A Network Perspective on Bankruptcies, Mergers and Acquisitions

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Modern market economies are dynamic. Organizations are constantly changing and developing from internal as well as external forces. In business, we make strategic decisions, technological improvements, modifications in production capacity, mergers and acquisitions. Consequently, organizational change is an important research area.

However, the effects of these changes on other companies in the same organizational network are less readily recognized. According to business-to-business marketing research, actors are not isolated, but connected through technologies, knowledge, social relationships, administrative routines and other interdependencies. Every firm is directly and indirectly connected in relationships with others in such a way that it can be affected by changes within other organizations.

Some of the most important changes in organizations are bankruptcies, mergers and acquisitions, which are studied within multiple disciplines and from varying perspectives. For many years, researchers have been investigating different aspects of bankruptcies: reasons for bankruptcies, bankruptcy-related costs, reconstruction of firms, efficiency of the bankruptcy process, economic historical perspectives and managerial issues (for an overview, see Gratzer and Sjögren 1999, Bruhner 2004). Mergers and acquisitions, on the other hand, have been studied from the perspective of the merging companies: their organizational fit, company cultures, mergers and acquisitions as strategic change, the merger or acquisition process and arising synergies between companies (for an overview, see Anderson et al. 2003).

The aim of this chapter is to explore change one step beyond the company in question, placing bankruptcies, mergers and acquisitions in a wider context of business relationships and interconnected firms. In the first section, I will introduce relevant theories and definitions in the network perspective and explain business relationships, how relationships are connected in networks and how changes in one part of the network may spread and affect other parts. In the second section, I will give an illustrative example that describes the development of one company’s network context during the years of the Swedish dotcom crash. I think the dotcom crash is a good empirical
setting because the concentration of events such as bankruptcies, mergers and acquisitions is so high during this period.

Relationships, networks and spread of change

Business relationships and business networks

Business relationships have always existed, but it was not until the mid-1970s that relationships were deemed to warrant their own research studies. This shift of attention from single firms to relationships (dyads') as the smallest research entity originated to a large extent from The Industrial Marketing and Purchasing Group (the IMP Group), formed in 1976. The group’s interaction approach places business actors in a dynamic model of buyer-seller relationships, and emphasizes that buying and selling activities should be seen as episodes in complex and often long-term stable relationships between companies (Håkansson 1982).

According to the interaction approach, any relationship between two entities starts with one or a few single exchange activities. For example, a big provider of telecom equipment, Company A, might choose a new contractor of office supplies, Company B. They make an order of pens and paper for one of their offices. After several exchanges, the parties may begin to discover possibilities for deeper collaboration and therefore begin to think in a perspective of long-term devotion. Step by step, they begin to adapt to one another. Company B wants to use custom made order forms to reduce their handling time and Company A agrees to this for a future discount of 5%. Contact patterns and routines are created. Each firm forms expectations about its own and the other party’s role and responsibilities. From all these acting rules – the common arena where the concerned parties know where they stand in relation to each other – earlier fragmented interactions come together to form a relationship

A business relationship is created when acting rules based on mutual expectations emerge from several exchange activities.

Håkansson and Snehota (1995) summarize business relationships as being made up of interdependencies or a substance composed of three layers: (1) activity links, which include transactions and processes such as communication, adaptation and coordination; (2) resource ties, which attach knowledge, technology, material and other resource elements between the counterparts; and (3) actor bonds, which consist of personal relationships between indi-

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1 A dyad is any two-part constellation. The term is also applied to pairs of colors, persons, musical notes, and so on.
iduals from respective firms. Individuals develop a relational infrastructure of norms, trust, commitment and inter-firm knowledge.

Gradually, these interdependencies become institutionalized, which means that actors will have difficulty questioning them. This also makes it hard for a single firm to terminate a business relationship and establish a new one with another party. Rather, problems and obstacles are solved through step-by-step adaptation from each side of the dyad. Researchers have emphasized that business relationships change gradually and continuously in content, strength and nature through ongoing interaction between the involved parties. Actors adapt to each other through incremental and controllable steps, which makes the overall pattern of business-to-business markets rather stable (Anderson et al. 1994, Håkansson and Snehota 1995).

