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A Marketing Perspective on Mergers and Acquisitions: How Marketing Integration Affects Post-Merger Performance

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ABSTRACT

Previous research on mergers and acquisitions (M&A) has neglected marketing issues by and large. This paper examines the effects of post merger integration (PMI) in marketing (ex tent and speed of marketing integration) on M&A performance mediated by integration outcomes (magnitude of cost savings and market-related performance). Results from a survey of 232 horizontal mergers and acquisitions show that market-related performance after the merger or acquisition has a much stronger impact on the financial performance after a merger or acquisition than cost savings. Also, extent of integration is found to be beneficial in terms of cost savings, but detrimental in terms of market-related performance. Finally, the study identifies a number of variables that moderate the relationships under consideration.

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1. Introduction

Mergers and acquisitions (M&A) have become increasingly popular in business practice. Especially horizontal M&A (M&A that take place in the same industry, often between direct competitors) were undertaken frequently (Krishnan/Park 2002). However, there is considerable evidence that many M&A activities remain unsuccessful. Estimated failure rates are typically between 60% and 80% (Marks/Mirvis 2001, p. 80; Tetenbaum 1999, p. 22). Thus, studying factors that influence the success of M&A is a promising field for academic research.

As there is a growing recognition that "all value creation takes place after the acquisition" (Haspeslagh/Jemison 1991, p. 129), the topic of post merger integration (PMI) has received increasing attention (e.g., Capron/Dussauge/Mitchell 1998; Datta 1991; Larsson/Finkelstein 1999; Shrivastava 1986). Marketing-related issues of a PMI such as whether and how the two firms´ marketing activities are integrated and how this affects the merged firm's performance have been largely neglected.

Within the marketing discipline, M&A-related research is almost totally absent. One notable exception is a study by Capron/Hulland (1999). Their findings indicate that redeployment of marketing resources has a significant effect on firm performance after M&A.

The lack of attention given to marketing issues in the context of M&A is in sharp contrast with many statements that highlight the importance of marketing-related issues for M&A performance (e.g., Clemente/Greenspan 1997; Becker/Flamer 1997). For example, Bekier/ Shelton (2002) report that there is considerable risk to lose customers in M&A. During the integration phase, managerial energy is often absorbed to a high extent through internal issues which can lead to neglecting customer-related tasks (Hitt/Hoskisson/Ireland 1990). This strong internal orientation is frequently accompanied by a decline in service quality (Urban/Pratt 2000). On the part of the customers this can result in uncertainties about the future relationship with the merging firms (e.g., uncertainty about prices, quality of products and services, contact persons). Restraint and defection are possible customer reactions (Chakrabarti 1990; Reichheld/Henske 1991). Competitors' actions often reinforce this effect as they take advantage of this situation, trying to alienate customers. The relevance of market-related issues for the success of a PMI is also highlighted by Morall (1996, p. 19) who claims

on the basis of a case study that "cost reduction to make a merger pay off is not as important as customer retention". As such market-related issues have been neglected in previous research, we argue that our research-based understanding of the factors leading to M&A success is still limited to date.

Against this background, we adopt a marketing perspective on M&A and explore three issues. First, we investigate how the marketing integration process (extent and speed of integration) affects integration outcomes (magnitude of cost savings and market-related performance). Second, we investigate how these relationships are affected by certain moderators (customer orientation of integration, market growth, product/service industry, relatedness of the firms´ market positioning, and relative size of the acquired firm). Third, we analyze the importance of market-related performance (compared to cost savings) for M&A performance.

2. Theoretical Background, Framework, and Constructs

2.1 Theoretical Background

Our study is rooted in the resource-based theory which explains superior performance through specific resources owned by the firm (Barney 1991; Peteraf 1993; Wernerfelt 1984). Following Barney (1991, p. 101), we define resources "… as assets, organizational processes, capabilities, firm attributes, information, knowledge etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness". According to this theory, resources have to meet four requirements including value, rarity, imperfect imitability, and insubstitutability (Barney 1991) in order to affect firm performance.

The resource-based view has been frequently used as a theoretical explanation why M&A occur (e.g., Anand/Singh 1997; Karim/Mitchell 2000). Many organizational theorists argue that firms face constraints (regarding intellectual capabilities and time) with respect to internal development of new resources (e.g., Nelson/Winter 1982; Singh/Montgomery 1987). Therefore, many firms turn to the market to obtain new resources (Capron/Dussauge/Mitchell 1998). As many resources are not available as single entities firms need to acquire entire businesses to extract value from resources owned by the acquired firm (Barney 1986).

A key issue in M&A research adopting a resource-based perspective is, to which extent the merging firms integrate certain resources after a merger or acquisition in order to achieve a stronger competitive position and, thus, superior financial performance. As an example,

Capron/Dussauge/Mitchell (1998) analyze performance implications associated with the integration of R&D, manufacturing, marketing, managerial, financial, and senior executive resources. These authors argue that, among the resources with potential to contribute to firms' post merger performance, marketing resources such as brands and sales forces are a highly important subset. Also, marketing resources have been identified to meet the previously mentioned requirements for resources to be relevant for firm performance (Capron/Hulland 1999).

Thus, the resource-based perspective provides a theoretical basis for the fundamental proposition of our study, that the integration of marketing resources is relevant for M&A performance. This proposition will now be translated into specific constructs and hypotheses.

2.2 Framework

Our unit of analysis is the total of the marketing activities of two merged firms. The framework of our study is a causal chain with three categories of constructs including marketing integration process, integration outcomes, and performance outcome after the merger or acquisition. Figure 1 presents an overview of the framework and the specific constructs.

