Creating value in Cross-Border M&As through Strategic Network

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Abstract

It has been argued that competitive advantage can be derived from interfirm networks that compete with other networks. Hence, in order to obtain a better understanding of value creation in cross-border M&A, it is important to view M&As in their context, i.e. the network in which the focal firms are embedded in. The purpose of this research is two-fold: *first*, to study a focal firm's network position in the external environment of the industry through its embeddedness in network of external relationships with other actors for potential value creation, and *second*, to analyse how the dissolution of acquired firm customers' network may influence a focal actor's ability to reduce its excess capacity within the industry. The empirical research is based on a case study on a European stainless steel company, which illustrates the importance of strategic networks in shaping the structure and positioning of a focal actor (acquirer and acquired) within the industry to create value in cross-border M&A. While competing actors within the external environment may attempt to derail the intended motive of an M&A agenda, the embeddedness of a focal actor in network of external relationships with other actors may help shape its network position and network structure for superior value creation. Moreover, the main findings suggest that prior business relation would be a strong antecedent for gaining preferred network position with the customer networks of the acquired firm, and the dissolution of acquired firm's customer networks may impact the acquirer's ability to reduce its excess capacity.

Keywords: strategic networks; cross-border mergers and acquisitions; value creation; stainless steel; European Economic Area

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1. Introduction

M&As provide unique opportunities for the acquirer to grow rapidly, to gain new capabilities, which an organisation might otherwise find difficult to develop on its own, and to gain access to new markets (e.g. Haspeslagh & Jemison, 1991; Hitt, Harisson & Ireland, 2001). Recent trends indicate that cross-border mergers and acquisitions (M&As) keep increasing following the double dip recession (World Investment Report, 2014). While M&As have become increasingly popular as a method of organisational growth and development, the acquisition success rate has remained mediocre at best. Accordinlgy, M&A success and value creation have been at the heart of M&A research and have been approached from various disciplines (cf. King, Dalton, Daily & Covin, 2004; Cartwright & Schoenberg, 2006; Schoenberg, 2006; Degbey, 2015). A number of scholars have tried to explain cross-border M&A failure through external issues such as national cultural differences, but the results have been inconclusive (cf. Teerikangas & Very, 2006; Stahl & Voigt 2008), and it has been argued that the effect of culture on M&A performance is mediated by the post-acquisition integration strategy, the acquisition experience and integration capabilities of the acquirer, and the level of integration (e.g. Morosini & Singh, 1994; Slangen, 2006; Dikova & Sahib, 2013;). However, a growing body of literature on post-acquisition integration have focused on internal issues, i.e. the human side, and argues that M&A failure is largely down to socio-cultural challenges such as change resistance, acculturation stress etc. (e.g. Buono & Bowditch 1989; Datta 1991; Cartwright & Cooper 1993; Very, Lubatkin & Calori 1996; Birkinshaw, Bresman & Håkanson 2000; Stahl & Voigt 2008). In this research we don't focus on M&A failure, but on how to create value through M&As, and argue that M&As can be effective strategic tools in creating value through strategic networks.

Mergers and acquisitions (M&A) research from a strategy perspective focuses mostly on internal dynamics of the merging parties, and assesses how merging firms create value on the basis of synergy potentials, particularly from strategic and process factors in a neo-classical time environment (Cartwright and Schoenberg, 2006). However, the high M&A failure rate (cf. King, Dalton, Daily, and Covin, 2004; Shimizu, 2007) raises concerns that neo-classical management models of value creation in M&A might be underspecified (e.g. Hitt, Harrison, Ireland & Best 1998; Schoenberg 2006). In addition, strategy field scholars in M&A literature usually employ an individual firm perspective mostly when discussing effects of M&A on firm performance (Larsson and Finkelstein, 1999). However, firms are increasingly interrelated with other firms due to the globalised nature of the market (Hatani and McGaughey, 2013), and it has been argued that competitive advantage can be derived from interfirm networks that compete with other networks (Gulati, Nohria and Zaheer, 2000; Möller and Rajala, 2007). Hence, we argue that in order to obtain a better understanding of M&A failure, or success for that matter, it is important to view M&As in their context, i.e. the network in which the focal firms are embedded in (cf. Anderson, Havila and Salmi, 2001).

The network concept has shown to be useful for exploring complex organisational phenomena such as strategic alliances (including M&A), multinational corporations and inter-organisational exchange governance (Ferriani, Fonti and Corrado, 2013; Gulati 1998; Ghoshal and Bartlett 1990; Degbey and Pelto, 2013; Borch and Arthur, 1995). Our locus of attention here is on strategic networks, a subset of the network research activity focused on intentionally created interfirm economic exchange. Prior studies suggest that interactions or networks could be an important unit of analysis (see, Benson, 1975; Håkansson and Snehota, 1989; Ford et al., 2003), even if the analysis is primarily dyadic (Storbacka and Nenonen, 2009). As firms, for example in the European Economic Area (EEA) stainless steel industry, formulate their strategies to enable them take advantage of vital opportunities or deflect/cope with consequential environmental threats, the realisation is dawning that they are embedded in a network of relationships which may enhance or constrain their value creation potential. Such realisations are critical to understanding the network structure and position of actors within the industry in order to determine their likely behaviour and performance (Gulati, Nohria and Zaheer, 2000), i.e. their value creation in an M&A context.

