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## **Integrating brand and marketing perspectives in M&A**

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### **Abstract**

Marketing and branding issues are broadly ignored in the current M&A literature. Even though some recent studies empirically prove their importance there is hardly any large scale study on this topic. Against this background in this paper we develop an integrative research model that connects marketing and brand issues from the pre-merger phase with central constructs of the post-merger phase. Our theoretical framework was tested empirically across a sample of 72 M&A transactions in the German-speaking part of central Europe. Due to the low sample size we applied a variance-based structural-equation model approach with the program SmartPLS. Our results give clear evidence that brand relatedness as well as marketing integration is an important indicator for M&A performance. Despite the

importance of brand relatedness, one might wonder why it has no influence on the brand integration strategy. Changes in the brand concepts of buyer and target brand have a negative impact on M&A performance. By now, indicators for determining brand integration strategy are still pending. The data shows that M&A-performance does not depend on one single factor but rather on the complex interdependencies of the M&A-process.

## **„Integrating brand and marketing perspectives in M&A“**

## INTRODUCTION

Mergers & Acquisitions (M&A) are a quite prominent topic in literature. For more than 100 years they have played an important role in management practice, and research (Cartwright & Schoenberg, 2006; Nahavandi & Malekzadeh, 1994). M&A – as an important section of corporate development and external growth – enable firms to grow rapidly and to enhance value (Vu, et al., 2009). Up to now, the interest in M&A is still growing, even though success rates have been poor. It is regularly reported that 40 % to 60 % fail in creating value (Bagchi & Rao, 1992; Cartwright & Cooper, 1995; Datta & Grant, 1990; Bower, 2001). M&A usually follow a three step process which consists of the pre-merger, the merger and the post-merger phase. Most research has analyzed pre-merger or merger issues. Especially the “strategic fit”, as a pre-merger indicator for synergetic potential is next to financial studies one of the most prominent topics in M&A research (see e.g. Cartwright, 2005; Wang & Zajac, 2007). Beyond the focus on the pre-merger and the merger phase in the literature there is a growing perception of the importance of post merger issues (Larsson & Finkelstein, 1999; Stahl & Voigt, 2008; Cartwright, 2005). Especially cultural, organizational or process topics seem to be decisive for successful integration and successful M&A (see e.g. Schweiger, et al. 1994; Haspeslagh & Jemison 1991; Cording et al., 2008). Even though the concentration on post-merger issues is a favorable development, it must be stated that the scope of analysis still concentrates on an isolated phase. Therefore interdependencies of the M&A process are completely disregarded and under-researched (Larsson & Finkelstein, 1999; Haspeslagh & Jemison, 1991; Cartwright, 2005; Cartwright & Cooper, 2001).

Even though marketing is cited to be decisive for company performance, marketing issues are broadly ignored in the M&A context and literature (Homburg & Bucerius, 2005). It is broadly

known that M&A lead to a high level of uncertainty among customers, and the risk of losing them is very high during M&A (Bekier & Shelton, 2002), still most managerial effort is focused on internal organizational topics (Hitt, et al., 1990). Therefore it is remarkable that marketing related research in M&A is so rare. Homburg & Bucerius found clear empirical evidence of the importance of marketing integration in a study of 232 horizontal M&A. They conclude that more research attention should be devoted (Homburg & Bucerius, 2005).

Corporate brands can be seen as strategic assets. They are valuable and relevant for the performance of companies (Kumar & Hansted, 2004). The value of brands can account for up to 70 % of the market value of a company (Lindemann, 2003). Despite the enormous value of brands and their importance as intangible assets they are largely ignored by current M&A literature (Jaju, et al., 2006). Only very few studies point out the importance of brand integration and the mechanisms which brand value derives through M&A (see e.g. Vu, et al., 2009). Despite the very little research focusing on post-merger issues, pre-merger issues of brand and M&A are nearly completely ignored in literature. One research stream – the brand extension research – in marketing could be applicable with regards to content on M&A. In the brand extension literature the fit between a new extension and the parent brand is cited to be a decisive success-factor for performance (Keller & Lehmann, 2006). Bridging brand extension to M&A one could state that the new extension is the brand of the target company, which must fit the buyers brand and which must be integrated into its organizational and branding frame.

To sum up, it must be stated, that marketing and brand related topics are largely ignored in the M&A literature. Furthermore most research in this field focuses on post-merger issues (e.g. Vu, et al., 2004; Rosson & Brooks, 2004). Therefore, interdependencies of relevant pre-merger and post-merger topics are broadly ignored. The marketing research stream on brand extension

seems to be applicable to fit in this gap. Up to now, there has been hardly any study on brand fit and brand integration in relation to product-/market relatedness and marketing integration. Against this background the goal of this paper is to develop an integrative research model that connects marketing and branding issues from the pre-merger phase with central constructs of the post-merger-phase. In the following section we develop the conceptual model and the hypothesis.

