How Shared Interests Can Break Mergers

By Henrich Greve , INSEAD Professor of Entrepreneurship

When firms have common clients and shared interests they are often tempted to merge. But a bigger entity can scare off clients and create overlap.

The engagement of advertising giants Omnicom and Publicis dominated headlines and shook the advertising industry. When they decided to call off the wedding, the reaction was even bigger. What happened? The story doing the rounds is that they had many operational issues such as incorporation, deciding which firm should make the formal acquisition, and regulatory approval. But it was also pretty clear that relations between the firms had become problematic. The CEOs clashed over a number of issues related to the new organisation, such as its location (Omnicom is a U.S. firm, Publicis is French) and key staffing choices. In the end, the firms called off the plans and both CEOs admitted the relationship between the potential merger partners had not been good enough.

Is that a good reason for calling off a merger? Possibly, but it is one that gets too much focus because such internal relations are relatively small-scale and temporary. For example, one of the CEOs, Publicis's Maurice Levy, was supposed to retire soon but had not done so because of problems finding a successor. Relationships are important for a successful merger, but they are a different kind of relation. All firms have relationships with other firms, as alliance partners, suppliers, or customers. Not all relations are important, but some are, like key client relations are for advertising firms. Managers pay surprisingly little attention to what kind of relations would be best for a merger, and researchers have even overlooked the issue.

A recent article, by INSEAD Assistant Professor of Entrepreneurship and Family Enterprise, Michelle Rogan and Olav Sorenson of Yale, in Administrative Science Quarterly addresses this by looking at mergers and, in particular, mergers between advertising firms. Their focus is on whether firms are more likely to merge with each other if they share clients, and whether mergers have lower performance when the firms share such clients. The reasoning is simple. Shared clients means familiarity because the firms are close competitors, and it can also mean over-confidence in the results of the merger. Shared clients also means that little new value is added by the merger, as the merged firm gets a deeper relationship with existing clients rather than a broader set of clients.

Two problems follow. First, the client may not want to have a deeper relationship because it sees the advertising firm as trying to gain power (**Michelle Rogan and I have an article about this**). Second, the firm will fail to build complementarities in its client portfolio, which can hold back innovations (**my book with Andrew Shipilov and Tim Rowley discusses this**).

What did they find? Despite the logic behind many mergers, the decision to merge based on shared interests (clients) is detrimental to post-merger performance, both in terms of client losses and in billings per client.

So the conclusion is clear. When looking at whether to merge or not, relationships really matter. Except that the relationships that matter are between firms, not between CEOs.

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