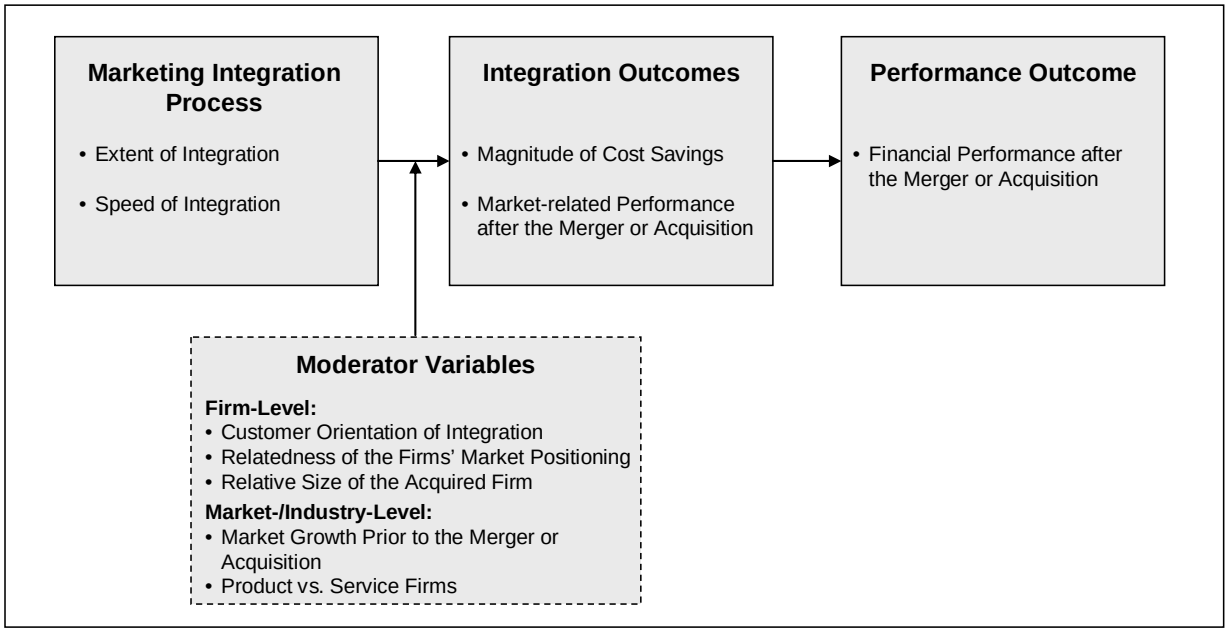

Figure 1: Framework and Constructs

2.3 Constructs Concerning Marketing Integration Process

We define *extent of integration* as the level of similarity achieved between the two firms' marketing systems, structures, activities, and processes. As an example, typical questions in PMI are, to which extent differences between the two firms concerning their product and service offer, branding strategy, sales channels, etc. should be consolidated. A high level of integration means that pre merger differences between the two organizations have largely disappeared. This can be achieved through using a system, structure, activity, or process of either company for both firms. It can also be achieved through combining the "best of both worlds" in a newly created system, structure, activity, or process. A maximal extent of integration is achieved if all differences in the firms' marketing approaches are harmonized away. Extent of integration has been discussed as a key driver of M&A performance (e.g., Birkinshaw/Bresman/Hakanson 2000).[1]

Speed of integration is defined as the shortness of the time period needed to achieve the intended level of marketing integration. Although the importance of integration speed is highlighted in many practitioner statements (e.g., Bragado 1992; Mitchell 1989), this construct is almost totally neglected in academic research (with the exception of some qualitative work in human resources management, e.g., Buono/Bowditch 1989; Schweiger/Goulet 2000).

2.4 Constructs Concerning Integration and Performance Outcomes

A distinction between cost-related and market-related integration outcomes is very common (Chatterjee 1986). We define *magnitude of cost savings* as the extent to which the merging firms reduce the amount of resources and thus costs (in terms of personnel, infrastructure etc.) compared to the sum of their resources prior to the transaction. Magnitude of cost savings are minimal if the post integration costs are identical to the sum of the two firms' pre merger costs.

Beyond gains from cost reduction, M&A performance can also be influenced by the merging firms' ability to increase market-related performance and thus revenues after the transaction. We define *market-related performance after the merger or acquisition* as the effectiveness of the combined firm's marketing activities. Positive market-related outcomes of M&A (e.g., customer loyalty and market share) may be based on phenomena such as intensified cross-

selling and use of expanded bundling opportunities (based on a broader product range), as well as exploiting an improved negotiating position towards customers.

The key performance measure in our study is financial performance after the merger or acquisition. Consistent with the existing literature we define *the financial performance after the merger or acquisition* as post merger profitability compared to the firms' pre merger profitabilities (Datta 1991; Hunt 1990). This after/before comparison is typically used as an indicator of the M&A success or failure (e.g., Capron/Hulland 1999).

2.5 Constructs Concerning Moderator Variables

Potential moderating influences arise at the *firm-level* and at the *market-/industry-level* (see Figure 1). The selection of specific moderator variables was based on two considerations. First, previous research on M&A identifies a number of constructs (i.e., relatedness of the firms' market positioning, relative size of the acquired firm) with potential relevance as moderators in our study. Second, we identify moderator variables (i.e., customer orientation, market growth, product/service industry) based on previous marketing research. We will describe these moderator variables and justify their relevance in more detail in the following section.

3. Hypotheses Development

3.1 Hypotheses Concerning Main Effects

Our first hypothesis deals with the link between extent of integration and magnitude of cost savings. The basic logic is that a merger or acquisition creates redundancies which can be eliminated through integration. More specifically, integration activities create a potential for a reduction of the amount of needed resources and thus costs (in terms of personnel, infrastructure etc.) (Capron 1999; Seth 1990). Hypothesizing a positive impact of extent of integration on cost savings is also consistent with previous findings by Capron (1999). Thus, we hypothesize:[2]

H_1: The extent of integration is positively associated with the magnitude of cost savings.

While integration is hypothesized to be beneficial in terms of cost savings, it is likely to be detrimental in terms of market-related performance. Extensive marketing integration, in practical terms, leads to a reduced number of brands, product variants, service offers,

distribution channels, etc. Therefore, the merged firms' ability to adapt their offer to the needs of specific market segments is reduced through extensive integration. This can be detrimental for market-related performance because some customers may perceive the value provided by the merged firm less attractive. Additionally, in the case of extensive integration, firms are likely to reassess their joint customer portfolio and eliminate unprofitable customers/segments (Reichheld/Henske 1991) (i.e., "controlled" loss of customers and market share).

Furthermore, it is known that during PMI managerial energy is often strongly absorbed by internal issues at the expense of customer-related tasks (Hitt/Hoskisson/Ireland 1990). This is especially true for a high extent of integration because, under such circumstances, a lot of internal decisions (e.g., on structures and staffing) have to be prepared and made. Therefore, in the case of a high extent of integration, the neglect of market and customer related tasks is more likely than in the case of a low extent of integration. Customer dissatisfaction, restraint, and defection are likely consequences. Thus, we hypothesize that:[3]

H_2: The extent of integration is negatively associated with the market-related performance after the merger or acquisition.

Our reasoning concerning integration speed is based on the logic that an M&A activity creates uncertainty among customers which may ultimately lead to customer defection. Uncertainty is likely to increase over time if the integration phase is very long. We argue that the major beneficial effect of integration speed on M&A success is uncertainty reduction for customers. If integration decisions are made and implemented quickly, customers will know what to expect from the merged company in terms of product offer, pricing policy, contact persons, etc. Thus, customer uncertainty is reduced through a high level of integration speed. Additionally, it is common in business practice that competitors try to increase uncertainty among the merging firms' customers in order to promote customer switching (Clemente/Greenspan 1997). This potential source of customer uncertainty can also be dried out by means of high integration speed.

Finally, a fast integration will also lead to a reduced level of uncertainty among employees concerning their future in the merged company. Especially the uncertainty of customer contact personnel about their future in the company can lead to increased customer uncertainty and thus be harmful for market-related performance (e.g., Singh/Goolsby/Rhoads 1994). Thus,

H_3: The speed of integration is positively associated with market-related performance after the merger or acquisition.

We further argue that market-related performance has a positive impact on the magnitude of cost savings for essentially two reasons. First, a high level of customer loyalty after the transaction (which is a facet of market-related performance) allows companies to avoid costly activities directed towards attracting new customers. Retaining customers is much less cost intensive than attracting new customers (e.g., Anderson/Fornell/Rust 1997). Second, if market share (and consequently sales volume) goes up, opportunities for cost savings through economies of scale emerge. Our reasoning is also supported by findings which indicate a negative impact of market performance on costs (Phillips/Chang/Buzzell 1983). Thus, we hypothesize that:

H_4: The market-related performance after the merger or acquisition is positively associated with the magnitude of cost savings.

We finally suggest that magnitude of cost savings and market-related performance both lead to a superior post merger financial performance. As financial performance is defined in terms of profitability, the cost-related effect is obvious: If costs go down, all other things being equal, profitability will go up. Market-related performance after the merger or acquisition affects profitability through increased sales. Positive relationships between market share and profitability (Szymanski/Bharadwaj/Varadarajan 1993) as well as between customer loyalty and profitability (Kalwani/Narayandas 1995) have been documented in previous research. Additionally, hypothesizing these two positive effects is in line with previous empirical findings in M&A research (e.g., Anand/Singh 1997). This leads us to the following hypothesis:

H_5: The magnitude of cost savings is positively associated with the financial performance after the merger or acquisition.