## FRAMEWORK AND HYPOTHESIS

### Framework

Due to the fact that our study focuses on marketing and branding issues along the M&A process, we have developed a cross stage research model that consists of the central topics. We argue that M&A performance depends on the central marketing and branding constructs of the pre-merger phase as well as on the central constructs of the post merger phase. In the following section we develop the theoretical under printings and the hypothesis of our research model as shown in figure 1.

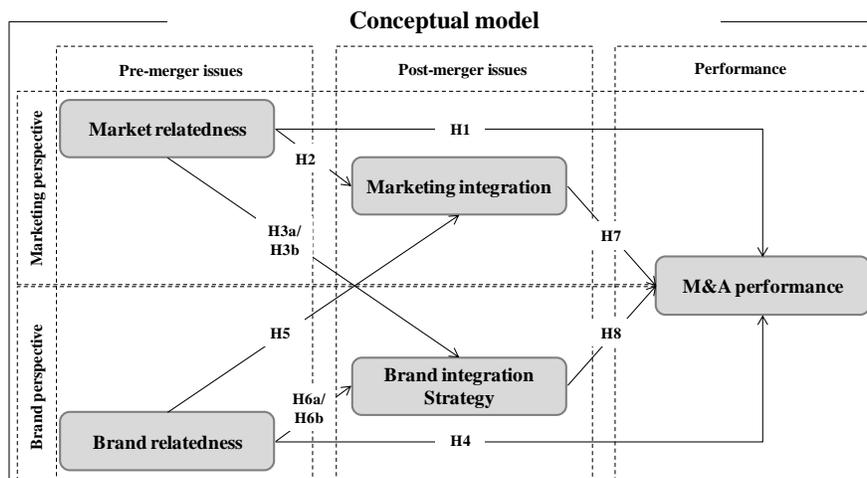


Figure 1: Conceptual model

## Hypothesis development

*Market relatedness* Strategic fit or relatedness is a prominent topic in the strategic management literature (Swaminathan, et al., 2008). Researchers in this field presume the strategic fit or relatedness as decisive for M&A success (King, et al., 2004; Seth, 1990). Central argument for the direct performance linkage is that related resources lead to more effective and efficient use and therefore to better performance (Kim & Finkelstein, 2009; Socorro, 2004). The determination of fit is quite heterogeneous; it reaches from measurement with branch codes to product-market, and resource and/or supply chain related issues (Stimpert & Duhaime, 1997; Phersson, 2006). It is regularly argued that similarity – independent from its operationalization – is an indicator for the synergy potential of a transaction (Mayer & Altenborg, 2008). Even though the empirical results are not univocal, a higher similarity seems to equal in better results (e.g. Swaminathan, et al., 2008; Tanriverdi & Venkatraman, 2005; Prabhu, et al., 2005; Capron, et al. 2001). From a marketing perspective, a high market or product relatedness is cited to be an indicator for the synergy potential of a transaction (Capron, 1999; Homburg & Bucerius, 2005). The higher the market relatedness the higher the market power and the higher the possibility of reorganizing the marketing mix and thus saving redundant resources. Therefore we propose:

*Hypothesis 1: The greater the extent of market relatedness, the greater the M&A performance*

Due to the fact that market relatedness is an indicator for potential synergies, there is a growing recognition that value creation takes place in the post merger integration phase (Larsson & Finkelstein, 1999; Haspeslagh & Jemison, 1991). Only through the harmonization of two former independent firms the perceived potentials can be leveraged and redundant resources be eliminated (King, et al., 2004; Birkinshaw, et al., 2000; Datta, 1991). Therefore we argue that

firms with high market relatedness tend to integrate deeper and try to harmonize their marketing to a high extent. There are two main arguments for high harmonization of marketing. Firstly, companies could save costs through eliminating redundant resources and secondly, companies could bundle their marketing activities to become quicker on the trigger. Thus:

*Hypothesis 2: The greater the extent of market relatedness, the greater the degree of marketing integration*

The following hypothesis 3 has a more explorative character due to the fact that there are no large scale studies on the relationship of market relatedness and brand integration strategy. The bandwidth of brand integration strategy reaches from no changes in the existing brand concepts (some kind of multi-brand strategy) to a complete change of the former brand concepts (recreation strategy). For hypothesis 3a we argue that with a high degree of market relatedness the market share as well as the market power increases. Therefore any changes in the existing brand concepts seem to be dispensable. For hypothesis 3b we argue that high market relatedness leads automatically to cannibalism effects. Due to the competition situation which is inherent with high market relatedness companies try to equal better results with a new brand concept entity. Therefore we state that high changes are unavoidable. We propose:

