Why good things may not happen in knowledge-intensive acquisitions: The neglect of acquired firm's customers

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Abstract
Purpose – The primary purpose of this paper is to offer a conceptual/theoretical understanding of post-M&A integration rationales and/or actions which pose a challenge to acquired firm customers in acquisitions of knowledge-intensive firms, and thus trigger M&A value destruction.
Design/methodology/approach – The approach takes the form of a literature overview and conceptual development.
Findings – As a step towards developing a more elaborate understanding of a customer-centered perspective, this conceptual study identifies five key factors that may lead to value leakage/destruction for acquirers' of knowledge-intensive firms. Specifically, it identifies acquisition motive, specific acquired firm employees other than the engineers and scientists, size of the acquired firm customer base, M&A customer compatibility, and the acquirer's own customers' behavior as integration rationales and/or actions which pose a challenge to acquired firm customers. In addition, the paper offers a theoretical framework that serves as an analytical tool, and can thus be used as a foundation for future empirical work on analyzing acquirers' destruction of value in knowledge-intensive acquisitions through the neglect of acquired firm's customers.
Research limitations/implications – This study does not claim to have provided exhaustive list of all factors regarding acquirer's integration rationales and/or actions that influence acquired firm customers. Nonetheless, for researchers seeking to build a more comprehensive framework relating to the impact of acquirer's integration rationales and/or actions on acquired firm's customers, this framework may serve as a solid foundation for achieving that goal.
Practical implications – For practitioners, this study points to the importance of knowledge held by acquired firm customers and the need to maintain such customer relationships in order to avert acquirer's post-M&A value destruction. In addition, acquirers may also recognize that post-M&A integration changes required following M&A should not be restricted to only the firm's internal activities and resource deployment but should extend to how the firm interacts or relates with other external value creation actors.
Originality/value – This paper contributes by highlighting and stimulating a discussion on the important role of acquired firm customers in acquisitions of knowledge-intensive firms in informing our understanding of the sources of M&A value leakage/destruction.

Keywords Customers, Knowledge-intensive, Mergers and acquisitions, Value creation/destruction

Introduction

Mergers and acquisitions (hereafter M&As[1]) continue to be a popular vehicle for organizational growth and development (Degbey & Hassett 2016; Rehm & West 2015), despite vast evidence suggesting that, on average, they do not produce enhanced economic value for the acquiring firms (King, Dalton, Daily & Covin 2004; Meglio & Risberg 2011; Papadakis & Thanos 2010; Schoenberg 2006). In quest to comprehend the largely negative consequences of M&As, several studies especially in strategy research have focused on the question of how M&As create economic value (Degbey & Ellis 2016; Haspeslagh & Jemison 1991, Hitt et al. 2001; Junni, Sarala, Tarba & Weber 2015). This paper does not focus on how M&As create economic value, but on *what post-M&A integration rationales and/or actions may derail or threaten the creation of value through knowledge-intensive M&As,* and argue that integration rationales and/or actions that disregard acquired firm's customers may destroy the desired value. In other words, the focus here is geared towards the acquirer's rationales and/or actions which pose a challenge to customers of the acquired firm, and consequently, may trigger M&A failure.

In fact, the use of acquired firm's knowledge-based assets has frequently emerged as a key explanatory variable through which M&As create the desired economic value (Barney 1988; Prahalad & Hamel 1990). Nonetheless, Coff (1999) avers that knowledge-intensive acquisitions pose a serious organizational and management challenge or problem. This is because the knowledge-based assets of the target firm may be tacit (Polanyi 1963), embedded in individual actors, group, organizational routines/processes, or networks and "bundled" with other resources (Nonaka and von Krogh 2009), and thus making them difficult to acquire or appropriate in traditional factor market or via strategic alliances (Coff 1999; Kogut & Zander 1992; Zaheer, Hernandez & Banerjee 2010). In other words, and more broadly, scholars note that the aforementioned problem of knowledge-intensive acquisitions is caused by information asymmetry

[1] M&As are used interchangeably with acquisitions throughout the text

between the merging parties (i.e. ex ante market failure) (see Balakrishnan & Koza 1993; Teece 1980), and the difficulty of integrating the acquired firm's knowledge-based assets into the acquiring organization post-M&A (i.e. ex post organization failure) (see Hennart & Reddy 2000; Puranam et al. 2009). So far, the said organizational and management challenges or problems that knowledge-intensive acquisitions pose are essentially internally confronted by the acquirer, who channels their energy often solely to harnessing the acquired firms' knowledge assets. For example, the internal focus is particularly directed towards the sustained productivity of the knowledge assets of the acquired firm such as acquired firm's engineers and scientists.