Accordingly, this study contributes to both the emerging theory of network management in the field of strategy research, as well as the field of cross-border M&As. In order to illustrate the relevance of networks (complex arrays of relationships between firms: Jarillo, 1988) this study is based on an M&A case in the European Steel Industry. This study demonstrates how the network approach provides a deeper and more contextual understanding of highly strategic phenomena such as M&As. While the network approach enhance our understanding of strategic events such as M&As, our study demonstrates how e.g. M&As are used as strategic tools to impact the network of the companies involved. For example, the acquirer's ability to influence and change the acquired firm's network position and structure could form a way of strategizing and managing in networks (e.g. Harrison and Prenkert, 2009; Golfetto, Salle, Borghini and Rinallo, 2007). Moreover, this study addresses the on-going debate regarding the empirical application of the concept of network/network research to strategy literature, and contributes by addressing the lingering ambiguity of network concepts as compatible and complementary to the field of strategy (cf. McEvily and Marcus, 2005; Jarillo, 1988). Additional contribution may stem from the understanding that, a focal firm's network structure construed not only in terms of closure (Coleman, 1988) but most importantly in terms of access to structural holes (Burt, 1992) may improve firm value creation in M&A. For example, a firm that bridges the structural holes created by industry consolidation via M&A may gain superior performance.

The purpose of this research is two-fold: *first,* to study a focal firm's network position in the external environment of the industry through its embeddedness in network of external relationships with other actors for potential value creation, and *second*, to analyse how the dissolution of acquired firm customers' network may influence a focal actor's ability to reduce its excess capacity within the industry. Consequently, in this paper we argue that companies are able to influence their networks through M&As in a way that enable them to improve their value creation capability. In other words, M&As can be used as a strategic tool to improve the firms network position and structure. This paper is organised in the following way. First we present an overview of M&A value creation and strategic networks. Then we present a case study on M&A in the EEA stainless steel industry. Finally we present our findings and main conclusions.

2. Value creation and strategic networks in M&A: An overview

2.1. Strategic networks

Truly, changed market conditions (e.g. low competition and low complexity towards more turbulent, complex and demanding operating conditions) present strategic management research with major challenges including ecological concerns, global aspects, social responsibility, and long-term commitment and cooperation among firms (Borch and Arthur, 1995). Yet, the strategic network view seems to accommodate most of these challenges due to its theoretical basis that moves beyond the limited, common-sense and intuitive model of management to also include applicability of multidisciplinary, more complex models of strategy research (Borch and Arthur, 1995). Hence, the strategic network perspective may help clarify a fundamental question in strategy research, i.e., "*why firms differ in their conduct and performance*" (Gulati et al., 2000). In this study the strategic network view is employed to illustrate performance differential of a focal firm in the European stainless steel industry using its acquired firm customers' strategic networks to create value following a cross-border M&A.

The differential conduct and performance among firms have been a major focus of strategic management research over the years. There have been many different approaches to explain the performance (and conduct) heterogeneity among firms. For example, Ansoff's (1965) contribution to firms' performance heterogeneity highlights both the internal strengths and weaknesses of the firm, as well as external concerns related to opportunities and threats in the market space. Porter's (1980) work on competitive strategy strives to explain the differences in performance by examining industry structures and the firm's positioning in the industry. The Porterian school of thought implicitly assumes resource homogeneity and resource mobility among rival firms in an industry (Storbacka and Nenonen, 2009). In both Ansoff's (1965) and Porter's (1980) work strategy is viewed as the 'fit' between firm and its environment (competitors and the macro-environment). A third example of an influential work in the strategy literature is that of Barney (1991). His work on the resource-based view (first introduced by Wenerfelt, 1984) assumes that firms' control of relevant strategic resources is heterogeneous, and that resources are imperfectly mobile between firms.

Indeed, the aforementioned strategy scholars have recognized the firm as an autonomous entity whose competitive advantage may come from the favourability of its external industry environment (Porter, 1980) or from its internally controlled (unique) resources – which are valuable, rare, imperfectly imitable and difficult to substitute by other competing firms (Barney, 1991). In contrast to the 'fit' views of the above mentioned strategy scholars, it can be said that network researchers see the network of relationships as the 'fit' between the firm and its environment. With notable exceptions – (see, Jarillo, 1988; Gulati et al., 2000), the interdependent nature of the firm which both enhances and constrains its behaviour and performance receives largely little attention in prior strategy research. This, however, should not come as a surprise considering the fact that the concept of network was coined outside the strategy field– interorganisational relationships' researchers coined the network concept from the organisational theory tradition (Benson, 1975; Jarillo, 1988; Van de Ven, 1976)**.** Moreover, earlier seminal empirical works on interorganisational relationships were conducted on non-profit organisations. When it comes to profit oriented organisations, it appears that strategy research scholars have been grappling with how to fit the network concept (e.g. the cooperative behaviour of firms) with the basic paradigm of competitive strategy, especially by way of formal empirical studies (Jarillo, 1988).