*Hypothesis 3a: The greater the extent of market relatedness, the lower the changes in brand concepts*

*Hypothesis 3b: The greater the extent of market relatedness, the higher the changes in brand concepts*

**Brand relatedness** Brand relatedness or brand fit, a topic which mainly occurs in the brand extension literature, has been studied with several categories of fit (Keller & Lehman,

2006). Most fit concepts are based on similarity on product level, brand name concepts or brand logo concepts (see Park, et al., 1991; Keller & Lehmann, 2006; Bottomley & Holden, 2001). Park and colleagues operationalized the perceived brand fit with product level similarity and brand concept similarity. Best consumer evaluation results could be received with both, a high product and a high brand similarity (Park, et al., 1991). Adapting the concept of brand fitness to M&A relation, we argue that in the M&A context a high brand similarity (product similarity is already displayed in the construct market relatedness) fosters better consumer evaluations. Better consumer evaluations lead to lowered uncertainty and therefore to less or no drift away effects of consumers. Thus we propose a direct positive effect from brand relatedness to success:

*Hypothesis 4: The greater the extend of brand relatedness, the greater the M&A performance*

As market relatedness, brand relatedness could be regarded as an indicator for potential synergies. We argue that high brand relatedness offers opportunities for univocal marketing activities. As already stated, brands are strategic assets (Kumar & Blomqvist, 2004) which must be managed through the marketing mix. To establish strong brands, there must be coherence between brand concept and marketing activities (Park, et al., 1986). Goal-oriented marketing activities are consistent with their brands (Keller, 1999) and could therefore foster the brand value (Yoo, et al., 2000). If there is coherence between brand concept and marketing, a high brand similarity seems to be an appropriate indicator for marketing integration potentials. These potentials are cost saving through the elimination of redundant resources on the one hand and the bundling of marketing activities and power on the other. Thus we propose the following relationship.

*Hypothesis 5: The greater the extent of brand relatedness, the greater the degree of marketing integration*

Hypothesis 6 has again, as hypothesis 3 a more explorative character. There are no established theories on this relationship. For hypothesis 6 we argue that with a great extend of brand relatedness, serious changes are more or less obsolete. Central argument for this hypothesis is that companies try to avoid uncertainty among customers. Due to the fact that uncertainty is caused by changes in brand concepts we propose hypothesis 6a. On the other hand changes in the brand concept could foster a concentration on common values and strengths; therefore, an increase in the potential for the acquisition of new customers could be established. Based on those facts, we propose that high brand relatedness leads to higher changes in the brand concept after the realized acquisition.

*Hypothesis 6a: The greater the extent of brand relatedness, the lower the changes in brand concepts*

*Hypothesis 6b: The greater the extent of brand relatedness, the higher the changes in brand concepts*

**Marketing integration** The post-merger phase is cited to be decisive for M&A (Haspeslagh & Jemison, 1991; Stahl & Voigt, 2008; Birkinshaw, et al., 2000). In this phase well established routines of firms are partially or completely changed to reach a desired degree of harmonization (Haspeslagh & Jemison, 1991; Buono & Bowditch, 2003). Research on the degree of integration is a mixed blessing. Of course, a high degree of integration means enormous changes and therefore enormous coordination costs (Pablo, 1994; Teerikangas & Very, 2006; Slangen, 2006), but there is empirical evidence which shows that at least some degree of

integration is decisive for M&A success (Zollo & Singh, 2004; Chatterjee, et al., 1992; Singh & Montgomery, 1987). Even though there is empirical evidence which shows that marketing integration is – in the short term – negatively associated to M&A performance (Homburg & Bucerius, 2005) we argue that in the long term, marketing integration fosters M&A performance due to two reasons: (1) relatedness as well as harmonization lowers inter & intra brand competition; (2) the elimination of redundant resources enables firms to bundle their marketing activities, therefore we propose the following positive relationship:

*Hypothesis 7: The higher the degree of marketing integration, the greater the M&A performance*