H_6: The market-related performance after the merger or acquisition is positively associated with the financial performance after the merger or acquisition.

3.2 Hypotheses Concerning Moderating Effects

We start by developing hypotheses concerning the firm-level moderators, (i.e., customer orientation of integration, relatedness of the firms' market positioning, relative size of the

acquired firm). Subsequently we discuss the effects of the market-/industry-level moderators (market growth prior to the merger or acquisition, distinction between product and service firms).

Customer Orientation of Integration

As described above, PMI is often characterized through a strongly internal orientation of managers (Hitt/Hoskisson/Ireland 1990). A possible consequence is that decisions are made predominantly based upon internal criteria such as internal structures, processes, power distribution, individual managers' preferences, etc. Against this background, we define *customer orientation of integration* as the extent to which decisions on marketing integration are driven by customer-related considerations (as opposed to internal considerations). As an example, a high level of customer orientation of integration is present if decisions are strongly influenced by the goal of creating additional customer value (rather than, e.g., reducing costs of serving customers).

In the case of high customer orientation in PMI, decisions will be driven by cost reduction motives to a smaller extent. Therefore, an increase of the extent of integration will produce less cost savings in this situation as opposed to a context of low customer orientation. Furthermore, we predict that a high level of customer orientation can alleviate, at least to some extent, the negative market-related consequences of integration. When decisions to integrate brands, product variants, or distribution channels are made with a strong focus on customer value in mind, negative market-related consequences of a high level of extent of integration should be weaker.

Our argument concerning integration speed was that speed serves as a means to reduce uncertainty among customers. We now argue that customer orientation serves as a "partial substitute" for speed in reducing customer uncertainty. More specifically, when customers perceive that integration decisions are strongly driven by customer-related considerations, this will build customer trust in the newly forming firm and reduce uncertainty. In other words, in the case of high customer orientation, integration speed becomes less relevant as a means to reduce customer uncertainty and avoid detrimental effects on market-related performance. We therefore predict that the effect of integration speed on market-related performance will be

weaker in the case of high as opposed to low customer orientation. In summary, we hypothesize:

H_7: In the case of high as opposed to low customer orientation of integration, the effect of (a) extent of integration on cost savings will be less positive,

(b) extent of integration on market-related performance after the merger or acquisition will be less negative,

(c) speed of integration on market-related performance after the merger or acquisition will be less positive.

Relatedness of the Firms' Market Positioning

We define *relatedness of the firms' market positioning* as the extent to which the firms' offers are similar in terms of customer needs which they satisfy, quality, and price positioning. This variable has been frequently analyzed in M&A research (e.g., Chakrabarti 1990). Unlike previous research, our research question is not related to a possible direct performance effect of relatedness but rather to the question how relatedness affects the way in which PMI should be carried out.

Consistent with previous studies (e.g., Hagedorn/Duysters 2002) we argue that a high level of relatedness offers a great potential for cost reductions. Thus, an increase of integration extent may result in greater cost savings under conditions of a highly related market positioning of the firms. On the other hand, we do not see a compelling argument why relatedness of market positioning should moderate the impact of extent of integration on market-related performance.

The potential scope of changes (such as repositioning of the strategic focus of the entire firm) is much greater in M&A between rather unrelated firms (Larsson 1989). Due to the reduced potential for changes in highly related M&A, a lower level of uncertainty among customers about the future relationship with the merged firm is a likely consequence. As uncertainty reduction is the major effect of integration speed, we predict that an increase of integration speed will have a smaller impact on market-related performance when relatedness is high. Thus, we hypothesize:

H_8: In the case of high as opposed to low relatedness between the merging firms´ market positioning, the effect of

(a) extent of integration on cost savings will be more positive,

(b) speed of integration on market-related performance after the merger or acquisition will be less positive.

Relative Size of the Acquired Firm

We define *relative size of the acquired firm* as the relative annual sales volume of the acquiree compared to the acquirer. This variable was frequently analyzed in previous M&A research. There is substantial evidence that the potential to create value from M&A depends upon relative size (e.g., Capron 1999; Seth 1990b).

In the case of high relative size (i.e., when the acquiree is almost as big as the acquirer), there is a bigger increase in scale than in the case of low relative size. Therefore, there is a bigger potential for cost savings through integration in this case. Also, as organizational size is known to be an important driver of organizational structure (e.g., Blau/Schoenherr 1971; Pugh et al. 1969), we argue that there will be more structural similarity between the organizations in the case of high relative size (i.e., when the acquiree is almost as big as the acquirer). As an example, firms with similar size should also be structurally similar with respect to the presence or non-presence of certain specialized units (such as market research, key account management, etc.) within the company. In other words there will be a larger set of similar structures and therefore more redundancies in the case of high relative size so that the potential for cost reduction is bigger.

With respect to market-related performance, we predict that the negative effect of extent of integration (see H_2) will be stronger in the case of a high relative size. If the acquiree is fairly large compared to the acquirer, PMI is likely to involve more people and its results are not as clear from the beginning compared to the situation where a relatively small firm has been acquired. Under these conditions internal conflicts, interorganizational competition, holding back of information, etc. are likely consequences and will absorb managerial energy which is needed to serve customers. Against this background, an increase of integration extent will

produce a greater damage to market-related performance when the relative size of the acquired firm is high.

With respect to integration speed, our reasoning related to relative size as a moderator variable is based on the contention that the number of customers affected by the transaction will be larger when relative size is high. When the acquired business is relatively small, in proportion to the acquirer, only a small number of customers are affected by the integration activities. With an increasing relative size the customer base affected by the integration also broadens. In consequence, the potential for rumors about possible changes leading to uncertainties among customers will also go up. Thus, an increase of integration speed is more likely to be beneficial for market-related performance when relative size of the acquiree is high. Thus, we hypothesize:

H_9: In the case of high as opposed to low relative size of the acquired firm, the effect of

(a) extent of integration on cost savings will be more positive,

(b) extent of integration on market-related performance after the merger or acquisition will be more negative,

(c) speed of integration on market-related performance after the merger or acquisition will be more positive.

Market Growth

Market growth is a frequently studied construct in marketing research. We consider *market growth prior to the merger or acquisition*. We argue that the potential for cost savings through extensive integration will be greater in mature markets (i.e., markets with low growth rates) than in high growth markets (e.g., Budros 1999). This reasoning is based on the proposition that in mature markets companies have accumulated a higher level of experience with respect to business processes and routines (Davis/Thomas 1993) which facilitates cost savings. Thus, extensive integration in fast growing markets will result in smaller cost savings than in low growth markets.

We also hypothesize a moderating effect of market growth on the link between extent of integration and market-related performance. The logic behind our hypothesis is that in

markets with low growth rates (which are typically in later life cycle stages) there is less dynamism than in high growth markets (e.g., Wasson 1978). For example, market shares (e.g., Arndt 1979) and the competitive environment (e.g., less entry of new competitors; Day 1981) are more stable and switching barriers which make it costly and risky for a customer to change the supplier are typically higher in mature markets (e.g., Colgate/Lang 2001; Fornell 1992). Switching barriers may limit customer defection and thus reduce negative customer reactions to a high extent of integration. Moreover, the number of competitors is usually lower in low growth compared to high growth markets (e.g., Buzzell 1981). Thus, there are less alternative suppliers for the customer and fewer competitors' actions to alienate customers will occur in low growth markets. As a consequence, the negative impact of extent of integration on market-related performance will be stronger in high growth as opposed to low growth markets.