Notwithstanding the conceptual challenges, interest in network research has become common and significant among business and management scholars – especially among European industrial marketing, organisation studies, international business as well as M&A scholars (see, e.g. Araujo and Easton, 1996; Grandori and Soda, 1995; Oliver and Ebers, 1998; Johanson and Mattsson, 1987; Johanson and Vahlne 2009, 2011; Möller and Rajala, 2007; Turnbull, Ford and Cunningham 1996; Öberg et al., 2007; Havila and Salmi, 2000; Degbey and Pelto, 2015). From the world of *market* (structure and process) and *action* (e.g. Ford and Håkansson, 2006) in particular, M&As can be viewed as a strategic phenomenon. However, the world of network view may construe them in terms of *network* and *interaction* (see, Ford and Håkansson, 2006; Håkansson and Ford, 2002), where network position and network structure of firms in economic exchange relationships are critical to value creation. In the following sections we shortly define the concepts of network position and network structure.

2.2. Network position and network structure

Network position: Network research scholars assert that the concept has emerged simultaneously with the industrial network approach (Nyström, Ramström and Törnroos, 2008), and the concept is a relative one as no two parties' positions are alike (Håkansson and Snehota, 1989). According to Gadde et al. (2003) each actor (firm) in a network has a unique position with respect to other actors but the various actors in the network perceive the position of an actor differently. Johanson and Mattsson

(1992) describe network position on the basis of how the individual actors in the network are related to each other in a network structure, while Thorelli (1986) describes it as a location of power to create and/or influence networks. Nyström et al. (2008) emphasise that time and commitment are necessary ingredients that shape network positions, and position changes may be difficult or sometimes impossible to achieve. In addition, Nyström et al. (2008) note that network position depicts a focal actor's relations to other actors and are consequences of earlier activities in the network, determined both by the focal actor and by other actors. In terms of positional benefits, the network perspective suggests that firms occupying preferred network positions may be better able to access information needed to be both creative and innovative (Zaheer and Bell, 2005). Another benefit an actor may derive from occupying an advantageous network position is the control benefits that the actor may generate (Gulati, 1998). According to Burt (1992, p. 78), both benefits are analytically distinct but also overlap, since much of the control benefit can arise from the manipulation of information.

Following this line of reasoning, we can expect that in an M&A context like the vertical integration one we illustrate in this paper, where a firm acquired a major distributor in the industry and as a consequence, cuts off its major competitors' customer network, could be seen as occupying preferred network positions to garner superior value creation with respect to other actors in the industry. Zaheer and Bell (2005, p. 814) defined superior network position to mean "*access to structural holes*". They argue that a focal firm's access to structural holes may yield several positive influences on its performance, e.g. enhanced efficiency, better access to resources, and superior identification of and responses to emerging threats and opportunities (Zaheer and Bell, 2005). Based on all the descriptions and definitions provided above on network position, the paper adopts the definition provided by Zaheer and Bell (2005) in combination with that of Johanson and Mattsson (1992) to illustrate the strategic relevance of networks for value creation in M&As.

Network structure: Johanson and Mattsson (1992) describe network structure to mean the ways in which the firms are linked to each other and the framework within which business is carried out. Easton (1992) argues that the interdependency rather than independency of firms in an industrial system will provide a network with a structure. Further, he argues that the interdependence introduces constraints on the actions of individual firms which create structure 'in the large' (p.16). According to

Ford and Håkansson (2006) the world of market and action, usually observe structure as atomistic, defined by products, competitive, competition between independent firms, change stemming from external sources, and based on the actions of single firms. On the other hand, the network perspective recognises structure as particular, defined by the threads between nodes, conflictual and cooperative, relationships between interdependent companies, change emanating from internal as well as external sources but all influencing through relationships, and interactions based on the interplay between actors (Ford and Håkansson, 2006).

2.3. A strategic network perspective to M&A value creation

Since the early 1990's, value creation has maintained a popular status in M&A performance or success literature (e.g., Seth, 1990a, 1990b; Haspeslagh and Jemison, 1991; Birkinshaw et al. 2000; Kohli and Mann, 2012;; Craninckx and Huyghebaert, 2014). Even in a recent meta-analysis by Haleblian, Devers, McNamara, Carpenter and Davison (2009), value creation has been reiterated as a major antecedent driving firms to undertake M&As, in addition to three other antecedents – managerial self-interest, environmental factors and firm characteristics. In that spirit, Riviezzo (2013) notes that a growing body of research has focused attention on antecedents that can be used to explain the variance in M&A performance.

From a strategic management perspective, value creation in M&A tends to be justified particularly in terms of *synergies*, and also in terms of competitive advantage (Calipha, Tarba and Brock, 2010). Indeed, Larsson and Finkelstein (1999) note that synergy realisation is an important metric for value creation in M&As, and its determination is derived from integrating strategic, organisational and human resource factors. Specifically, Larsson and Finkelstein (1999) state that synergy realisation is a function of combination potential, organisational integration and employee resistance. In short, the synergy-based argument of M&A can be encapsulated as the whole (the merged entities) should exceed the sum of the individual parts. In other words, the profit of the amalgamated entities is expected to exceed the profits of the independent entities through the reduction of average costs or the enhancement of revenues (Shaver, 2006). However, Shaver (2006) posits that M&A actions taken to facilitate synergy capture may lead to both *contagion effect* (i.e., amplified threats from environment or actions by competitors across the integrated and interdependent firms compared to if it had not been integrated) and *capacity effect* (i.e., integration of two businesses may increase the capacity utilisation of underlying resources and thus, inhibits firms' ability to respond to positive shocks in the business environment due to capacity constraints). While Shaver's (2006) work is theoretically relevant, it concentrates mainly on the two merging parties and their strategic fit with the business environment.