Because both parties engaged in the dyad are also involved in relationships with other than the focal², every relationship is in fact a small part of a structure of relationships. Even the smallest company has a minimum web of direct relationships – for instance, with customers, suppliers, authorities, banks, landlords, accountants, and so on – and indirect relationships with the customer’s customer, the supplier’s supplier and other related parties without whom it would go out of business. In other words, every relationship is a component of a wider business network. An activity link is only a small part of a bigger aggregated activity pattern, a resource tie only a part of a wider cumulative resource constellation and an actor bond a piece of a whole web of actors. To describe this concept and as an extension of the interaction approach, the IMP Group developed the network approach (Håkansson and Snehota 1995).

A business network is a structure of inter-linked business relationships.

According to this view, a network is in theory boundless – all relationships are directly or indirectly connected to each other. But this is hardly relevant in any practical sense. In the understanding of networks, we have to set limits. From an individual company’s point of view, the part of the network perceived as most relevant, and to which it is directly or indirectly connected forms the context for its business operations. The boundary of the network can be broadened by defining the network horizon, which refers to how extended an actor’s view of the network is (Figure 1). The network context and the network horizon must be seen as variable depending on the actor or relationship in focus (Anderson et al. 1994).

² The term focal is used to refer to the business relationship or company in focus of the study.
Radical change and network effects

There are situations where incremental changes and adaptations between firms are not enough, situations where the parties might consider ending or must end their relationships. There are also situations where actors must establish new relationships, either with actors already existing in the network or with actors entering the network.

Dissolution of business relationships and creation of new ones have been characterized as radical changes in the network structure (Halinen et al. 1999, p 785). When the relationship between Company A and Company B is terminated, the earlier network structure is deprived of one connection. Conversely, when Company A decides to be part of a new relationship, one connection is added to the earlier network structure. In both cases, the network is exposed to restructuring as opposed to incremental adaptation.

A radical change is a dissolution or a creation of a business relationship.

During the 1980s and 1990s, radical change was mainly studied as creation of new relationships. In their 2002 review, however, Tähtinen and Halinen observed an increasing interest among researchers for studying dissolution of business relationships. The first article on such dissolution was published in 1980, but it was not until the mid-1990s that this theme achieved acclaim as
being a further aspect for understanding business relationships and business networks.

Because of the connectedness of relationships, one dissolution can lead to single actors being disconnected from others with whom they were indirectly connected. In many cases, this will create the need for adjustments in old relationships, formation of new relationships or dissolution of additional relationships. These various needs and actions can also come from one relationship being established in the network. Consequently, a change that occurs in one relationship can spread and affect other relationships as well (Håkansson and Snehota 1995). Changes that do not stay within the dyad have been labeled with different terms: connected change (Halinen et al. 1999), the network function (Håkansson and Snehota 1995), domino effects (Hertz 1993) and network effects (Dahlin, Fors, Havila and Thilenius 2005).

A network effect is the effect that one radical change has on the surrounding business network.

Changes that appear in a dyad can create anxiety and speculations in the network. Actors begin to assess the way the changes will affect them and the future of their relationships. Whether a network effect starts or not is very much dependent on the network members’ interpretations and reactions to change. It is actors’ perceptions of a radical change that activate different needs and measures taken in other relationships. Despite this, and although the past decade has seen increased attention on radical change and researchers have pointed out the existence of network effects, we still don’t know exactly how radical changes affect other business relationships in the surrounding network.

Bankruptcies, mergers and acquisitions as critical events

To understand radical changes and network effects, Havila and Salmi (2000) find it important to look into the specific events that cause these changes. They argue that some events are critical, “…meaning that they lead to either disruption or establishment of relationships…” (Havila and Salmi, 2000, p 110). Thus, radical changes and consequently network effects are set in motion by a critical event, which releases tension among connected actors (Halinen et al. 1999, p 786).4

Bankruptcies, mergers and acquisitions have been identified as potential critical events for a business relationship and the connected business network (Halinen et al. 1999, Havila and Salmi 2000, Havila and Salmi 2002). In the

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3 As opposed to confined change, which stays within the dyad (Halinen et al. 1999).
4 The idea of critical events has been used in other contexts as well. For a review, see Havila and Salmi 2000, p 109.
case of a bankruptcy, one actor disappears from the network, always dissolving relationships to other firms. A bankruptcy is an alarming occurrence, especially when appearing in clusters in the same industry. Actors faced with a bankrupt partner will in many cases find a substitute and create a new relationship, but may also terminate the affected parts of its own business activities, leaving yet more relationships to dissolve. Even if a merger or an acquisition does not always encompass a radical change, similar patterns can often be observed.