What has not yet been visible in knowledge-based acquisitions – and perhaps the most fundamental explanatory variable for post-M&A value destruction or failure – is the lack of focus on the acquired firm's customers. This is not simply a gap in the extant literature, but it is indeed a problem that requires foremost a conceptual/theoretical understanding. In fact, customers of knowledge-intensive acquired firms – especially those operating in highly specialized markets – are not only possessing sticky knowledge (Von Hippel 1994), but they are also usually knowledge leaders (and not followers) who continuously develop innovative knowledge for their industry. Consequently, this paper conducts a literature overview by focusing on the question '*what post-M&A integration rationales and/or actions may derail or threaten the creation of value through knowledge-intensive M&As'*. And thus develop a theoretical framework as a foundational tool for analyzing acquirers' destruction of value in knowledge-intensive acquisitions through the neglect of acquired firm's customers. More specifically, the contribution of this paper stems from the provision of a theoretical framework that serves as an analytical tool, and can thus be used as a foundation for future empirical work. This chapter is organized in the following way. First a literature overview is presented on customers of knowledge-intensive acquired firms and integration rationales and/or actions that may destroy value. Then a theoretical framework is developed based on the literature overview. Finally discussion and conclusions of the study are presented.

Customers and acquirers' value destroying/leakage integration rationales and/or actions in knowledge-intensive M&As

Customers of knowledge-intensive acquired firms

M&As have emerged as important means, particularly for knowledge-intensive acquired firms to overcome difficult strategic hurdles to growth, and to also provide them an opportunity to take advantage of complementarities with acquirers (Graebner & Eisenhardt 2004). In theory, knowledge-intensive acquisitions are regarded primarily as focusing on knowledge as the main driver for an M&A (Scheunemann & Suessmair 2013). For example, knowledge-oriented motives or topics commonly discussed under knowledge-intensive acquisitions include acquisition of technologies (Schweizer 2005), acquisition of capabilities (Ranft & Lord 2002), acquisition of knowledge firms (Birkinshaw 1999) or research and development (R&D)-intensive firms (King et al. 2008), and acquisition of innovation potential (Ahuja & Katila 2001). Largely, the focus in acquisitions of knowledge-intensive firms is typically on the specialized knowledge and the acquired firms' knowledge professionals, engineers or scientists (cf. Kapoor & Lim 2007).

According to Zaheer and his colleagues (2010, p.1072) a knowledge-intensive firm is "one that has significant knowledge-based assets, which consist of proprietary knowledge (e.g., patents, trademarks, trade secrets, and so on) and tacit knowledge residing in individual employees' minds or embedded in organizational routines, experience, processes, or networks". This study follows this definition because it captures an essential element of the knowledge-based assets that may reside in external networks, such as customers of the acquired firm. In this type of M&As, the innate focus on the specialized knowledge or engineers (Dalziel 2007; Mayer & Kenney 2004) and the inability to redeploy target company's marketing and sales resources (Capron & Hulland 1999) for example, may create a tendency for the acquirer to pay no or less attention to acquired firm's customers. This poses a problem as these customers are essential in providing input into new product development process, and as a result, help to enhance the performance of the focal knowledge-intensive firm

(Dalziel 2007). Customers – essentially knowledge-intensive acquired firm's customers – are fundamental to this context as they possess knowledge of the context in which the product will function to influence performance (cf. Degbey 2015; Iansiti 1998). Moreover, it is suggested that knowledge-intensive contexts are often characterized by innovation-related problem solving, and customers are seen as important part of the solution because they possess information costly to acquire, transfer and use (i.e., sticky knowledge) in these contexts (Von Hippel 1994). Hence, the performance of a knowledge-intensive acquired firm is heavily dependent on its business customers, and it is critical that the merging parties' (especially the acquirer) actions post acquisition should not endanger the maintenance of these customer relationships (cf. Degbey & Pelto 2015; Degbey 2011)