**Brand integration strategy** With regards to brand integration, four different integration strategies with different levels of change can be identified (Esch, et al., 2006; Brockdorf & Feige, 2007; Brockdorf & Kernstock, 2001; Brockdorf, 2003). Firstly, the simplest version is some kind of multi-brand strategy. Both, buyer and target brand remain unchanged across the market. Secondly, the hybrid-brand strategy combines both brand concepts (e.g. DaimlerChrysler) into one big brand concept. Thirdly, the predominance-brand strategy leads to a complete abandonment of one brand. Fourthly, the recreation strategy leads to a complete abandonment of both – buyer and target – brands. A new brand is created and designed (e.g. Evonik Industries). Along with the degree of change in brand concepts there is an increase of uncertainty along consumers. Empirical research on brand extension shows that the development of new brands creates low success rates (Ambler & Styles, 1997). A further negative effect of dramatic brand concept changes has its roots in the costs. There are promotion costs (web-pages, business cards, launch announcement packages etc.), the losses of the former brand(s) as strategic assets and hidden or opportunity costs (Stuart, et al., 2004). Therefore we argue that changes in brand

concepts do not foster value creation and M&A performance, but rather go hand in hand with high risks and costs. Thus we propose the following hypothesis:

*Hypothesis 8: The higher the changes in brand concepts, the lower the M&A performance*

As control variables we use: type of transaction, relative size and target markets. We choose these particular controls due to their potential impact on marketing and branding issues during the M&A process. All controls were single-item measured. The following figure shows all proposed hypothesis:

## **METHODOLOGY**

### **Measurement development**

Instead of developing new measurement models we followed the advice of King and colleagues and built our research on already existing and valid models (King, et al., 2004; see also Diller, 2006).

***Market relatedness*** For assessing market relatedness we used the items developed by Homburg and Bucerius (Homburg & Bucerius, 2005). Therefore market relatedness was measured with five items. Instead of a seven point scale – used by Homburg and Bucerius – we decided to apply a five point scale due to the fact of the decreasing capacity of recollection (Sudman & Bradburn, 1973). The scale ranged from 1 = strongly disagree to 5 = strongly agree.

***Brand relatedness*** For assessing brand relatedness we applied the scale from Becker (Becker, 2005). Becker developed an image/brand fit measurement model consisting of six items.

For the same reason as with the measurement model market relatedness, we decided on applying a five point scale ranging from 1 = strongly disagree to 5 = strongly agree.

***Marketing integration*** Marketing integration was assessed with eight items. These items are about the harmonization of e. g. communication or distribution. This construct was taken from Homburg's and Bucerius' work on marketing integration (Homburg & Bucerius, 2005). Marketing integration was again assessed with a five point scale ranging from 1 = no integration/harmonization at all to 5 = complete integration/harmonization.

***Brand integration strategy*** Brand integration strategy was assessed with a single item construct. We requested the applied brand integration strategy categorized upon their inherent degree of change. The scale reaches from 1 = multi brand strategy (with an inherent low degree of changes) to 4 = recreation brand strategy (with an inherent high degree of change).

***M&A performance*** M&A performance is our dependent variable of our study is a broadly discussed topic in literature. Its measurement methods can be categorized in stock market based, accounting based or assessment based (Glaum, et al., 2006). It must be stated that by now there is no consensus about the nature of the relation of M&A and firm success (Larsson & Finkelstein, 1999). Stock market and accounting based measures as so called quantitative objective indicators focus on short-term periods around the announcement day. Therefore the importance of the integration phase is neglect and "potentially relevant dimensions of firm performance" are ignored (King, et al., 2004, p. 196). Furthermore stock market and accounting based measures have the inherent problem of interpretation due to different valuation rules (Gerpott, 1993; Becker, 2005). Even though it is stated that managers from the acquiring firms tend to have an enormous knowledge about the transaction and the integration phase (Homburg & Bucerius,

2005; Homburg & Bucerius, 2006; Datta, 1991; Walsh, 1988; Capron, 1999) we decided to interview external experts due to the fact that they tend to more objective judgments. For assessing M&A performance we used the two items scale from Homburg and Bucerius consisting of the changes in market share and profitability after the acquisition. It is important to state that the requested transactions had at a minimum two years of integration. Both items were assessed with a five point scale ranging from 1 = strongly negative development to 5 = strongly positive development.