A critical event is the happening that triggers radical change.  

Three types of critical event can be distinguished depending on where they occur: (1) First, those events that appear within a company; critical events that involve, e.g., changes in a company’s organizational or marketing strategies, modifications in an organization’s internal structure, an organization’s sales of subsidiaries, a firm’s investments in a new business market or in the case of a bankruptcy as illustrated in Figure 2, which could well be the best example. When Company A, a big provider of telecom equipment, goes into bankruptcy, all connections to suppliers, customers and other parties disappear. For instance, both Company B, an office supplier, and Company C, a software supplier, are suddenly left with terminated customer contracts.

Figure 2. A critical event (the exclamation mark) within a company. The event, in this case the bankruptcy of Company A, leaves the relationships with Company B and Company C (marked with crosses) broken.

(2) Second, there are events that take place in the interaction between two companies, i.e. circumstances that result from mutual decisions or in any other way between two actors. Being an integral part of a business relation-

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5 In a series of radical changes (e.g., a dissolution leading to another dissolution), only the first triggering event would be the critical one. However, there is always a difficulty in determining what really caused a radical change and how far back to look. See more on this below.

6 According to Halinen et al. (1999), there are two types of critical events: those arising from a company’s business environment and those arising from interaction between two companies. However, I think it is important to also bring out the events taking place within an individual company.
ship must involve making many choices together, even if only one of the parties initiates the topic under discussion. A common decision between two companies, such as a joint venture, may turn out to be unsuccessful and be detrimental to the future of the firms involved and their relationships. Mergers and acquisitions can be critical events in two cases: (a) when they lead to one party’s relationship being dissolved (as in Figure 3) (e.g., to remove redundant connections or cut costs); and (b) when they lead to new relationships being created (for instance, to satisfy arising needs). Example: Two providers of telecom equipment, Company A and Company B, which both have similar office suppliers, Company C and Company D, decide to merge. In the merger process, the parties can wish to reduce superfluous connections and therefore terminate one of their existing office supplier relationships.

Figure 3. A critical event (the exclamation mark) taking place between two companies. The event, in this case the merger between Company A and Company B, results in the dissolution of the relationship between Company B and Company D.

(3) Third, there are also events that occur in a company’s business environment or business network. Business actors repeatedly face external events, such as technological improvements, political and social developments, current economic issues or major changes in their business network, all of which are often beyond their control. Each individual company must develop and implement a policy to manage those external influences. An example of a critical event that takes place in the environment (as in Figure 4) is when a technological innovation makes a traditional product line obsolete. Company A, a manufacturer of switchboards, has one product line for small businesses, like company B. Technological innovations make it possible for telecom operators to offer the same functionality as a service, which makes the need of hardware equipment obsolete.
Establishing the cause of a radical change is not an easy task. Within any undoing of a business relationship or establishment of a new one, there are potentially thousands of factors that may or may not be a direct cause. How, then, can we decipher exactly which moment was the critical event? For instance, Company A may deal in importing livestock from Asia. It is discovered that imports of this nature are involved in many shipping accidents. A change in government results in banning such imports, dissolving Company A’s relationships with foreign farmers, local producers, slaughterhouses, feed suppliers, and so on. In this situation, then, is the critical event the change in legislation? Is it the shipping accidents? Is it Company A’s decision to expand to live imports? This sort of difficulty exists in a great number of relationship dissolutions and would of course apply to the establishment of new relationships.