As important as these strategic management views on M&A value creation are, however, they still focus mostly on the internal dynamics of the merging parties. Indeed, Anderson, Andersson, Havila and Salmi (2000) note that M&A parties do not always act as actors embedded in a broader network, where all actors are connected and dependent on each other. Besides, Borch and Arthur (1995) argue that increased interdependency makes it critical for a firm to focus on strategic relations to a larger set of actors in the task environment, and to also increase awareness of important contextual variables behind the market scene. According to both scholars, strategic networks are "investments in cooperative relations among firms in order to exchange or share information or resources" (Borch and Arthur, 1995, p 420; Anderson, Andersson, Havila and Salmi, 2000). Consistent with this reasoning, Zaheer and Bell (2005) add to the strategic network perspective that firms are embedded in a network of external relationships with other actors (firms) with significant consequences for firm performance. In this paper, we define strategic networks simply as firms' investment to attain preferred network position and network structure for superior value creation. Figure 1 below shows the theoretical framework of strategic network and M&A value creation in this study.

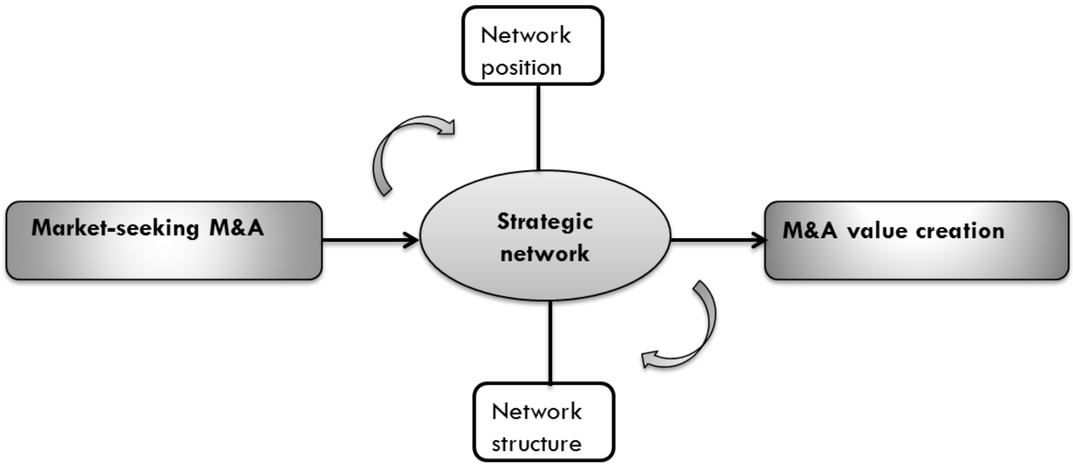

Figure 1 Strategic network and M&A value creation

Figure 1 above illustrates how M&A value creation can be enhance through strategic networks, both by enhancing network position and network structure. The heterogeneity of firms both inside and between units contrasts the homogeneity assumption of some early economic models in strategy research such as the competitive strategy school of thought by Porter (1980). It is argued that the greater the interdependence the clearer the network structure becomes, making the determination of individual firm behaviour more important (Easton, 1992). Again, Easton (1992) notes that network heterogeneity and interdependence are mutually reinforcing, and hence, emphasises that interdependence in networks is not only a source of heterogeneity, it is also a result of it. Within the context of this paper, firms are seen as the key elements of the structure. Generally, having a network view regarding an actor's network position and structure may yield an understanding of possible constraints and opportunities for the actor's operations (Axelsson and Johanson, 1992; Johanson and Vahlne, 1992). Also, positioning within a foreign network may create additional opportunities for an actor (firm) to develop relationships that, in turn, can lead to further linkages with other actors (Axelsson and Johanson, 1992).

In sum, we argue that in order to create value in cross-border M&As, acquirers need to consider their strategic network and how the acquisition in question affects their network position and structure. In other words, M&As can be strategic in nature and employed simply to enhance acquirers' network position and structure. In literature, this M&A motive is not stated explicitly but motives such as market seeking, growth, product line expansion/extension, business expansion into new geographic markets and following the move of customers all hint towards that direction. In the next section we analyse in depth a case on an M&A taking place in the EEA stainless steel industry. The main results and conclusion are presented following the case description.