Our reasoning with respect to the impact of integration speed on market-related performance is based on a similar logic. Since customers in mature markets are less likely to defect because of high switching barriers, less alternative suppliers, and fewer competitors' actions we predict that the positive effect of speed is weaker in low growth markets. This is consistent with research suggesting that speed is less important if markets are growing slowly (Bowman/Gatignon 1995). In summary, we obtain the following hypothesis:

H_{10}: In the case of high as opposed to low market growth prior to the merger or acquisition, the effect of

(a) extent of integration on cost savings will be less positive,

(b) extent of integration on market-related performance after the merger or acquisition will be more negative,

(c) speed of integration on market-related performance after the merger or acquisition will be more positive.

Manufacturing vs. Service Firms

Services exhibit higher levels of individualization than tangible products (e.g., Zeithaml/Parasuraman/Berry 1985). Therefore, we predict that translating a high extent of integration into significant cost savings is more difficult for firms marketing services than for firms marketing tangible products. In other words, we predict that the effect of extent of

integration on cost savings will be stronger for product than for service firms. On the other hand, we do not see a compelling argument why the distinction between product and service firms should moderate the impact of extent of integration on market-related performance.

Additionally, a higher level of uncertainty among customers is a key characteristic of services (Zeithaml 1981). This fact is relevant for the hypothesized moderator effect with respect to the speed of integration/market-related performance link. Avoiding customer uncertainty is particularly relevant in services industries (e.g., Murray 1991). We therefore argue that the uncertainty reducing effect of a high speed of integration is more important for firms marketing services than for firms marketing tangible products. Thus, we put forward the following:

H_{11}: For firms marketing tangible products (as opposed to services), the effect of

(a) extent of integration on cost savings will be more positive,

(b) speed of integration on market-related performance after the merger or acquisition will be less positive.

Table 1 presents an overview of the hypotheses related to moderating effects.

	Main Effects Subject to Moderation		
	Extent of Integration → Cost Savings	Extent of Integration → Market-related Performance	Speed of Integration → Market-related Performance
Moderator Variables	**Expected Direction of Main Effects**		
	Positive	Negative	Positive
Customer Orientation of Integration (COI)	Effect will be *less positive* for high values of COI (H_{7a})	Effect will be *less negative* for high values of COI (H_{7b})	Effect will be *less positive* for high values of COI (H_{7c})
Relatedness of the Firms´ Market Positioning (RMP)	Effect will be *more positive* for high values of RMP (H_{8a})	---	Effect will be *less positive* for high values of RMP (H_{8b})
Relative Size of the Acquired Firm (RS)	Effect will be *more positive* for high values of RS (H_{9a})	Effect will be *more negative* for high values of RS (H_{9b})	Effect will be *more positive* for high values of RS (H_{9c})
Market Growth Prior to the Merger or Acquisition (MG)	Effect will be *less positive* for high values of MG (H_{10a})	Effect will be *more negative* for high values of MG (H_{10b})	Effect will be *more positive* for high values of MG (H_{10c})
Product (PF) vs. Service Firms (SF)	Effect will be *more positive* for PF (H_{11a})	---	Effect will be *less positive* for PF (H_{11b})

Table 1: Hypotheses Concerning Moderating Effects

4. Methodology

4.1 Sample and Data Collection Procedure

A survey methodology was used for data collection which took place in 2002. The research was conducted in the German speaking part of Central Europe (Germany, Austria, and Switzerland) with a strong focus on German firms. The initial sample consisted of horizontal M&A that took place between companies based in these countries during the 1996-1999 period.[4] M&A were identified from several sources including the *Mergers & Acquisitions Database* of the University of St. Gallen in Switzerland and several M&A-related European business magazines.

We initially identified 3360 reported horizontal M&A. Based on telephone calls with marketing/sales managers in the acquiring firm, those M&A were excluded where the two firms' marketing activities remained totally independent from each other. In the same telephone call, names of a senior executive or head of marketing and/or sales with responsibility for the PMI in the acquiring company were identified[5]. Managers responsible

for the integration in marketing of a total sample of 1483 M&A were obtained. 1483 questionnaires were sent to these managers. We made follow-up telephone calls to verify the contact name and to encourage response.

A: Industry	**%**
Banks and Insurances	38%
Machinery	23%
Food and Packaged Goods	11%
Chemicals	8%
Printing and Publishing Services	6%
Automotive Components	5%
Pharmaceuticals	3%
Others	4%
Missing	2%

B: Annual Revenues (of the consolidated business)	**%**
< $25 million	23%
$25-$49 million	13%
$50-$99 million	15%
$100-$249 million	7%
$250-$499 million	11%
$500-$1,000 million	14%
>$1,000 million	16%
Missing	1%

C: Position of Respondents	**%**
Managing Director, CEO, VP of Region, Head of SBU	67%
VP Marketing, VP Sales, VP Marketing and Sales	18%
Sales Manager, Product Manager	6%
Head of M&A	5%
Others	2%
Missing	2%

D: Relative Size of Target to Acquirer (annual revenues)	**%**
< 25%	38%
25-49%	23%
50-74%	13%
75-100%	10%
> 100%	14%
Missing	2%

Table 2: Sample Composition (232 cases)

Based on the telephone calls and undeliverable mail, we found that 181 firms were inappropriate for the study. 232 usable questionnaires were returned, for a response rate of 17.8%. Nonresponse bias was tested by comparing early vs. late respondents (Armstrong/Overton 1977). We also analyzed whether the firms initially addressed and the responding firms differ in terms of industry. Both tests indicate that nonresponse bias is not a problem. Respondent and M&A characteristics are presented in Table 2.

4.2 Measure Development and Assessment

We followed standard psychometric scale-development procedures (Gerbing/Anderson 1988). We were guided by a review of the literature (i.e., by construct definitions and existing scales utilized in marketing and M&A research) as well as by the results from 10 field interviews with practitioners. A complete list of items is shown in the Appendix.

Extent of integration was assessed using eight items related to the extent to which systems, structures, activities, and processes in marketing were made similar. The specific items were partly based on items used by Datta (1991). *Speed of integration* was measured with the same eight items focusing on the shortness of the time period needed for the integration.

The construct *magnitude of cost savings* was measured with nine items including the reduction of products and services offered, brands, marketing and sales personnel, etc. The content of these items was largely generated in our field interviews. The measurement of *market-related performance after the merger or acquisition* is based on previous conceptualizations of market-related performance in the literature (e.g., Homburg/Pflesser 2000; Irving 1995). From these studies' scales we selected those items that are particularly relevant in the context of M&A (i.e., market share and customer loyalty). The conceptualization is also in line with previous research on M&A (e.g., Capron 1999; Datta 1991).

Consistent with our definition and previous M&A research (e.g., Anand/Singh 1997), *financial performance after the merger or acquisition* compares merging firms' profitability before and after the merger. In line with previous M&A-related research (see, e.g., Datta 1991; Hunt 1990), we use return on sales as our measure.[6, 7]

Customer orientation of integration was measured from the managers' perspective because customers are typically unaware of the driving forces behind company decisions. Its operationalization was influenced by the Narver/Slater (1990) customer orientation scale. *Relatedness of the firms' market positioning* refers to the extent to which the merging firms' offers are similar in terms of customer needs which they satisfy, quality, price positioning etc. The construct was measured with five items which are based on previous research (Achrol 1992). *Relative size of the acquired firm* was measured with a single-item and in accordance with the studies by Capron/Hulland (1999) and Datta (1991). *Market growth prior to the merger or acquisition* was also measured with a single-item. Finally, we used our industry measure to categorize *product and service firms* (see Table 2). Table 3 shows summary statistics and correlations among constructs and moderator variables.