### **Sample & data**

For testing our proposed hypothesis we used mail and internet survey methodology for data collection in spring 2010. In our survey we concentrated on the German-speaking part of central Europe (Austria, Germany and Switzerland) and focused on external M&A advisors and consultants. Due to the fact that the reliability of information from managers or internal experts could be requested (Podsakoff, et al., 2003), we decided to interview external experts, who tend to provide more objective statements. From our randomly selected original sample those advisors which were only involved in one phase of the M&A process were deleted. Our final sample consisted of 117 consulting companies (mainly members of the M&A association Germany and certified M&A consultants in Austria and Switzerland) who accompanied a lot more transactions. Each advisor (mainly senior consultants) was interviewed about one specific transaction in which he was involved as a consultant and which he could clearly remember in detail. Concerning the structure and the design of our questionnaire, we followed the recommendations of Dillman (Dillman, 2000). After follow-up phone calls, 72 usable questionnaires were returned. The results of a non-response bias test – comparing early and late respondents – indicate that non-response bias is not a serious problem (Armstrong & Overton, 1977). After conducting Berdie and

Anderson's item response rate index we conclude that item non-response bias is not a major problem for our data (Berdie & Anderson, 1976).

## RESULTS

### Descriptive data & research approach

In the following table 1 we show the descriptive data of our research. In detail we give information about the relative size, the type of transaction, the year of transaction and the target markets of the merging companies.

descriptive data			
type of transaction		relative size (number of employees)	
horizontal	43.1%	target size	
vertical	37.5%	buyer size	<50 <250 <500 >500
conglomerate	19.4%	<50	8 2 -- --
		<250	9 6 -- 3
		<500	-- 10 4 --
		>500	12 10 2 6
market relatedness			
buyer markets	target markets		
b2c	b2b	8.3%	
b2b	b2b		
b2c	b2c	84.7%	
b2b	b2c	6.9%	

Table 1: Descriptive data

For testing the previous proposed hypotheses structural equation modeling (SEM) seems to be an applicable approach. SEM allows us to test relationships between latent variables; it combines factor analysis with regression analysis (Chin, 1998). Due to the small sample size, the complex model and the more explorative character of our study (see hypothesis 3a and 3b and hypothesis 6a and 6b) we decided for a variance based instead of a co-variance based approach with the program SmartPLS (Hulland, 1999; Chin & Newstedt, 1999; Henseler, et al., 2009). Due

to the reflective operationalization of our measurement models we expect similar robust results as with a co-variance approach (Vilares, et al., 2010). Despite the argument of less restrictive requirements in a variance based approach it must be stated that PLS has not the same amount and quality of fit indices as a co-variance based approach (Zinnbauer & Eberl, 2004). The only overall quality criterion in PLS is the Goodness-of-Fit index developed by Tennenhaus and colleagues (Tennenhaus, et al., 2004).

### **Common method bias**

Due to the fact that we are using self-reported data in our study, there is a potential for common method bias due to several reasons (consistency motif or social desirability; for details see Podsakoff, et al., 2003). For testing a potential common method bias we applied firstly Harman's single factor test (Podsakoff & Organ, 1986). The analysis results indicate that there is no major common method bias problem. For avoiding uncertainty concerning a potential common method bias we secondly applied the ad hoc approach recommended by Podsakoff and colleagues (Podsakoff, et al., 2003). For the assessment in PLS we followed the guidelines developed by Liang and colleagues (Liang, et al., 2007). As shown in the appendix, the substantive explained variance is 0.705 and the average method variance is 0.038. The ratio is 18.5 : 1, therefore we conclude that common method bias is not a problem for our study.

### **Assessing the measurement models**

Before evaluating the structural model we assessed all first order constructs. After the deletion of two items in the latent variable "market relatedness", two items in the construct "brand relatedness" and two items in the variable "marketing integration" all factor loadings were clearly above the recommended value of 0.7 (except one item with a loading of 0.699). Due to

the high loadings all factors which are at a level of 0.01 or more prove significant. Therefore indicator reliability can be taken for granted. All Cronbach's Alpha as well as Composite Reliability values – both indicators for construct reliability – are clearly above the recommended value 0.6 (Bagozzo & Yi, 1998; Götz, et al., 2010). The smallest Cronbach's Alpha value is 0.744 and the smallest Composite Reliability Value is 0.846. Both quality criteria can be seen as alternatives, even though the Composite reliability is more robust due to the fact that it is independent from the amount of indicators (Henseler, et al., 2009; Fornell & Larcker, 1981). To sum up, it can be stated that construct reliability can be taken for granted. The Average Variance Extracted (AVE) as indicator for the variance explained of indicator and construct should be greater than 0.5 (50%) to guarantee a sufficient convergent validity (Götz, et al., 2010; Hulland, 1999). All AVE values are clearly above 0.5. For assessing discriminant validity – the complementary concept of convergent validity – we applied both, an analysis on indicator level (cross loadings) and an analysis on measurement model level (Fornell-Larcker criterion). As the following table 2 shows, all indicators have higher loadings with their proposed construct than with other constructs. Therefore discriminant validity on indicator level can be taken for granted.