3. Empirical research – an illustrative case study

We adopt a case study approach to analyse the networks among the merging parties and their business counterparts. The case study method is important when a study aims to understand the dynamics present in a particular (single) setting and when the boundaries between the phenomenon and the context are not clearly evident (Eisenhardt, 1989; Yin, 2003). For these reasons the case study approach is often considered as the most appropriate method in studying networks (Halinen and Törnroos, 2005; Easton 1998; Eisenhardt, 1989). According to Siggelkow (2007), case research may be used for illustration as well as an additional, but not sole, justification for one's arguments. In this paper, we employ the case study approach to illustrate the relevance of strategic networks for firms' value creation in the context of an M&A. Cases may be selected because they represent a critical, extreme or unique case, or they representative, i.e. typical cases (Yin 2003). In order to obtain a better understanding of strategic networks in the M&A context we decided to choose a typical case. This is in line with the illustrative role of our case study (cf. Siggelkow, 2007). Our case is "typical" as it represents a cross-border acquisition in the stainless steel industry, which fulfils the definition given in the literature (e.g. Schimizu et al. 2004; Jagersma, 2005). A suitable case needed to fulfil several requirements. The most important criteria, beyond the obvious requirement that the deal had to take place in the stainless steel industry, was the international nature of the acquisition. It also needed to be fairly recent, in order to avoid retrospective bias during the interviews, but not too recent so that there is enough data available.

The case selected for the research was a cross-border acquisition within Europe in the stainless steel industry. The acquisition took place in 2008. The acquisition type was vertical and the nature of the deal can be defined as friendly. The acquirer was a multinational corporation headquartered in northern Europe (referred in the study as Gamma) who acquired a southern European multinational (referred in the study as Theta). The reported data on the case was collected by semi-structured, face-to-face interviews. There were eight (8) interviews in total, with key decision makers in the M&A process, such as the Vice President, M&A Integration Manager as well as the Director for Legal Affairs and M&A. The interviews took place in 2009 soon after the completion of the deal. In addition to the interview data, the empirical data was complemented with several secondary materials such as annual reports, internal company documents, company websites as well as newspaper articles.

Based on sales by market area, EEA stainless steel market alone accounts for 75% of Gamma's global sales, making it a relevant empirical setting for the case study (Gamma's report, 2011). Specifically, the case described here involves a large distributor and its supplier in the stainless steel industry. This industry is heavily affected by economic cycles (e.g. Eurozone crisis), relies mainly on specific metals, experiences frequent fluctuation in the price of raw materials, fraught with fierce competition and dwindling profit margins, characterised with speculative investment in the raw material market, industry overcapacity and consolidations. Gamma is one of the key producers/suppliers of products in the industry and Theta is a major distributor with customer and supplier networks in several European countries. The deal's (i.e. M&A) monetary value was EUR 335 million. Indeed, a study of over two thousand European M&A deals from the period 2001-2007 underscores the friendly nature of such transactions, and also highlights a strong increase in the average value of European cross-border M&A deals, as opposed to largely domestic concentration (Moschieri and Campa, 2009).Table 1 below demonstrates the acquirer and acquired firms' main product and geographical markets, main business, and business divisions pre– and –post M&A.

Table 1: Acquirer and acquired firm description and business/geographical markets operation within EEA

Company	**Pre-M&A 2008**			**Post- M&A 2009-2012**		
	Main geographical markets in EEA	*Main Business**	*Main business divisions*	*Main product and geographical markets in EEA*	*Main Business**	*Main business divisions*
Acquirer (Gamma) –Publicly owned – 8 471 employees (2008)	Italy, Sweden, Finland, the Netherlands and the UK	**Production, sale and distribution of stainless steel products**: Cold rolled, White hot strip, Quarto plate, Tubular products, Long products, Semi-finished products	i)Production: stock and processing, ii)Distribution, further processing	Joint expanded networks across EEA plus new production site in Estonia. Other Gamma networks: Austria, Denmark, Norway	i)Production, sale and distribution of stainless steel products ii)Metal steel distribution from Theta	General Stainless, Specialty Stainless, and Other operations
Target (Theta) –privately owned ~350 employees (2008)	*Service Centres*: Italy, and the UK. *Stock Operation:* Italy, Germany, UK, Turkey******, Ireland, Belgium, Finland, France	i) **Stainless Steel Service**: Servicing and distribution of cold rolled, hot rolled and quarto plate products; ii) **Metal steel**: stocking and distribution of long products, tubes and fittings	i) Stainless steel service ii) Metal steel			

Sources: Companies' annual reports and official documents.

******Attention more focused on sales and distribution rather than geographical markets of production.*

****** *Not an EU member but has special/bilateral commercial treaties with most EEA members.*

The main products include cold and hot rolled stainless steel coil, sheet and plate, quarto plate, thin strip, tubular and long products. They come in different grades and dimensions. Gamma's main customers include distributors, re-rollers and further processors, tube makers as well as end-user and project customers in different industrial segments. In addition, the typical customer industries using stainless steel include architecture, building and construction, chemical, petrochemical and energy, transportation, catering and appliances, process industries and resources.