Indeed, customers of any highly specialized firm are critical as they constitute for example a niche market, and at the same time, it can be argued that the motive to internalize/harness the knowledge within the target firm may consume a great deal of resources and hence constrain the resource capacity to also keep the target firm's customers (cf. Shaver 2006). Similarly, for example, the maintenance of target firm's customer relationships may be difficult to achieve under motives where the acquirer attempts to increase its market share by destroying the competition through the termination of the target firm and its products (cf. Keller 2003; Öberg 2014). The last two assertions suggest that the ability of the acquirer to maintain the acquired firm's customer relationships may be challenged in certain circumstances. Nonetheless, conscious efforts are required especially from the acquirer to recognize that the context (e.g. acquired firm's customer relationships) can influence the desired M&A value, for example, through the effective production and use of the acquired firm knowledge-based assets. In addition, preservation integration strategy instead of absorption strategy (see Haspeslagh & Jemison 1991) seems relevant to the maintenance of the acquired firm customer relationships. This is because, in preservation strategy the acquirer typically restricts decisions and holds to the principle not to make initial changes in the acquired firm in order to learn about their nature of business, industry or technologies/knowledge-based assets in use (Haspeslagh & Jemison 1991). This degree of autonomy granted to the acquired firm could be vital for the acquirer to minimize any negative consequences of alienating the value creation network of the acquired firm.

M&A integration rationales and/or actions that neglect acquired firm's customers

A central part of the discussion in this paper relates to integration rationales and/or actions that disregard or threaten the acquired firm's relationships with its customers in a knowledge-intensive M&As. These integration rationales and/or actions have the tendency to destroy the acquirer's desired value from the acquisition of a knowledge-intensive firm (Puranam, Singh & Zollo 2006; Weber & Tarba 2011). Despite M&A integration is mainly centered on and driven by the actions of the two merging parties (Weber, Tarba & Reichel 2009), DiGeorgio (2003) emphasizes that the pressure for M&A success often leads acquirers to unilaterally impose integration plans on the acquired firm. This unilateral action poses a challenge for customers, particularly for customers of the acquired firm. Customers may face challenges both during the pre- and post- acquisition phases, but the focus here is mainly on the post-acquisition phase, i.e. M&A integration rationales and/or actions that impact target firm's customers, as this phase is regarded as the most critical and difficult one. In this respect, the literature on M&A has recognized why, in most cases, acquired firm's customers tend to be neglected, particularly in knowledge-intensive M&As.

Acquisition motive. The acquisition motive of the acquirer may pose a challenge to acquired firm's customers. If technology acquisition or knowledge-based assets is the core motive for pursuing the M&A for instance, attention on the retention and sustained productivity of engineers and scientists may become a priority (Dalziel 2007). This may suggest extensive internal allocation of resources toward the retention of acquired firm engineers and scientists by the merging parties (see also Ahammad, Glaister, Weber & Tarba 2012) without equal attention and adequate available resources to service acquired firm customers, particularly during the integration phase (see e.g. Tetenbaum 1999). Other scholars support the view of Dalziel (2007) that the extent of challenges encountered by customers at the integration phase is mostly impacted by onset characteristics such as M&A motives and initial friendliness of the combining firms (Birkinshaw et al., 2000; Zhang et al. 2010).

Size of acquired firm customer-base. Integration rationales and/actions of the acquirer can be influenced by the size of acquired firm customer-base with respect to drawing more or less attention from them. Often owners (e.g. engineers or scientist by profession) of knowledge-intensive acquired firms have difficulty in creating international sales and marketing channels for their innovative products, concepts or designs, and thus are motivated to harness the acquirer's complementary assets (see Teece 1986). However, if the relative number of target firm's customers and perhaps their life time value (cf. Jain & Singh 2002; Reichheld 1996) to that of the acquirer's is small, it may be seen as insufficiently significant to merit attention. This may also be true especially when the acquired firm managers, by virtue of their relative small customer size, are worried about their own fate with regard to being retained following the M&A. In addition, if the knowledge-intensive acquired firm's product/service offering are disruptive (Christensen 1997; Markides 2006), the acquirer may prefer to repackage and sell this offering to other customers they are accustomed to rather than the small-sized acquired firm's customers – who may be deemed to offer lower revenue.

Acquired firm employees. Another challenge to acquired firm's customers concerns the *acquired firm employees* (e.g. sales force resource). If the acquired firm's sales people, who are primarily seen as advocates of the target firm are not offered a position, or turned down position offered by the acquirer, the positive outcome of the M&A activity may be hampered (Dalziel 2007). Particularly, if the acquired firm's sales and marketing employees leave (Krug & Hegarty 2001), the acquirer's ability to maintain the acquired firm's customer relationships is likely to suffer (see Richey Jr, Kiessling, Tokman & Dalela, 2008). This is based on the fact that these sales and marketing employees have an established history and/or trust with these customers grounded on e.g. personal bonds, customer experience and unique relationship character (Degbey 2015).