Netquakes – earthquakes in business networks

A critical event should then be seen as the impulse that sets radical change in motion (Halinen et al. 1999, p 786). As already mentioned, we still know very little about how to exactly demonstrate the way these changes affect the connected business network. Earlier research has called attention to spread of change throughout the network, but it is only now that we have been able to develop tools to describe these changes. Dahlin, Fors, Havila and Thilenius (2005) use an earthquake as a metaphor for understanding the process that comes into force after the ending of a business relationship. The effects of a dissolution spread throughout (directly and indirectly) connected relationships in the same way as the released energy stretches from the epicenter to adjoining areas in an earthquake. The term netquake has been coined to describe this concept.

To understand the idea of netquakes, let us first take a quick look at earthquakes. Simplified, the earth is divided into different layers, of which
the topmost is the lithosphere. The lithosphere is divided into a number of plates, which are constantly moving in relation to each other, not unlike companies operating within any given industry. An earthquake occurs when the plates press towards each other, dive under one another or pull away from each other. While the plates move, they exert force both on themselves and on each other. “When the force is large enough, the crust is forced to break. When the break occurs, the stress is released as energy which moves through the earth in the form of waves, which we feel and call an earthquake.” (http://scign.jpl.nasa.gov/learn/eq1.htm, 2004-07-27) The point on the earth’s surface vertically above the spot of the origin of an earthquake is the epicenter (http://scign.jpl.nasa.gov/learn/glossary.htm, 2004-07-28).

The sequence of a netquake is similar to that of an earthquake. When there is too much stress involved between two parties in a business relationship, it must be released, similar to two plates exerting force on themselves and each other in an earthquake. In some cases this stress results in the termination of the relationship, which creates waves of uncertainty throughout the business network as actors begin to speculate on how they will be affected. The spreading effects that this generates can be described as a netquake, with the initial broken business relationship as the epicenter. 7

A netquake is the wave of effects that starts if external parties react to a dissolved business relationship

The effects in a netquake can be measured with the Richter Scale and/or the Modified Mercalli Intensity Scale (both are used to measure earthquakes). Dahlin, Fors, Havila and Thilenius (2005) use the Netquake Intensity Scale, which is divided into four levels of observable effects: trembling, swaying, shaking and breaking effect. The higher the effects are in the network the stronger the netquake. The lower levels (1-2) depict the way the netquake is experienced by business actors and the higher levels (3-4) express effects on the network structure. Table 1 describes each level of observable effects in the Netquake Intensity Scale. 8

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7 One of the effects in a netquake could be another dissolved relationship. In this case, only the first dissolution would be the epicenter of the netquake.
8 The levels on the Netquake Intensity Scale should not be seen at the dyadic level – a relationship itself cannot tremble, sway or shake (though it can break).
Table 1. The Netquake Intensity Scale (adapted from Dahlin, Fors, Havila and Thilenius 2005, p 6).

Although the sequence of a netquake is similar to that of an earthquake, the effects in a netquake are quite different. Unlike an earthquake, netquakes can bring about positive or negative changes. A dissolution can, for instance, lead to the establishment of new relationships and positive adaptations in already existing relationships. For some actors, additional dissolutions in the surrounding network might even be encouraged, especially for fast-moving and innovative newcomers to competitive industries. This being the case, firms involved in a netquake at the same intensity level may experience this differently as either positive or negative.

The limits for each level in the Netquake Intensity Scale probably cannot be exactly determined. But more case studies will clarify a little more, e.g., how to draw the line between shaking and breaking network effects – proportionately how many relationships need to dissolve to become part of a breaking network effect? However, the concept can be seen and begin to be
used as an analytical tool for understanding spread of change in business networks. Figures 5a-5d illustrate the four network effects: trembling, swaying, shaking and breaking effect. In each case the black circle represents a company that has gone bankrupt, leaving two relationships in dissolution and creating two netquake epicenters (because these appear simultaneously they could be considered to be the same epicenter). In the figures, it is clear that the higher in the Netquake Intensity Scale, from trembling to breaking, the more relationships are affected and the greater the changes are in the network structure.

Figure 5a. A trembling network effect with increased flow of information but without changes in the network structure.

Figure 5b. A swaying network effect with increased flow of information and adapting relationships but without changes in the network structure.