4. The main findings

Consolidation within the industry made it quite easy for the actors, or the main players, to know each other fairly well. Gamma already had a business relation with Theta before the corporate change: the only difference was that it was not Theta's largest supplier before the acquisition. The main strategic rationale behind Gamma's acquisition of Theta was to obtain *proximity to the end-user market* (i.e., *market-seeking*). Indeed, the M&A could be thought of as a mere increase in market share on the part of Gamma's competitors. However, it was one of Gamma's four main strategic priority areas (focus on end-customers) to enhance profit and stability. Figure 2 illustrates the pre- and- post acquisition network environment of the focal actors (Gamma and Theta) and Gamma's main competitors. We focus mainly on the focal actors (acquirer and acquired firms) and their connected major actors in the environment. As it can be seen in Figure 2 Theta had stock operations in nearly ten countries in Europe and service centres in UK and Italy. Gamma's headquarter was in Northern Europe while Theta's in Southern Europe. Gamma had production plants in plants in Finland, Sweden, Britain and the US. Theta represented the first attempts for Gamma to grow vertically and expand from being merely focused in production to taking a more active role in the sales and getting closer to the end-user.

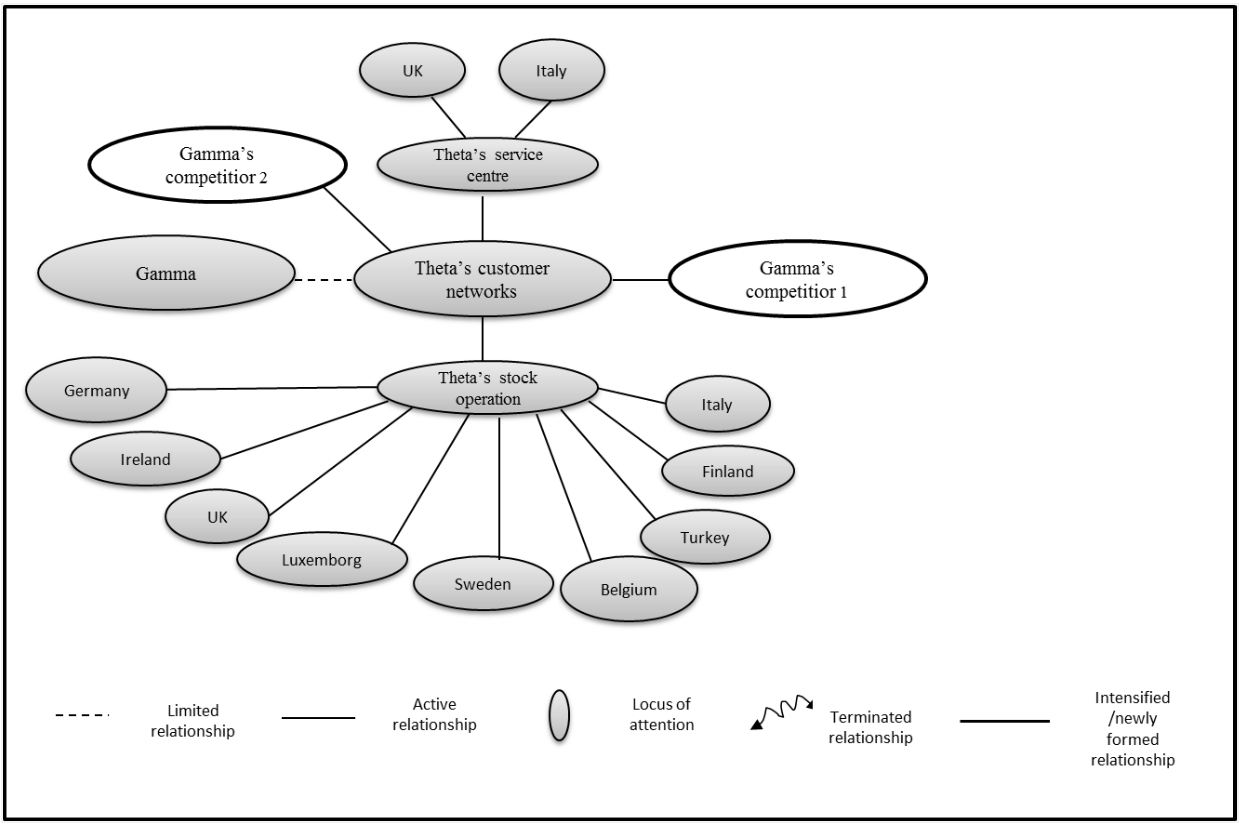

Figure 2 Pre-M&A strategic network environment (the grey sections are the locus of attention)

Figure 2 shows the strategic network environment at the pre-M&A stage comprising the initial competitive environment of Gamma, Theta, and Theta's main supplier (known in the figure as *Gamma's competitor 1*) with their respective network positions and structures. As can be observed from Figure 2, the pre-acquisition network environment was mainly dominated by fierce competition among Gamma, Gamma's major competitor (competitor 1) as well as other competitors (known simply as competitor 2) all struggling to sell more to a major wholesale distributor (Theta). Both Gamma and Gamma's competitor 1 had both separate and common (e.g. Theta) direct customer relationships, and both desired the acquisition of each other's separate customer network. Gamma's strategic priority is to reach and sell directly to end customers' (e.g. sell directly to Theta's customer all across EEA). Yet, achieving that strategic goal successfully would require a change in both its positional and structural networks of external relationship. Acquiring Theta may yield or provide the potential preferred position to access information and other resources as well as bridge the structural holes between itself and Theta's customer networks. Figure 3 shows the acquisition of Theta by Gamma in attempt to bridge the gaps between its disconnected networks (i.e. bring Gamma a step closer to Theta's end-customers).