	Correlations								
Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.
1. Extent of Integration	1.00								
2. Speed of Integration	.273	1.00							
3. Magnitude of Cost Savings	.297	.209	1.00						
4. Market-related Performance after the Merger or Acquisition	-.075	.105	.121	1.00					
5. Financial Performance after the Merger or Acquisition	-.105	.226	.079	.520	1.00				
6. Customer Orientation of Integration	.357	.304	.140	.256	.184	1.00			
7. Relatedness of the Firms' Market Positioning	.484	.261	.139	-.071	-.044	.236	1.00		
8. Relative Size of the Acquired Firm	-.132	.007	.025	-.087	.011	-.056	-.250	1.00	
9. Market Growth Prior to the Merger or Acquisition	.128	.129	-.060	.096	-.054	.129	.094	-.103	1.00
Summary Statistics									
Range	1-7	1-5	1-7	1-7	1-7	1-7	1-7	1-5	1-9
No. of Items	8	8	9	2	1	3	5	1	1
Mean	4.19	3.79	2.62	4.04	4.75	4.82	4.77	3.62	5.17
Standard Deviation	1.72	0.98	1.25	0.96	1.30	1.72	1.30	1.44	1.21

Table 3: Correlations and Summary Statistics

We analyzed measurement issues for each factor individually. The corresponding results are shown in the Appendix. The results indicate acceptable psychometric properties in terms of internal consistency for all constructs. The average variances extracted and composite reliabilities are above the recommended threshold values of .5 and .6, respectively (Bagozzi/Yi 1988). Also all individual item reliabilities are above the required value of .4 (Bagozzi/Baumgartner 1994). Moreover, coefficient alpha values are above the threshold value of .7 (Nunnally 1978).

Discriminant validity was assessed by performing pairwise chi-square difference tests comparing a perfect correlation model to a model where the two factors are allowed to correlate freely (Jöreskog/Sörbom 1982). We also applied the procedure suggested by Fornell/Larcker (1981). Both procedures indicated discriminant validity between all pairs of constructs.

4.3 Further Measure Validation Through Additional Data

Since performance assessments based on self reported data can be problematic, we conducted two additional data collections to ensure validity of the financial performance measure and the customer loyalty measure, a component of market-related performance.

For the validation of the financial performance measure we identified all M&A in our sample where both firms were publicly traded before the transaction. In this case, profitability information prior to the merger or acquisition is publicly available for acquiring and target firms. These M&A represent 18.6% (i.e., 43 cases) of our total sample. Sales volume and profitability information (return on sales) was obtained for these cases from a business information broker. Based on this information, we calculated the following *Profitability Development Index* (PDI).

The year in which the transaction took place is t = 0. First, for each year preceding the merger or acquisition (i.e., t=-3, t=-2, t=-1), we computed the relative magnitude of the two firms in terms of sales volume (AF: Acquiring Firm, TF: Target Firm). The specific formulas are

$$m_{A,t} = \frac{SAF_t}{SAF_t + STF_t} \quad (t = -3, -2, -1) \text{ and}$$

$$m_{T,t} = 1 - m_{A,t}.$$

SAF refers to the sales volume of the acquiring firm and STF denotes the sales volume of the target firm. Second, we computed a weighted average profitability of these firms for each of these years. This weighted average profitability is

$$PAF_t \cdot m_{A,t} + PTF_t \cdot m_{T,t}$$

for the year t. Here, PAF_t and PTF_t denote the profitability of the acquiring firm and the target firm, respectively, in year t. Third, based on these data the PDI was computed as

$$PDI = \frac{1}{3}\sum_{t=1}^{3} PCF_t - \frac{1}{3}\sum_{t=-3}^{-1}\left(PAF_t \cdot m_{A,t} + PTF_t \cdot m_{T,t}\right)$$

where PCF_t denotes the profitability of the combined firm in the year t. Thus, this index compares the average profitability of the combined firm during the three years after the transaction to weighted the average profitability of both firms during the three years before

the transaction. A positive value of PDI indicates an increase in profitability. As an example, if average return on sales is 5% before the merger and 7% after the merger, PDI is equal to 2.

PDI values were then correlated with managers' initial evaluations of profitability after the merger or acquisition (i.e., the perceptual item used in our study). A correlation of .704 ($p < .01$) indicates a high validity of the managerial assessment of post merger financial performance.

As a basis for the validation of the customer loyalty measure we selected two industries (i.e., the bank and insurance industry and the machinery industry) from the total sample. Two weeks after data collection was completed, respondents in both industries were contacted by telephone. The managers were asked to name three to five customers of the combined firm who already had had a business relationship with one of the firms at the time of the merger or acquisition. 48 respondents named at least three customers. Customers of 15 firms (two customers per firm) in each of the two industries were then interviewed via telephone, resulting in a total of 60 customer interviews. Customers were asked about their loyalty towards the specific firm that had undergone a merger or acquisition. Based on this, customers were then asked how their loyalty had changed since the merger or acquisition.[8] Loyalty assessments by customers were then correlated with managers' initial evaluations of customer loyalty after PMI. High correlations (.757 for banks/insurances and .677 for machinery; $p < .01$ for both industries) were obtained. This indicates a high validity of the managerial assessment of customer loyalty.

5. Results

After establishing the structure of the measurement model, we analyzed the overall causal model (reported in Figure 2) using LISREL 8 (Jöreskog/Sörbom 1996). Fit statistics indicate an adequate fit of the model with the data (χ^2/df = 3.76, GFI = .94, AGFI = .93, CFI = .95, RMSEA = .07).

5.1 Results Related to Main Effects

Figure 2 summarizes the results of the hypotheses testing. As can be seen there, all six hypotheses are supported by our empirical findings. More specifically, each of the parameter estimates is significant at least at the .05 level. The strongest effects are observed with respect to the link between market-related performance and financial performance and between extent of integration and magnitude of cost savings.[9]