Figure 5c. A shaking network effect with some changes in the network structure, in the form of new relationships being formed and more relationships being dissolved.

Figure 5d. A breaking network effect where all business relationships are affected and most changes are in the network structure.
The severity of the effects may be greater far away from the epicenter than close to it. The effects that strike the network depend, among other things, on how tightly connected the relationships are (Håkansson and Snehota 1995) and on the characteristics of the relationships regarding commitment, trust, norms and the nature of the exchanges taking place (Håkansson 1982). The effects of an earthquake can vary a great deal depending on the geological configuration of the earth’s outermost layer as well as the quality and construction of buildings. In the same way, the connected network can feel different degrees of the effects depending on the network’s structural ground and constructions of relationships (Dahlin, Fors, Havila and Thilenius 2005).

**Empirical setting**

**Background**

Therefore, it is apparent that there is a great domino or butterfly effect in all business networks. When changes occur in one part of the network, most business relationships are affected on some level. The purpose of this section is to illustrate, with real world examples, the complexities and dynamics of business networks and exemplify the network perspective: how we can understand and illustrate networks. This provides a basic approach in business network studies and shows how network change can be studied over time. The following example points to the fact that there are critical events leading to radical changes in the form of dissolved or established business relationships. However, the example does not demonstrate network effects, which can be included in the prolongation.

I will give a short historical introduction to the Swedish dotcom crash, as it is a good empirical setting because of its high concentration of bankruptcies, mergers and acquisitions. I will then move on to the specific case of Nocom AB, where I will demonstrate the inner circle of the network context closest to the focal company. As already mentioned, a network is in theory boundless – this text shows only the very closest relationships to the company under study.

The main source of information used to grasp events connected to Nocom is the company’s annual reports and press releases. An interview with the firm’s managing director (Skarin, 2005-10-20) and Nocom’s website (www.nocom.se, 2005-11-17) are used as complementary sources. Please keep in mind that the figures presented below are not to be seen as complete or precise, but as a well-founded approximation of Nocom’s relationships and events.
The Swedish dotcom crash

During the late twentieth century, many information technology (IT) companies were established on the Swedish market. Business actors, politicians and consumers had high expectations of IT and what it could accomplish, both in business and in everyday life. IT companies soon became important providers of a diverse range of products and services to a wide target group, establishing new relationships with customers and taking positions in already existing business networks. For many IT companies, growth was established through strategic mergers and acquisitions. Nevertheless, this period has been described in terms of an IT bubble with unsubstantial business concepts, untested business models, overrated companies and unsafe IT shares.

In 2000, the number of new IT companies had boomed, increasing from 2,670 start-ups in 1999 to 3,363, an increase of 26% (Sundell, 2005-06-17). At the same time, the anticipation of many analysts was realized: the IT-bubble burst. Positive expectations were interrupted by decline and disappointment. This “dotcom” crash can be linked to many bankruptcies, sales of subsidiaries, eliminations of unprofitable business sectors and additional mergers and acquisitions in the Swedish IT industry. Because of the nature of interconnected firms, this also implies that many business relationships with customers, suppliers and other counterparts dissolved, leaving existing networks in reformation.

Following the Swedish Standard Industrial Classification 2002, the Swedish IT industry is described as being composed of companies operating with ‘computer and related activities’ (Statistics Sweden 2004). This definition includes, e.g., hardware and software consultants as well as data processing and database companies. However, it does not include manufacturers and retailers, which could also be argued to have important roles within the industry. Given this classification, the number of bankruptcies increased from 141 in the year 1999 to 205 in the year 2000 (an increase of 45%). The effects from the downturn in the whole industry continued to be evident in 2001, when the number of bankruptcies rose to 337 (an increase of 64% since 2000 and 139% since 1999) (Sundell, 2005-06-17). Unfortunately, corresponding statistics for mergers, acquisitions and sales of subsidiaries are not available because of the complexity of registration of such events (Andersson, 2005-07-01). But there is no reason to believe that the number of mergers, acquisitions and sales of subsidiaries have not also increased following the same patterns as bankruptcies.