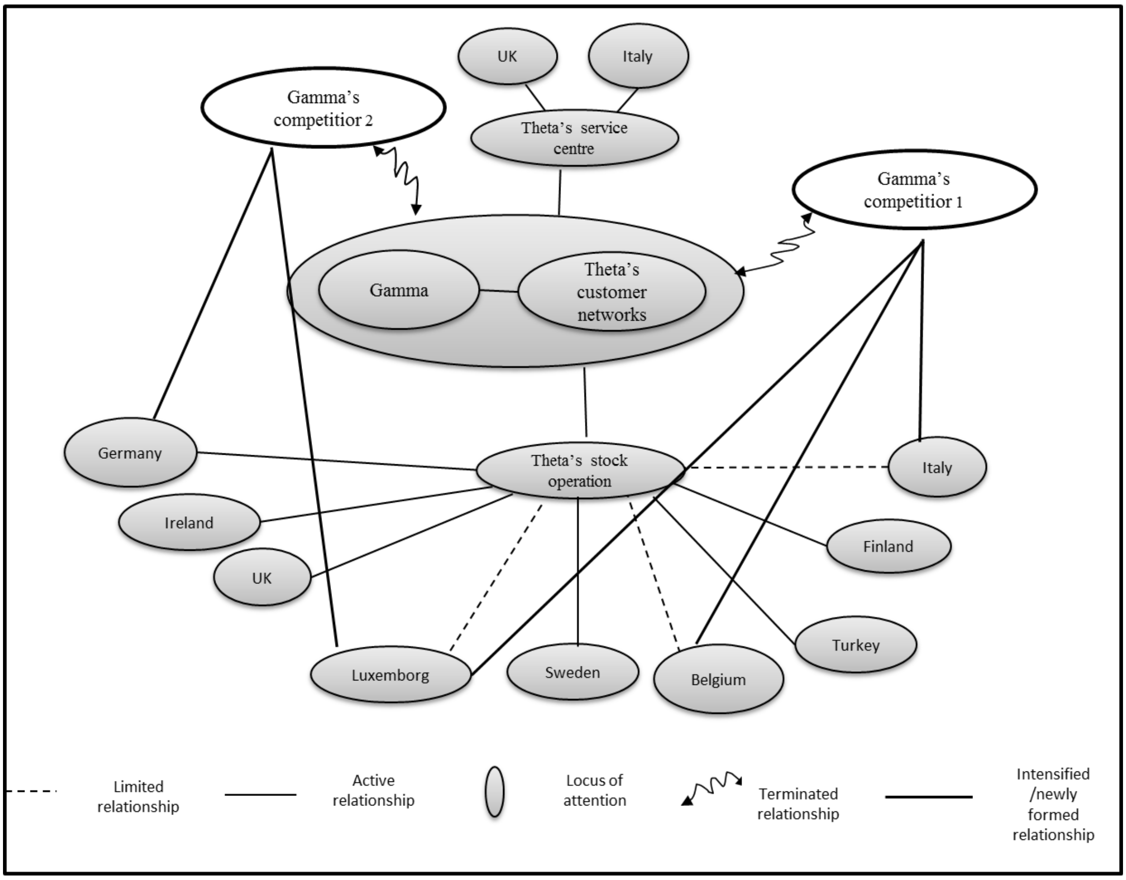

Figure 3 Post-M&A strategic network environment (the grey sections are the locus of attention)

From the post-M&A strategic network environment, it can be observed that Gamma's initial limited relationship with Theta has turned into an active one, and Theta's relationships with Gamma's competitors' have also been terminated. Indeed, the post-acquisition network position changed accordingly, especially in terms of structure (the linkages between the firms and the framework within which the business exchanges take place). As a consequence of Gamma's competitors' 1 and 2 deficiencies in both network structure and position, they resort to either intensify or establish new exchange relationships with some of Theta's customer networks, especially those with existing limited exchange relationship with Theta (see stock operations to Luxembourg, Belgium and Italy in Figure 3). These steps by Gamma's competitors have strategic implications for Gamma to create value. One implication is that, Gamma could start losing some of Theta's existing customer networks, especially those not so familiar with Gamma or who easily buy into Gamma's competitors' products during the M&A transition period. Truly, the acquisition has changed favourably both network structure and position for Gamma but it was a means to an end (e.g. superior value creation/performance), and not an end in itself. Thus, it is now incumbent upon Gamma to work in close collaboration with Theta in order *to maintain* the existing network of external relationships in order to preserve its value creation potential, and also *assist/enhance* Theta's customer networks in their own firms' value creation. The latter point is critical because the acquisition of Theta does not automatically mean the acquisition of its customers (cf. Anderson, Havila & Salmi 2001). As said earlier, Gamma must nurture the new customer networks from Theta as well as its own its existing networks. Through expansion into new geographical markets and also diversifying into other product segments to meet new requirements from new network of relationships in the EEA is critical to expanding its network structure and maintaining its network position for superior value creation. It is also critical to note that the EEA competition authority's industry M&A activity regulations may also affect the focal actor's ability to achieve its desired network structure and network position for superior value creation.