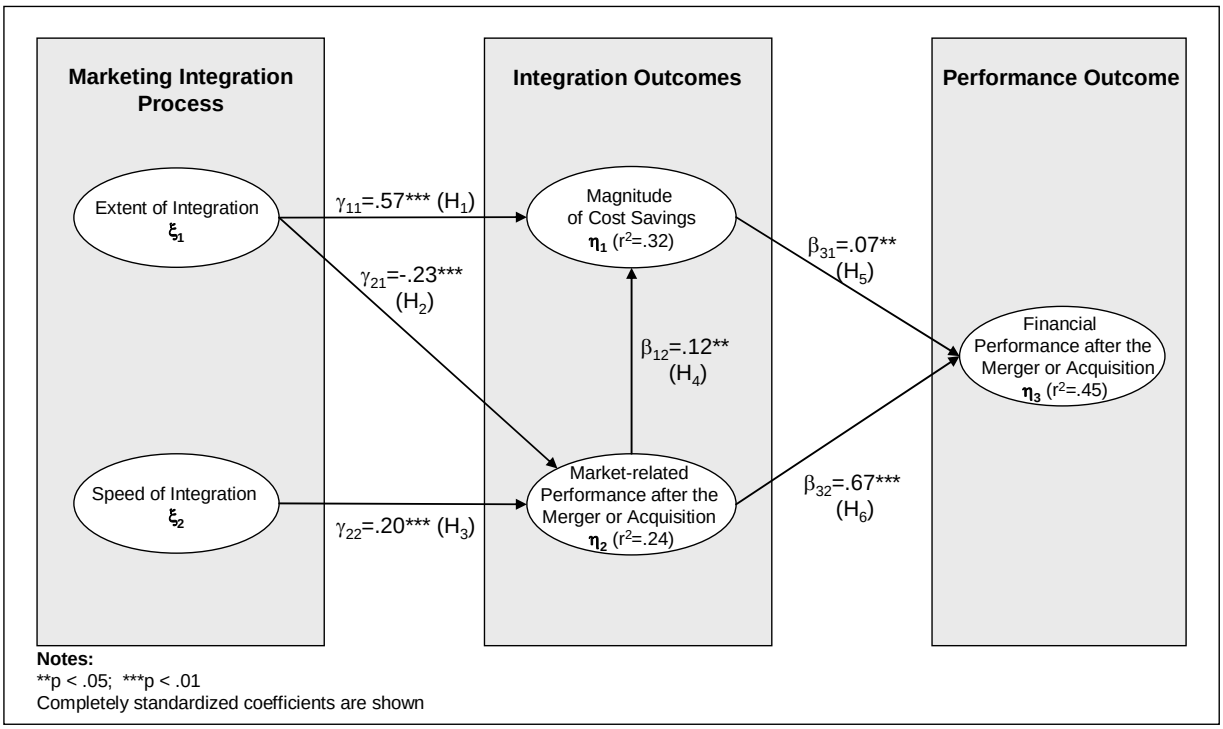

Figure 2: Results of the Hypothesis Testing (Main Effects)

Extent of integration has differential (i.e., positive and negative) indirect effects on financial performance. To further explore the impact of extent of integration on financial performance, we computed the magnitudes of the three indirect effects and the resulting total effect. The positive effect via cost savings (.57*.07=.039) is confronted with two negative effects via

market-related performance (-.23*.67=-.154) and via a more complex causal chain through market-related performance and cost savings (-.23*.12*.07=-.001). Thus, the total effect (-.116) is negative. In other words, the positive effect of extent of integration on financial performance (via cost savings) is reversed into a negative total effect through negative market-related consequences of integration.

5.2 Results Related to Moderating Effects

Once support for the main effects was found, we assessed the influence of the five moderator variables. We conducted separate median splits in our sample based on the values of each individual moderator. Multiple Group LISREL (Jöreskog/Sörbom 1996) was performed comparing the two sub-samples (low versus high values of the moderator variable) for each moderator variable individually.

In a first step, we compared two models that are different with respect to all effects we consider in our moderator analysis (γ_{11}, γ_{21}, γ_{22} for H_7, H_9, H_{11} and γ_{11}, γ_{22} for H_8, H_{10}). One model restricts these parameters to be equal across sub-samples while the more general model allows these parameters to vary across groups. Since these are nested models the χ^2-value will always be lower for the general model than for the restricted model. The question is whether the improvement in χ^2, when moving from the restricted to the more general model, is significant. This would indicate that the respective moderator variable does have an effect on the relationships under consideration. The χ^2-statistic is significant for all five moderator variables (Table 4). Thus, each of the moderator variables has some relevance in the context of our study.

In the next step, we conducted more detailed analyses and compared, for each moderator, two models that differ only with respect to one specific effect (either γ_{11}, γ_{21} or γ_{22}). In this case one model restricts the specific parameter to be equal across sub-samples while the more general model allows the specific parameter to vary across groups. Again, the question is whether the improvement in χ^2 is significant. This would indicate differential effects in the two sub-samples, and thus a moderator effect. We will now discuss the results related to each moderator variable.

Moderator Variable	Main Effect	Hypothesized Moderator Effect	Low Value of Moderator	High Value of Moderator	χ^2 Difference (ΔDF = 1)
Customer Orientation of Integration (COI)	Extent of Integration → Cost Savings (*positive*)	H_{7a}: Effect will be *less positive* for high values of COI	γ_{11} = .64 (t = 13.10)	γ_{11} = .47 (t = 6.50)	$\Delta\chi^2$ = 27.83***
	Extent of Integration → Market-related Performance (*negative*)	H_{7b}: Effect will be *less negative* for high values of COI	γ_{21} = -.55 (t = -8.42)	γ_{21} = .10 (t = 1.61)	$\Delta\chi^2$ = 4.83**
	Speed of Integration → Market-related Performance (*positive*)	H_{7c}: Effect will be *less positive* for high values of COI	γ_{22} = .18 (t = 4.03)	γ_{22} = -.08 (t = -1.28)	$\Delta\chi^2$ = 9.37***
		$\Delta\chi^2$ for all gammas set equal across sub-groups (ΔDF = 3): 43.79***			
Relatedness of the Firms' Market Positioning (RMP)	Extent of Integration → Cost Savings (*positive*)	H_{8a}: Effect will be *more positive* for high values of RMP	γ_{11} = .38 (t = 8.79)	γ_{11} = .69 (t = 13.32)	$\Delta\chi^2$ = 16.83***
	Speed of Integration → Market-related Performance (*positive*)	H_{8b}: Effect will be *less positive* for high values of RMP	γ_{22} = .24 (t = 5.26)	γ_{22} = .18 (t = 3.02)	$\Delta\chi^2$ = 3.80**
		$\Delta\chi^2$ for all gammas set equal across sub-groups (ΔDF = 2): 20.63***			
Relative Size of the Acquired Firm (RS)	Extent of Integration → Cost Savings (*positive*)	H_{9a}: Effect will be *more positive* for high values of RS	γ_{11} = .15 (t = 4.71)	γ_{11} = .78 (t = 13.18)	$\Delta\chi^2$ = 46.41***
	Extent of Integration → Market-related Performance (*negative*)	H_{9b}: Effect will be *more negative* for high values of RS	γ_{21} = -.33 (t = -7.31)	γ_{21} = -.14 (t = -1.32)	$\Delta\chi^2$ = 1.80
	Speed of Integration → Market-related Performance (*positive*)	H_{9c}: Effect will be *more positive* for high values of RS	γ_{22} = .08 (t = 2.41)	γ_{22} = .60 (t = 4.73)	$\Delta\chi^2$ = 9.49***
		$\Delta\chi^2$ for all gammas set equal across sub-groups (ΔDF = 3): 46.92***			
Market Growth Prior to the Merger or Acquisition (MG)	Extent of Integration → Cost Savings (*positive*)	H_{10a}: Effect will be *less positive* for high values of MG	γ_{11} = .71 (t = 14.91)	γ_{11} = .31 (t = 10.14)	$\Delta\chi^2$ = 25.49***
	Extent of Integration → Market-related Performance (*negative*)	H_{10b}: Effect will be *more negative* for high values of MG	γ_{21} = -.25 (t = -4.82)	γ_{21} = -.17 (t = -4.89)	$\Delta\chi^2$ = 5.85***
	Speed of Integration → Market-related Performance (*positive*)	H_{10c}: Effect will be *more positive* for high values of MG	γ_{22} = -.13 (t = -3.77)	γ_{22} = .42 (t = 6.69)	$\Delta\chi^2$ = 31.04***
		$\Delta\chi^2$ for all gammas set equal across sub-groups (ΔDF = 3): 57.67***			
			Product Firms	**Service Firms**	
Product (PF) vs. Service Firms (SF)	Extent of Integration → Cost Savings (*positive*)	H_{11a}: Effect will be *more positive* for PF	γ_{11} = .63 (t = 13.65)	γ_{11} = .43 (t = 12.47)	$\Delta\chi^2$ = 9.13***
	Speed of Integration → Market-related Performance (*positive*)	H_{11b}: Effect will be *less positive* for PF	γ_{22} = .19 (t = 4.31)	γ_{22} = .35 (t = 6.24)	$\Delta\chi^2$ = 9.26***
		$\Delta\chi^2$ for all gammas set equal across sub-groups (ΔDF = 2): 16.23***			

Table 4: Results of Multiple Group Analysis

With respect to *customer orientation of integration*, the χ^2-difference values indicate a significant moderator effect for H_{7a}, H_{7b}, and H_{7c}. Additionally, the parameter estimates

obtained in the two sub-samples support our theoretical reasoning because the effect is consistently weaker for high as opposed to low levels of customer orientation. In summary, H_7 is fully supported.