<b>Cross loadings</b>					
Loadings and cross loadings					
	Brand Integration	Market relatedness	Brand relatedness	Marketing- integration	M&A performance
Brand_int	<b>1,000</b>	0,064	0,061	0,057	-0,119
III_1_Fit_Leist. B	-0,043	<b>0,699</b>	0,206	0,243	0,069
III_1_Fit_Leist. C	0,029	<b>0,845</b>	0,540	0,432	0,257
III_1_Fit_Leist. E	0,114	<b>0,862</b>	0,507	0,499	0,248
III_2_Fit_Marke A	0,036	0,597	<b>0,842</b>	0,338	0,294
III_2_Fit_Marke B	-0,142	0,553	<b>0,860</b>	0,445	0,394
III_2_Fit_Marke C	0,061	0,404	<b>0,806</b>	0,431	0,341
III_2_Fit_Marke D	0,269	0,329	<b>0,822</b>	0,235	0,455
IV_1_TIC	0,094	0,398	0,422	<b>0,751</b>	0,480
IV_1_TID	-0,059	0,261	0,399	<b>0,779</b>	0,380
IV_1_TIE	0,096	0,558	0,436	<b>0,866</b>	0,492
IV_1_TIF	-0,006	0,452	0,273	<b>0,885</b>	0,399
IV_1_TIG	-0,001	0,303	0,275	<b>0,801</b>	0,403
IV_1_TIH	0,110	0,479	0,325	<b>0,809</b>	0,474
V_1_performance A	-0,113	0,278	0,467	0,618	<b>0,965</b>
V_1_performance B	-0,112	0,204	0,354	0,346	<b>0,910</b>

Table 2: Cross loadings

The Fornell-Larcker criterion, as shown in table 3 is fulfilled. All AVE values are higher than the squared correlations among the constructs.

<b>Fornell-Larcker critereon</b>						
AVE and squared correlation among constructs						
	AVE	Brand Integration	Market relatedness	Brand relatedness	Marketing- integration	M&A performance
Brand Integration	0,694	1				
Market relatedness	1,000	0,004	1			
Brand relatedness	0,649	0,316	0,004	1		
Marketing-integration	0,667	0,194	0,003	0,266	1	
M&A performance	0,880	0,201	0,014	0,070	0,295	1

Table 3: Fornell-Larcker criterion

Table 4 gives an overview of the quality criteria of the measurement models. Due to the fact that all measurement models are valid and reliable, we could evaluate the structural model in the next step (Götz, et al., 2010).

<b>Overview quality criteria</b>						
Indicator reliability, construct reliability, AVE and discriminant validity						
	Brand Integration	Market relatedness	Brand relatedness	Marketing- integration	M&A performance	Recommended value
Composite Reliability	1.000	0.846	0.900	0.923	0.936	>0.6
Cronbach´s Alpha	1.000	0.744	0.853	0.899	0.870	>0.6
Average Variance Extracted	1.000	0.649	0.694	0.667	0.880	>0.5
Cross loadings	√	√	√	√	√	
Fornell-Larcker critereon	√	√	√	√	√	
Indicator reliability	√	√	√	√	√	

Table 4: Overview quality criteria

### Assessing the structural model

The PLS estimation results are shown in the following figure 2. The  $R^2$  value of the dependent variable M&A performance is 0.392. Therefore we could state that a moderate amount of variance could be explained by our model. The Stone-Geisser criterion ( $Q^2$ ) with values above 0 indicates that the empirical data reconstruct the proposed research model in a substantive way (Fornell & Cha, 1994). All  $Q^2$  values of our research model are  $> 0$ . The following graph illustrates the results of our PLS analysis.