In addition, prior business relation of Gamma with Theta was found to be empirically relevant as an antecedent for gaining preferred network position with Theta's customer networks, and as a consequence, helped improve the overall importance of strategic networks for value creation.
Based on the interviews and secondary data several key factors emerged regarding both network position and network structure. Table 2 below shows strategic network factors and the empirical data sample. The key factors relate to network position were informational resources, activities and prior business relations. Consequently, the M&A enabled to Gamma to enhance its network position by accessing informational resources (Theta's location in the most competitive and important market), being in the heart of the most active market, and by knowing Theta prior to the deal. And this prior business relation did help in identifying and selecting the right target firm for acquisition. Since prior business relation serves as antecedent of network position, we can argue that this finding corroborates Zaheer and Bell's (2005) argument about network positions yielding superior identification of emerging opportunities in actors' environment.

Table 2: strategic network factors for value creation in M&A

Key Factors	Data Sample
Network position: i. resource (informational) ii. activities (control) iii. prior business relation	i. "…And northern Italy is potentially the most important market in Europe. It is also the most competitive market; it works as a thermometer too: it shows instantly where the market is heading." ii. "…What we did was to buy a market share from that competitor. But we knew that Theta relied on the facts that if four million tons of stainless steel were sold in Europe in a year, then two million tons were sold in both Germany and Italy…" iii. "…We knew Theta before; it was a sort of customer, although we weren't their biggest supplier…"
Network structure: i. actor linkages ii. actor structural hole bridge	i. "Our largest customer segment includes suppliers and steel wholesalers. They are of course our customers but also partners. The product goes to the end consumers through them." ii. "…What we did was to buy a market share from that competitor…"

Similarly the deal enhanced the network structure. Through the M&A the acquirer was able to enhance their strategic network by improving their network position and structure. Table 2 below shows strategic network factors and the empirical data sample.

5. Discussion and conclusions

We began by observing that consolidations via M&As have become so pervasive, particularly in certain industries such as the stainless steel industry within the EEA – fraught with fierce competition and dwindling profit margins, industry overcapacity, economic cycles (e.g. Eurozone crisis), reliance on specific metals, price fluctuation and speculation in raw material markets and a growing number of new stainless steel manufacturers from outside the EEA. Based on these industry dynamics, we highlight through empirical illustration a recasting of research in the field of strategy that avers the firm as embedded in a network of external relationships in order to create value from both the external industry environment (Porter 1980) and its internally controlled (unique) resources (Barney 1991). In this paper, one area was focused on in terms of strategic networks for value creation in M&As, i.e., the importance of acquired firm (Theta) customer networks.

The outcome of this study is an empirical illustration (cf. Siggelkow, 2007) designed to bring the relevance of strategic network concepts to bear upon strategy research and practice. Strategic network, as defined in terms of investment in network position and network structure matters in an industry (e.g. rife with excess capacity, heavily influenced by economic cycles, etc.) where firms continually seek to outperform each other and consolidate in order to strengthen their dyadic/network ties for value creation. Using strategic network lens, we point out that while competing actors as well as industry regulatory (competition) authorities within the external environment may attempt to derail the intended motive of an M&A agenda, the embeddedness of a focal actor in network of external relationships with other actors may help shape its network position and network structure for superior value creation in its geographic and product markets. For example, the vertical M&A strategy of Gamma redistributed market share from its competitors by improving upon the deficiency in its network structure. This corroborates Burt's (1992) argument that bridging structural holes created between disconnected actors (in this case between Gamma and Theta via the M&A) indeed can improve performance. In addition, prior business relation between acquirer and acquired firm was found as a strong antecedent for gaining preferred network position with acquired firm customer networks.

Further, the dissolution of acquired firm customer networks may impact the acquirer's ability to reduce its excess capacity within the industry. The above points indicate that for an existing firm within the EEA stainless steel industry to create meaningful economic value via consolidation (e.g. M&As), it must endeavour to back its strategic actions with a clear understanding of the industry or environment as networks (both network position and structure) comprising heterogeneous actors in interdependent relationships. As Axelsson and Johanson (1992), and Zaheer and Bell (2005) note, the firm's strategic action should be an attempt to change network position to a preferred one.

The implications to practitioners and policy-makers are important. From the business practitioners' perspective, M&As provide a very useful tool to relatively rapidly achieve the desired network position and structure. However, it is important to note, that M&As are highly risky ventures, and their success depends largely on a successful post-acquisition integration phase (cf. Buono & Bowditch, 1989; Cartwright & Cooper, 1993; Birkinshaw et al. 2000; Stahl & Voight 2008). The level of investment on the post-acquisition integration phase depends obviously on the initial M&A motives, i.e. whether the business has been acquired to be integrated and to what extent, or to be terminated. Policymakers have traditionally monitored M&As to ensure that no company in a market and industry segment receives a ruling market share. However, a deeper understanding of the network positions and structures would enable a deeper and more systematical analysis of the competitive situation.

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