Similarly, Bekier and Shelton (2002) suggest that acquired firm's salespeople are critical for continued revenue generation, and steps should be taken to retain them. Furthermore, this view is also shared by Reichheld (1996) who suggests that the notion of a successful customer relationship maintenance strategy rests on the retention of a team of loyal employees, as well as loyal investors (i.e. acquirers) who share the vision of long term relationship. Also, and perhaps in contrast to the previous two points, cross-border M&A from a human resource perspective is likely to pose some challenges to employees and managers (cf. Very & Schweiger 2001; Weber & Tarba 2010). Employees and managers of the knowledge-intensive acquired firm are likely to face difficulties in adjusting to their new owner (acquirer), especially in cases where the new owner is perceived to have less status or prestige or simply unknown (cf. Schuler, Tarique & Jackson 2004) or from a less developed country compared to the acquired firm. Thus, the departure of these employees and managers (see Ahammad et al. 2012; Krug & Hegarty 1997), especially those in direct contact with customers may have a negative effect on the acquired firm's customer relationship maintenance by the acquirer.

M&A customer compatibility. If the acquired firm's customers are so different from that of the acquirer's own, then the lack of compatibility may pose a problem to the acquirer in understanding their needs and behaviors. Acquisitions motivated by a diversification strategy are a notable example: Cisco's acquisition of Linksys in 2003 was noted as a diversification strategy, and in contrast to all earlier acquisitions, Linksys operated independently under its own name (Dalziel 2007). Thus, the degree to which the resource configurations of acquirer and acquired firms are similar to or different from one another, i.e. strategic emphasis alignment (Swaminathan, Murshed & Hulland 2008) may impact the extent to which acquirer understands the needs and behaviors of the acquired firm's customers. In other words, strategic similarity and complementarity (cf. Larsson

& Finkelstein 1999) of the combining firms' customers may influence how much attention and care the acquired firm's customers attract from the acquirer.

Acquirer's own customers' behavior. The acquirer's own customers' behavior is likely to hinder the maintenance of relationship with acquired firm's customers. Studies on knowledge-intensive/technology-based acquisitions show that they are mostly centered on the acquired firm's engineers and scientists (Dalziel 2007). However, customers of both the acquiring and acquired firms are valuable assets and thus remain an important M&A motive (Degbey 2015; Öberg 2014). M&A may help the acquirer of a technology-based firm to rapidly 'graft' the target firm's technological capabilities onto its own resource base in order to expand the scope of product offerings to customers (Puranam, Singh & Zollo 2006) and to also gain a local presence or representation through the acquired firm for its own (pre-M&A) customers, especially in cross-border acquisition context (Stumpf, Doh & Clark 2002). Using the acquired firm as the main channel to serve better its own customers may pose a challenge to the acquired firm, as the acquired firm may find it difficult to integrate and serve two overlapping customers (considered competitors). In this situation, it is expected that customers from both sides may endeavor to play the acquirer and acquired firm against each other, as each customer desires enhanced service or attention from the combining firms (Degbey 2015). Consequently, through the exercise of ownership power, the acquirer is likely to favor its own (pre-M&A) customers for more attention, and thus creates the exposure for acquired firm customers to competitive responses from rival firms, intensified customer complaints and a possible exit (see Kato & Schoenberg 2012).

Even if acquirers make decisions in the best interest of the combining firms (i.e. itself and the acquired firm), it is not certain that customers will follow (Öberg 2012). Principally where customers are understood as actors, they are likely to influence the ongoing interaction, make choices related to it and act/react to changes that best serve their own interest (Degbey 2015; Halinen, Salmi & Havila 1999; Harrison & Prenkert 2009; Öberg 2014). Hence, the support from the acquirer through its exercise of ownership power coupled with their behavior (i.e. acquirer's own customers) stemming e.g., from their perception as actors in the M&A event, give them an added advantage to negatively influence the maintenance of the acquired firm's customers (cf. Degbey 2015; Degbey & Pelto 2013).

