected: for example the business relationship to the most important sub-supplier was in January 1999 close to termination. Thus radical network change has taken place. Here we have an example of an acquisition where the intention of the acquirer was to cause radical dyadic change. This change has spread to other parts of the network and caused radical network change.

A further critical situation worth commenting is the issue of small (graphic) companies as targets for acquisition. Typically, companies in the graphic industry are small. Representative of Alpha pointed out the problems in growing by acquiring such local small family owned firms: "Such a company is meaningless to acquire. In these companies it is the owner, his wife, son or daughter who has relations. The only thing we would buy is a lot of scrap iron". Similarly, Gamma has been considering acquiring a Danish company, but is sceptical since this potential target company is family owned. Main business relations are in the hands of the family members and heavily based on personal relations. If this kind of company is acquired, there is no guarantee, that external relations will be maintained. It is clear that this acquisition deal would act as a critical event to this Danish actor and several of its relations, and probably to the surrounding network.
Above we had examples of the type of radical change where business relationships disappear from the network. An example of radical change where new relationships appear is when Alpha got new customers through Beta who after the merger started to use Alpha’s last step in the production process instead of buying from external companies. (Simultaneously, the merger between Alpha and Beta, and consequent reorganisation of sales efforts, meant that for their non-local customers one supplier relationship disappeared).

To sum up, the case gives examples of situations where an acquisition or a merger has been a critical event and triggered radical change in the network. The reasons why the merger and/or acquisition became critical event in these cases revolved around

(a) the person(s) representing the acquirer (reputation)
(b) the strategies of the acquirer (intentions)
(c) the features of the new entity (trustworthiness)
(d) integration and interaction between the merging companies (streamlining of marketing)

In several cases, the M&As became critical events as a consequence of perceptions of connected parties and their consequent actions. Thus e.g., customer and supplier relations where influenced because the person and new entity was not taken as trustworthy and committed. On the other hand, some radical changes were results of a deliberate strategy regarding M&A. In these cases, however, the original strategy concerned only specific dyads, and the decision-makers did not (need to) anticipate the effects that this would have on the connected relations. That is, M&A acted as a critical event not only for radical dyad change but also for radical network change.

Concluding Discussion

A merger or an acquisition can be seen as a critical event causing radical change in the dyad between the two merging companies in those situations where the relationship between the involved companies is substantially changed. For example, instead of being former competitors with no or minor business relations to each other, the companies may start to co-operate regarding production or sales force. This type of radical change in a dyad may spread to the surrounding network and cause — either incremental or radical — network change.

The aim of this paper has been to discuss the latter type of network change, i.e., when change in a dyad is spread to the surrounding network causing radical network change. Our definition of radical change in business networks is a situation where a new business relationship appears or an old disappears. Thus we have focused here on the structural change of business networks.

Earlier studies indicate that network changes take place through gradual and incremental steps through the interaction between the network actors. Over time new relationships appear and old disappear (cf. Gadde & Mattsson, 1987). Our study shows that radical network change may take place due to a merger or an acquisition, i.e. that the critical
event causing network change is the radical change in a dyad. Firstly, the new entity as a whole or a specific person in the new entity may be perceived by the directly connected network actors in such a way that old relationships are disrupted or new started. In these cases the radical network change is initiated by the surrounding network actors, even though the reason behind is the merger or the acquisition. Secondly, in other cases the radical network change may be the expected outcome of the merger or acquisition in the meaning that managers have the intention to disrupt old business relationships or start new ones. In these cases the radical change is initiated by the merging entity. However, managers should be conscious of the fact that network change is an outcome of several interconnected actors: thus while it may be possible to terminate a relationship by one-sided decision, it is much less certain that new relationships can be established in accordance with strategies (cf. the question by Anderson, Havila & Salmi (1998) about the possibilities of acquiring relationships in connection with M&As).

This paper has analysed dynamics of business networks by focusing on spread of change and on critical events that trigger radical network change. Our investigation shows that the fact that different patterns of change may be realised in business networks and that changes in business networks may have their origins in distant parts of the network, makes the issue challenging to handle for both researchers and business managers alike.

In analysing spread of change in business networks, our paper contributes to conceptualising dynamics in the business network literature by focusing on critical events and radical change. Simultaneously, it brings forth new understanding of M&As by recognising that exchange relationships do interfere with how the process of an acquisition or a merger will develop. Earlier literature into M&As concentrates on strategic or organisational fit between companies and on integration processes, but fails to recognise external exchange relationships of the merging companies. (Anderson, Havila & Salmi, 1998) In our view, mergers and acquisitions, together with their effects on relationships, clearly fall into the area of interest of network studies, although their analysis has been largely lacking so far.

Our empirical analysis of mergers and acquisitions provides implications for managers too. The investigation shows that effects of M&As may spread in the network, thus focusing only on the merging units seems to be a too limited approach. It is crucial to pay attention on the connected relationships which may be affected by the merger or acquisition. (cf. Anderson & Salmi, 1998). Moreover, the M&A may function as a critical event that trigger radical network change. Especially, perception by connected companies may pay a crucial role on how developments unfold. Therefore, not only intended but also unintended effects are bound to emerge as a result of merger or acquisition (Anderson, Havila, Salmi, 1998).

Our study opens up several paths for further studies, one being the issue of operationalisation of the concept of critical event. Here we have taken critical event as an empirical issue. Earlier, we noted also that some events are special and affect the relationship, but they are not critical in the sense that they would mean disruption or

establishment of a relationship. Especially the role of managerial perceptions in critical event seems to be worth elaboration. Furthermore, future studies may elaborate on the issue of M&A as a critical event, including such questions as, When are M&As perceived critical by outsiders? In what ways and under what circumstances are M&As critical events?

References