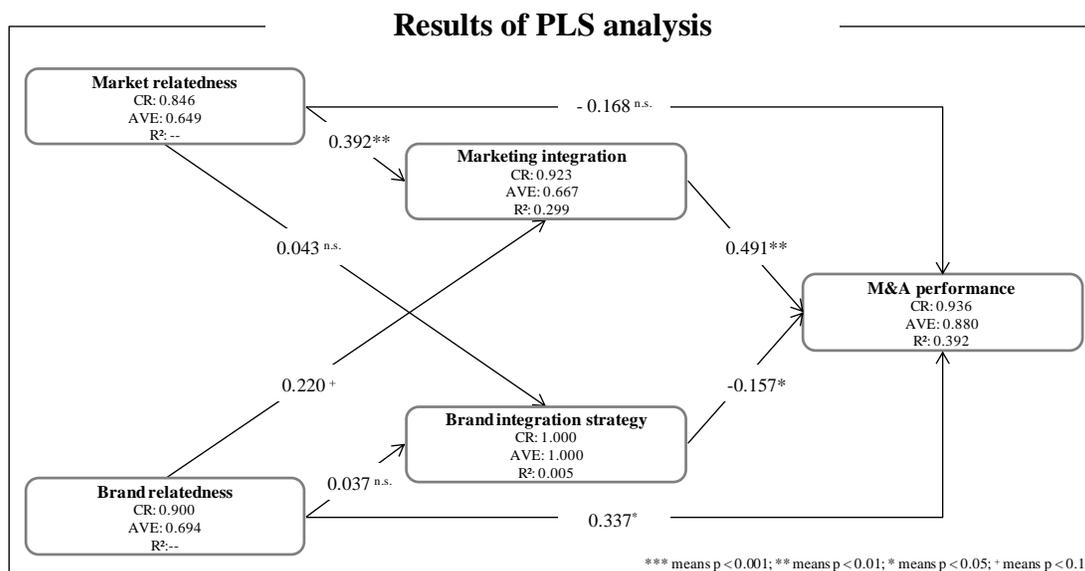


Figure 2: Results of PLS analysis

The Goodness of Fit index (GoF), as relevant indicator for the assessing of the model fit (Tennenhaus, et al., 2004, see also Tennenhaus, et al., 2005; Chin, 2010) is 0.422. This value indicates a substantial model fit (Wetzels, et al., 2009).

### Hypothesis testing

Our data shows, that hypothesis 1 must be rejected. The bootstrapping analysis reveals that the path is not significant (T-value 1.119). Therefore further analysis is obsolete. The empirical results show strong support for hypothesis 2. The path coefficient is very strong with 0.392\*\*<sup>1</sup>, whereas the effect size  $f^2$  with 0.144 is medium (Chin 1998; Henseler, et al., 2009). Therefore, we conclude a strong positive effect from market relatedness to marketing integration. The explorative hypothesis 3a and 3b must be rejected; we find no empirical support for the proposed relationship from market relatedness to brand integration. The influence from brand relatedness on M&A performance can be verified at a 0.05 significance level. The path is quite

<sup>1</sup> \*\*\* means  $p < 0.001$ ; \*\* means  $p < 0.01$ ; \* means  $p < 0.05$ ; + means  $p < 0.1$

strong with a value of 0.337\* and the effect size with a value of 0.112 can be described as medium. Therefore there is strong empirical evidence for our hypothesis on the relationship from brand relatedness to M&A performance. Hypothesis 5 can be verified on a 0.1 significance level. Even if the path is quite strong with a value of 0.220<sup>+</sup> it must be stated that the effect size with 0.043 is relatively small. But none the less, there is a positive relationship from brand relatedness to marketing integration. For the proposed explorative hypothesis 6a and 6b we find no empirical support, the path is not significant. Therefore hypothesis 6 must be rejected. As it has been stated in former research, that value creation takes place in the post merger phase (Haspeslagh & Jemison, 1991) we find strong evidence for the relationship marketing integration and M&A performance. The path is strongly positive with a path coefficient of 0.491\*\*; the effect size is  $f^2 = 0.262$  and therefore nearly substantial. Due to these results hypothesis 7 can be seen as verified. The proposed negative relationship of brand integration and M&A performance can be confirmed. The path coefficient is strongly negative with a value of - 0.157\* even if the effect size with a value of 0.04 is quite low. Thus our empirical data supports the negative relationship of changes in brand concepts and M&A performance.

The control variables have to some extent influence on the structural model. The type of transaction has a significant influence on the brand integration strategy (-0.408\*\*) and on firm performance (-0.316\*) which indicates that horizontal and vertical transactions are more successful than conglomerate transactions. Furthermore the negative effect of changes in the brand concepts on M&A performance is boosted by conglomerate transactions. The relatedness of the target markets itself has no direct influence on the structural model. The relative size has no influence on M&A performance but it impacts the marketing integration (0.266\*\*) in a

positive way. Therefore buying companies tend to integrate targets with a high relative size rather than small targets.

## DISCUSSION

### Implications

*Theoretical implications* Firstly, our study is to our knowledge one of the first that integrates marketing and branding issues into the topic of M&A. Even though marketing is an under-researched topic in the M&A relation, our study is in line with others who emphasize its importance for M&A success (e.g. Homburg & Bucerius, 2005). The branding topic is quite new to the M&A context. For our hypothesis development we had to extend our literature review on the brand extension literature. Our empirical data confirms the importance of brand relatedness on success (as previously ascertained in the brand extension literature). However it must be stated that brand relatedness is no indicator for the chosen integration strategy. In our empirical data we found no substantial indicator for the chosen integration strategy. Indicators that affect the brand integration strategy are still pending and further research on this issue sounds promising.