Impact of acquirer's integration rationales and/or actions on customers: A framework

The seminal work of Drucker (1986, 47) emphasized that "it is the customer who determines what a business is". In other words, as concluded by Drucker (1954), what is critical for any business is what customers do with firms' output and what they think is value for them (cf. Grönroos 2011). The two statements above placed the customer at the heart of the firm's strategy for enhanced value creation. However, M&A research from a strategy perspective focuses mostly on internal dynamics of the acquiring and target firms, and evaluates how they create value on the basis of synergy potentials, particularly from strategic and process factors in a neo-classical time environment (Degbey & Hassett 2016; Cartwright & Schoenberg 2006). These internal dynamics of the merging parties and evaluation of synergy potentials are mostly visible during the post-M&A integration phase – a phase widely regarded as the most critical and difficult, and where value creation occurs (Cording, Christmann & King 2008; Haspeslagh & Jemison 1991). In addition, this phase of the process has been criticized for inadequacy in establishing theoretical frameworks that link explanatory variables to M&A value creation or destruction (see Cording et al. 2008). Further, the acute internally focused process of post-M&A integration between the two merging firms, especially in knowledge-intensive acquisitions, without recognizing the vital impact of the M&A on customers largely contributes to M&A value destruction (cf. Dalziel 2007; Degbey 2015).

As a result, the paper develops a framework on the basis of the literature overview discussed in the previous section.

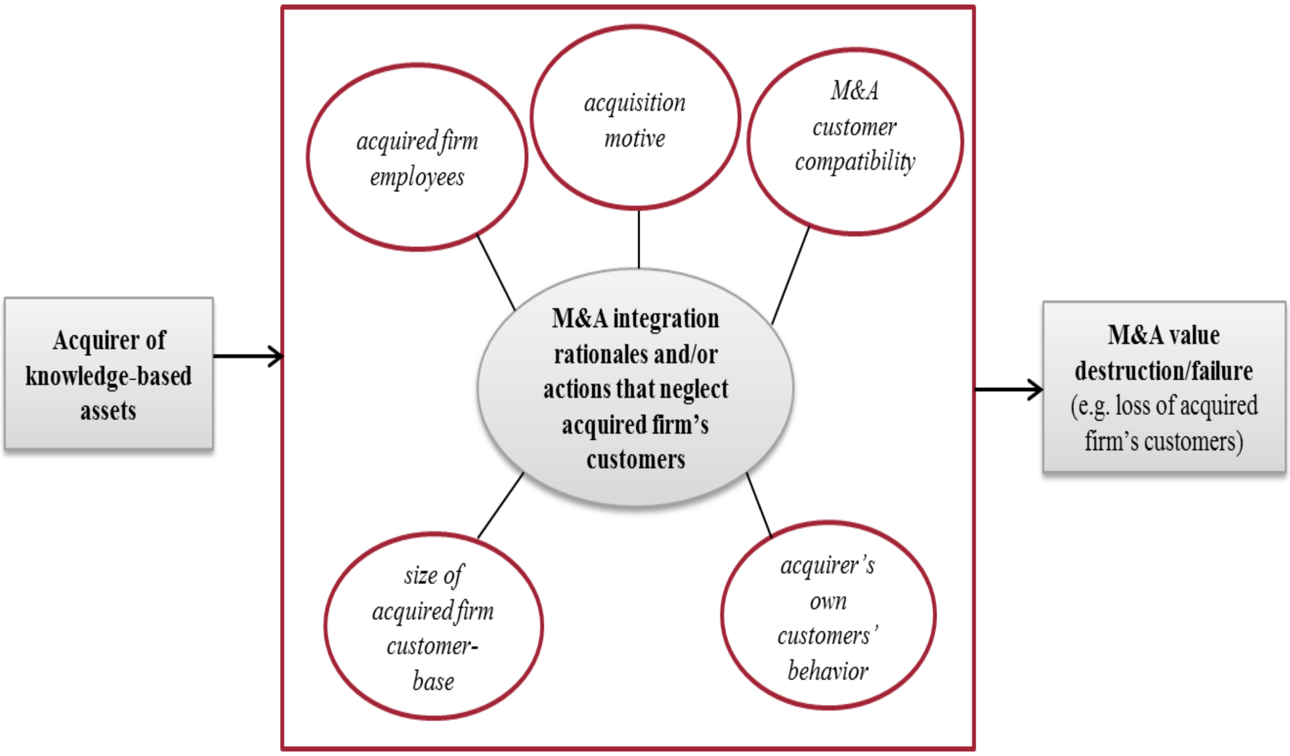

Figure 1 Impact of acquirer's integration rationales and/or actions on customers

This framework establishes the linkage between acquirers of knowledge-based assets, their integration rationales and/or actions that neglect the acquired firm's customers, and M&A value destruction (e.g., loss of acquired firm's customers, and thus making it difficult for the acquired firm to develop and launch superior knowledge-based assets post-M&A). Proceeding from left to right, the framework (Figure 1) suggests that acquirers of knowledge-based assets often adopts integration rationales and/or actions that neglect the acquired firm's customers, and identified five key factors underlying such integration rationales and/or actions (see Figure 1 above). And these factors may exert negative impact on the M&A, such as the loss of acquired firm's customers – this may impede/diminish the acquired firm's ability to further develop and launch superior knowledge-based assets (e.g. new innovations) post-M&A.