H_{8a} and H_{8b} concerning the moderating effects of *relatedness of the merging firms' market positioning* are also supported. The results show that in this case the moderating effects are not so strong as to moderate away the effects under consideration. In the conditions where we predict and find a weaker effect, the effect is still significant.

With respect to *relative size of the acquired firm* the χ^2-difference values indicate a significant moderator effect for H_{9a}, and H_{9c}. Furthermore, our theoretical reasoning is supported by the parameter estimates obtained in the two sub-samples as, in both cases, the effect is stronger for high as opposed to low levels of relative size. However, we fail to find support for H_{9b}, where the χ^2-difference is non-significant. A possible explanation for this non-finding is that our hypothesized strengthening moderator effect is compensated through other weakening moderator effects. As an example one might argue that the acquisition of a relatively large target firm yields a large number of competent managers and staff members and that gaining this resourc weakens negative consequences in the market place. Thus, H_9 is only partially supported.

Concerning *market growth prior to the merger or acquisition*, H_{10a} is supported by our findings. The χ^2-difference is significant and the effect of extent of integration on cost savings (γ_{11}) is stronger for low as opposed to high market growth. We fail to find support for H_{10b} since, contrary to our hypothesis, the negative link between extent of integration and market-related performance is weaker in the case of high market growth. Our argument supporting our hypothesis was that higher switching barriers, less alternative suppliers, and fewer competitors' actions intended to promote customer switching in mature markets (i.e., markets with a low growth rate) would weaken negative customer reactions. A possible explanation for our finding is that customer uncertainty created through a merger or acquisition, is typically so strong that customers are highly receptive for competitors' offers and that switching barriers cannot really prevent customers from reacting negatively.

Our findings provide support for H_{10c}. We observe a negative effect for the link between speed of integration and market-related performance in the case of low market growth. A possible explanation is that, in the case of low market growth, the (positive) uncertainty

reducing effect of speed is outweighed by other mechanisms. As an example, fast integration decisions involve a certain risk of making wrong decisions which "… can result in premature solutions" (Schweiger/Walsh 1990, p. 61). In summary, we obtain partial support for H_{10}.

For the *distinction between product and service firms* both χ^2-difference values indicate a significant moderator effect. As can be seen from the parameter estimates obtained in the two sub-samples, H_{11} is fully supported. The influence of the product/service distinction is not so strong as to moderate away one of the effects.

6. Discussion

6.1 Research Issues

Previous M&A-related research has largely neglected marketing issues inspite of their immense importance. Against this background we adopted a marketing perspective on M&A. We feel that our study advances academic knowledge in our discipline in several ways.

First, in line with the study by Capron/Hulland (1999), we contribute to bridging the gap between M&A-related research and marketing research. Our findings provide support that PMI related to marketing is highly relevant for M&A performance.

Second, we find that the extent of marketing integration has positive consequences in terms of cost savings which are however outweighed by negative market-related consequences. Thus, our research provides a deeper understanding of the performance implications of post merger extent of integration than most previous M&A research (e.g., Larsson/Finkelstein 1999). However, it is worth emphasizing that this finding relates to marketing integration and cannot be readily generalized to integration in other areas (e.g., manufacturing, logistics, accounting).

Third, we show that speed of integration, a construct neglected in previous M&A research, is beneficial in terms of market-related performance. This finding extends previous conceptual discussions about outcomes of speed in PMI (e.g., Buono/Bowditch 1989; Schweiger/Walsh 1990). While we agree with these purely conceptual studies that speed can also have negative outcomes, our findings show that, for market-related aspects of M&A performance, speed of marketing integration is beneficial. Our reasoning that fast integration processes can limit customer uncertainty and therefore enhance market performance is supported by our data.

Fourth, we show that there are contingency factors which systematically strengthen or weaken the relationships under consideration. To the best of our knowledge, our study is the first to address theoretically and show empirically that the links between marketing integration and integration outcomes are not equally strong in every situation. On a more general level, we may draw the conclusion that marketing research and research in the strategy field should consider moderating effects to a larger extent than it has been done in previous research. Although the number of papers analyzing moderating effects is growing, many empirical studies are still restricted to main effects. This approach is likely to miss a significant part of the real structure of the relationships between the constructs under consideration.

Fifth, we find that the negative market-related outcomes of a high level of integration are much weaker in the case of high customer orientation (see H_{7b}). Together with the observation that many PMI phases are characterized by a strong internal orientation and a lack of customer orientation, this finding provides a possible explanation why so many M&A fail. We suggest that this is the case because of a lack of customer orientation during PMI.

Finally, our findings indicate that market-related performance is a much more important driver of financial performance after the merger or acquisition than cost savings. We feel that this finding is potentially relevant for other areas of marketing research. Many marketing decisions involve a trade-off between saving costs and building strong market positions. Our empirical study reveals a specific marketing approach (i.e., extensive marketing integration in the PMI phase) which allows firms to save costs but at the expense of losses in market position which are more important in driving financial performance than the cost reductions. Obviously, this finding cannot be readily generalized to other marketing approaches. However, we conclude that marketing researchers should be sensitive to analyzing market position/cost trade-offs of specific marketing approaches. As an example, this is an interesting issue to study with respect to cross-country standardization of products and brands in the field of international marketing.

6.2 Limitations and Avenues for Future Research

Several limitations of our study need to be mentioned. These provide avenues for future research. First, the sample of our study is restricted to a specific region in Europe. Future research might use cross-country/cross-continent comparisons to study post merger marketing integration.

Second, our findings reveal that positive market-related effects are more important in driving financial performance than cost reduction. This is of course a finding based on the total sample. It may still be the case that, for some mergers or acquisitions, cost savings are a more important driver of performance. Future research might address this issue in more detail.

Third, our study uses data obtained from customers to a very limited extent. Future studies in this field might use customer based data to a larger extent than we did in order to get a deeper understanding of the processes that drive customer reactions to M&A. More specifically, future research might measure the constructs extent and speed of integration (with respect to the integration of customer facing activities such as product offers, brands, sales forces, etc.) and market related performance (with respect to customer loyalty) using customer survey data. Similarly, the moderator variable customer orientation of integration could be measured from the customers' perspective. This would generate interesting and more general insights into the perception process of customers during or after a merger or acquisition.

Fourth, our study uses perceptual measures for the magnitude of cost savings and extent of integration constructs. In order to make more precise financial predictions how a certain reduction in costs affects return on sales, future research might use objective measures of this construct. We also suggest that future research might use objective measures of extent of integration. This would require a content analytic approach to data collection looking specifically at the decisions which were made in the course of integration.