As already mentioned, our study follows the visual angle of a company's perspective. Further research could implement a customer's perspective and develop different instants of time to measure the changes in customer's behavior and firm performance after the acquisition. We have to state that our performance measurement model is very narrow; therefore further research should apply multidimensional measurement research models. There are already empirically tested measurement models in other research streams such as the brand extension literature which could be applicable for further research on branding and marketing in the field of M&A.

***Managerial implications*** A first managerial implication arises from the fact that there is a negative relationship from changes in the brand concepts after the transaction on the M&A performance. Therefore managers should be aware of that fact. Companies should only modify or change the existing brand concepts if it is assumed to be necessary. Secondly, our research confirms the well established positive relationship from the degree of integration to M&A performance. Therefore companies should harmonize operative marketing processes due to the fact that through the bundling of marketing power and the elimination of redundant marketing resources M&A performance could be triggered. Thirdly, brand relatedness has a positive effect on M&A performance. Managers should not only consider strategic relatedness, which positive influence on M&A performance is not doubtable (e.g. Kim & Finkelstein, 2009; Sarkar, et al., 2001; Wang & Zajac, 2007; Tanriverdi & Venkatraman, 2008; Jemison & Sitkin, 1996; King, et al., 2004), furthermore they should focus on the issue of brand relatedness. Fourthly, it can be stated that the type of transaction should be considered as a relevant issue for the determination of brand integration strategy. The data shows that the negative effect of changes in brand concepts in the integration phase is boosted by the type of transaction. Therefore the negative performance effects of changes in brand concepts are even worse with conglomerate transactions than with horizontal or vertical transactions.

### **Limitations**

As we have used retrospective survey data, our study is faced with the problem of decreasing capacity of recollection (Sudman & Bradburn, 1973). Due to the fact that the integration phase takes three to five years until completion and its performance measurement (Ellis, et al., 2006; Homburg & Bucerius, 2005; Homburg & Bucerius, 2006; Becker, 2005) this

issue is inherent to nearly all survey based research on M&A. There is an area of conflict between reliable measurement and the informant's capacity of recollection.

A second limitation is the correlation of the number of observations and the statistical power. Even though it is mentioned that PLS is applicable even for very small sample sizes (Chin, 2010), and our sample is bigger than the minimum required size (Chin, 1998) we have to state that at least hypothesis 1 could be verified with a larger sample.

A third limitation is the perspective of our study. We follow a company's visual angle and ignore the customer's perspective at all. Transaction inherent changes of customer behavior can only be measured indirectly by M&A performance, therefore we can't say whether performance derives from customer loyalty, customer acquisition or cost saving effects.

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## APPENDIX

## Appendix A: Common Method Bias

Construct	Indicator	Substantive Factor Loading (R1)	Sig. R1 <sup>2</sup>	Method Factor Loading (R2)	Sig. R2 <sup>2</sup>
Brand Intergration Market relatedness	Brand_int	0,860 ***	0,740	0,053 n.s.	0,003
	III_1_Fit_Leist. B	0,791 ***	0,626	-0,337 **	0,114
	III_1_Fit_Leist. C	0,836 ***	0,699	0,119 n.s.	0,014
	III_1_Fit_Leist. E	0,812 ***	0,659	0,184 *	0,034
	III_2_Fit_Marke A	0,860 ***	0,740	-0,021 n.s.	0,000
Brand relatedness	III_2_Fit_Marke B	0,862 ***	0,743	0,136 n.s.	0,018
	III_2_Fit_Marke C	0,789 ***	0,623	0,090 n.s.	0,008
	III_2_Fit_Marke D	0,820 ***	0,672	-0,209 +	0,044
	IV_1_TI C	0,729 ***	0,531	0,280 n.s.	0,078
Marketing -integration	IV_1_TI D	0,797 ***	0,635	-0,089 n.s.	0,008
	IV_1_TI E	0,847 ***	0,717	0,281 +	0,079
	IV_1_TI F	0,896 ***	0,803	-0,247 *	0,061
	IV_1_TI G	0,827 ***	0,684	-0,284 *	0,081
	IV_1_TI H	0,802 ***	0,643	0,084 n.s.	0,007
M&A performance	V_1_performance A	0,945 ***	0,893	0,167 **	0,028
	V_1_performance B	0,936 ***	0,876	0,180 *	0,032
<b>Average</b>		0,838	0,705	0,024	0,038

n.s. = not significant; +p<0.1; \*p<0.05; \*\*p<0.01; \*\*\*p<0.001