Discussion and conclusions

The key question of how M&As create economic value has been extensively discussed especially from the strategic management perspective (see Haspeslagh & Jemison 1991, Hitt et al. 2001; King et al. 2004; Schoenberg 2006; Seth 1990). In addition, the mixed and contradictory findings of prior studies regarding the aforementioned key question are also well documented (see Gomes, Angwin, Weber & Tarba 2013). However, this paper does not focus on how M&As create economic value, but on *what post-M&A integration rationales and/or actions may derail or threaten the creation of value through knowledge-intensive M&As.* This focus is relevant because we know little about acquirers' integration rationales and/or actions that may disregard acquired firm's customers, and thus destroy their desired value particularly in a knowledge-intensive M&As.

The acquisition of knowledge, and for that matter, knowledge-intensive firms has become a popular M&A strategy. For example, scholarly literature and anecdotal evidence suggest that recent acquisitions tend to even pursue knowledge-intensive M&As, such as business and health services, software, and precision medical equipment even to a greater degree than before (Mergers & Acquisitions 1999; Zaheer et al. 2010). However, knowledge-based assets (as strategic assets) are often bundled with other resources along with their tacitness (Nonaka & von Krogh 2009), which present difficulty in acquiring them from the traditional factor market (Aklamanu, Degbey & Tarba 2015; Coff 1999). Thus, it is not surprising that knowledge-based assets are the core motivation behind corporate M&As (Barney 1988; Haspeslagh & Jemison 1991; Zhang, Ahammad, Tarba, Cooper, Glaister & Wang 2015), despite their associated problems of ex ante market failure (Balakrishnan & Koza 1993, Teece 1980) and ex post organization failure (Hennart & Reddy 2000, Puranam et al. 2009).

As a step towards developing a more elaborate understanding of a customer-centered perspective in order to help identify the sources of value leakage for acquirers' of knowledge-intensive firms, this literature overview points to the criticality of the customers of the acquired firm to successfully minimize the acquirer's post-M&A value leakage/destruction. The model developed in this paper explains the linkage between acquirers of knowledge-based assets and their M&A value destruction/failure with specific identified key factors based on extant literature. Specifically, it points to integration rationales and/or actions – including the acquisition motive, influence of specific acquired firm employees other than the engineers and scientists, size of the acquired firm customer base, M&A customer compatibility, and the acquirer's own customers' behavior – that may cause M&A value destruction/leakage. For practitioners, this study points to the importance of knowledge held by acquired firm's customers and the need to maintain such customer relationships in order to avert acquirer's post-M&A value destruction. In addition, acquirers may also recognize that post-M&A integration changes required following M&A should not be restricted to only the firm's internal activities and resource deployment but should extend to how the firm interacts or relates with other external value creation actors (cf. Degbey, 2011; Degbey & Saee 2012). This shows that acquirers should look beyond their internal boundary (i.e. include their external value creation networks).

This framework (Figure 1) does not claim to have provided exhaustive list of all factors regarding acquirer's integration rationales and/or actions that influence the acquired firm's customers, and thus reverberate negative consequences on the M&A value. However, it is believed to be comprehensive enough to explain to a large degree this key but neglected issue contributing to M&A value destruction. For researchers seeking to build a more comprehensive framework relating to the impact of acquirer's integration rationales and/or actions on acquired firm's customers, this framework may serve as a solid foundation for achieving that goal. Also, this framework may provide a fresh theoretical lens to knowledge-intensive acquirers' M&A value assessment**.**

In sum, the added value and novelty of this work to existing M&A literature stems from highlighting the important role of acquired firm customers in acquisitions of knowledge-intensive firms to inform our understanding of the sources of M&A value leakage/destruction. If the suggested framework and importance of acquired firm's customers in knowledge-intensive M&As serve to encourage further scholarly exploration into understanding more fully how the sensitivity to acquired firm's value creation networks (e.g. customer relationships) may impact post-M&A value enhancement, preservation, or destruction, then the effort of this paper will have been worthwhile.

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