Fifth, our study merely considers moderating effects of customer orientation of integration. It is plausible to argue that customer orientation of integration may itself have a direct effect on cost savings and market-related performance. Thus, future work could analyze additional effects of customer orientation in PMI. Also it would be interesting to study how customer orientation in general of either firm before the transaction affects integration outcomes.

Sixth, our study considers extent and speed of integration as independent variables. Future studies could analyze which variables drive extent and speed of marketing integration. As an example, one could analyze how relative size of the acquired firm or relatedness of the firms' market positioning affects extent and speed of integration.

Finally, our study is focused on cost savings and market-related performance as drivers of financial performance. An interesting issue for future reseach could be to study additional

variables influencing post merger performance. As an example one could examine how increased prices as a consequence of a merger or acquisition would affect financial performance.

6.3 Managerial Implications

A first managerial implication results from the finding that marketing integration affects financial performance negatively because the negative effects via market-related performance outweigh the positive effects via cost savings. The implication for managers is that they should be cautious about marketing integration after a merger driven by the goal of reducing costs. While it is realistic to expect cost savings from a high extent of integration, our findings show that there is a price to be paid for these cost savings on the market side. Our study also tells managers how to weaken these negative market-related consequences. This can be achieved through a high level of customer orientation of integration since this is a significant moderator of this link (see H_{7b}). Thus, the specific implication for managers is that they should devote a lot of attention to customer-related issues when making decisions about PMI. As an example, integration activities should be strongly guided by the needs of the merged firm's customers (e.g. with respect to product offer and customer service). Systematic customer surveys can be helpful in this context.

A second managerial implication is that, in general, managers should strive for speed in integrating marketing operations after a merger or acquisition. Our research provides managers with information under which circumstances speed is particularly beneficial. For example, the effect of integration speed on market-related performance is particularly strong in the case of a low relatedness of the merging firms' market positioning, when relative size of the acquired firm is high and for service firms.

In order to give managers a more concrete picture with respect to speed of integration, Table 5 provides detailed information on integration speed with respect to all the issues covered in the construct. These objective numbers can be used as benchmarking information by managers.

	Duration of Integration				
Items	< 6 month	6-12 month	13-18 month	19-24 month	> 24 month
1. Products/Services offered	32.0%	34.5%	14.3%	10.8%	8.4%
2. New product development	29.9%	25.9%	22.4%	10.9%	10.9%
3. Prices	54.2%	26.8%	10.5%	4.7%	3.8%
4. Communication	56.4%	22.6%	10.8%	5.1%	5.1%
5. Sales System	36.7%	27.1%	20.3%	8.7%	7.2%
6. Sales force management	38.9%	23.8%	16.1%	12.4%	8.8%
7. Information systems	37.5%	26.0%	21.2%	8.2%	7.1%
8. Internal marketing/ sales support	40.8%	25.1%	16.8%	9.4%	7.9%

Table 5: Detailed Frequency Distributions for Speed of Integration

Finally, the analysis of market-related performance and cost savings as drivers of financial M&A performance also leads to straightforward managerial implications. Managers involved in PMI should strongly focus on market-related issues. As an example, concrete managerial actions during the integration phase could include the implementation of customer satisfaction-based incentive systems or continuous customer feedback instruments. A predominant cost focus in PMI is likely to leave important performance potential unexploited and risks to produce negative outcomes in the market that cannibalize the success on the cost side.

7. Conclusion

Our research provides strong evidence for the importance of studying M&A from a marketing perspective. We show that the marketing integration process is highly relevant in driving ultimate M&A performance. We also show that market-related performance is far more important than cost savings. Against this background a general conclusion from our study is that the marketing discipline should devote more research attention to marketing issues in the context of M&A. It has been argued that the marketing discipline has had limited impact in the field of strategic management (e.g., Day 1992). The discipline's influence in the field of strategic management can only be increased if key issues in corporate strategy are addressed from a marketing perspective through marketing scholars. We propose that studying drivers

of M&A performance is one of these key issues which must not be neglected by marketing researchers. It is our hope that our study, following the pioneering work by Capron/Hulland (1999), can contribute to the emergence of a research stream on M&A in marketing.

FOOTNOTES

[1] It is worth noting that the term "integration" has been used with different meanings in different literature streams. As an example, literature in the field of international marketing (e.g., Zou/Cavusgil 2002; Birkinshaw/ Morrison/Hulland 1995) has used the term integration with a specific focus on integration of marketing activities across countries. Our use of the term integration was guided by previous research in the M&A field and is consistent with this work (Shrivastava 1986; Pablo 1994).

[2] It is worth emphasizing that hypothesis H_1 is not tautological in nature because there is a clear conceptual distinction between the independent and the dependent construct. A high level of integration is not identical to a high level of cost savings for three reasons. First, a high level of integration does not automatically imply that something positive has been achieved. Rather, a high level of integration merely means that a high level of similarity has been achieved (for better or for worse) between the two organizations with respect to a certain marketing aspect. As an example, if two information systems are totally replaced by one information system (i.e., a high level of integration is achieved) it may still be the case that the chosen integrated information system is very complex to handle and therefore increases costs. Second, it is important to note that a high level of integration in some areas creates a potential for cost reduction. However, this potential may or may not be exploited by managers. Third, a high level of integration in some areas may be driven by the aim of increasing effectiveness rather than reducing costs. For example, if one company has better procedures in new product development or pricing, integration would primarily result in increases in effectiveness.

[3] We do not see any compelling argument for either a positive or a negative direct impact of extent of integration on financial performance after the merger or acquisition. Therefore, we do not put forward a hypothesis corresponding to this possible link. However, based on our empirical results, we will explore the magnitude of the indirect effects between extent of integration and financial performance via magnitude of cost savings and market-related performance.

[4] This period was chosen to exclude recent M&A in which the integration process was still in an early stage and did not yet lead to any significant outcomes at the time of the survey, as well as older transactions for which it is difficult to obtain detailed information about integration activities due to managerial turnover. We restricted our search to horizontal M&A (M&A that take place in the same industry, often between direct competitors) because the issue of marketing integration essentially only comes up in horizontal M&A.

[5] Managers from the acquiring firm were chosen, as they tend to be the most knowledgeable about the PMI. Additionally, due to managerial turnover it is often impossible to identify former executives from the target (Walsh 1988).

[6] It is worth mentioning that we used perceptual measures for market share and return on sales. The reason for this approach is that respondents are typically reluctant to provide precise numbers on performance constructs (Dess/Robinson 1984). Furthermore, respondents may not know the precise numbers. Both problems may lead to people breaking up the response process which reduces the achieved response rate (see e.g. Datta 1991 for similar arguments). Note, however, that the perceptual profitability measure will later be validated with objective data from an independent source.

[7] It should be mentioned that the ultimate M&A success also depends on the price that was paid for the acquiree. The reason for not including this aspect to our framework is that managers are typically reluctant to provide this information. Also, for the majority of transactions, price information is not publicly available.

[8] Customer loyalty in the validation sample was assessed using multiple items which covered e.g. the intention to purchase from this specific firm again, the intention to expand the relationship with this firm, and the intention to recommend the firm to others. The specific items were partly based on items used by Cannon/Homburg (2001) and Zeithaml/Berry/Parasuraman (1996).

[9] Based on a suggestion by an anonymous reviewer we also analyzed an alternative model in which the relationship under consideration runs in the opposite direction (i.e., magnitude of cost savings is hypothesized to affect market-related performance). With respect to this alternative model, our findings indicate that the effect of magnitude of cost savings on market-related performance is non-significant (β_{21} = .04, $p > .1$). Second, the overall fit of the model is poorer than the fit of the model shown in our paper.

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