It is clear, then, that the Swedish IT industry suffered from the dotcom crash at the turn of the century. It is true that many IT companies were established and that many new relationships were generated, but at the same time many companies were involved in events such as bankruptcies, which means that many relationships also came to an end. The Swedish dotcom crash is an ideal example of critical events appearing in clusters or waves within a very
short period. The sheer magnitude of critical events and potential critical events concentrated to the same industry and period allowed for speculations and uncertainty among industry members, which created anxiety and may have set domino effects in motion. The complexity of the industry and the number of firms that were both established and wound up make the Swedish IT industry and the Swedish dotcom crash a particularly good empirical setting for studying spread of change in business networks. There is reason to regard this specific period – from the late 1990s to the early part of this century – as a critical phase for many relationships and surrounding business networks.

Illustrative example of the empirical setting – Nocom AB

Nocom was established in 1985 with a focus on value-added software distribution. In the early years, the company’s strength lay in identifying innovative software and concepts and introducing them to the Nordic market. All distribution activities were gathered within the affiliated company Nocom Software, which was oriented only towards resellers and partners. Nocom had no business directly with end customers in software but did, through the affiliated service company Nocom Professional Services, provide customers with support, training and updates (Figure 6).

In 1999, a new phase began at Nocom. The company’s B-shares were noted on the Stockholm Stock Exchange’s O-list at the same time as the IT market was growing at an explosive rate with, to all appearances, endless business opportunities. Growth became the new motto for the whole industry. As a result of this market development, Nocom made the decision to broaden existing offers as well as to alter the existing business strategy by intensifying its relationships with end customers and to a much greater extent start selling directly to them. To bring about these changes, a new expansion strategy was built based on recruiting customers primarily through strategic acquisitions.

Figure 6 shows the first acquisition of the operating service company Bizit AB in 1999 with customers such as Interjet, ASG, Sifo, Telia, Infmedialia and Volkswagen, which were all added to Nocom’s customer database. Through this event Nocom also gained two very important partners: Europolitan (presently Vodafone) and Ericsson. In addition, Nocom planned to acquire the IT consulting firm Interactive-TM AB and the industrial marketing communication company Hera AB along with its subsidiary ECMM.
In 1999, Nocom acquired Bizit AB to broaden existing offers and to increase the customer database. Nocom also planned to acquire Interactive-TM AB and Hera AB along with its subsidiary company ECMM.

In the Swedish dotcom crash, Nocom experienced a downturn because of inflated valuations that caused a sharp fall in share value (from ~100 SEK in March 2000 to ~8 SEK in December 2000). In the meantime, Nocom continued to grow, both organically and through strategic acquisitions. By the end of 2000, the number of employees had increased from 146 in 1999 to 241. Nocom had representations in nine countries, and as Figure 7 shows, 12 separate businesses. Through seven additional acquisitions, Nocom’s market offer had been broadened to include not only software but also customer support and IT consulting (Cyberink, Interactive-TM and Bizit Integration), operating services (Nocom.net, former Bizit), industrial marketing communication (Hera and ECMM), e-logistics (Tradevision) and mobile services.
(Mobile Relations and MCS). Nocom committed itself to further activities and achieved new expertise, partners and, above all, customer projects.

Thus, during this period, there were several critical events leading to the establishment of new business relationships. All these radical changes can probably be linked to additional effects in the network, especially because they appeared so closely in time. By pursuing this case study further, we could measure these network effects on the Netquake Intensity Scale.

![Diagram of Nocom Group 2000]

**Figure 7.** In 2000, Nocom acquired Tradevision, Interactive-TM AB, Bizit Integration, Cyberink, 70% of MCS AB and Hera AB along with its subsidiary company ECMM. Nocom also planned to acquire the remaining 30% of MCS AB as well as Aero Hosting AB. As a joint venture with Europolitan, Nocom founded Mobile Relations.
Soon, a decision was taken to wind up most of the recently acquired companies and a new wave of radical changes began, but this time in the shape of dissolution of business relationships. The effects of the downturn that had occurred earlier in 2000 became evident. Nocom recorded a loss of approximately MSEK 65 in 2000 as the entire IT market started to collapse. Some contracts with customers were terminated in advance and overall Nocom had MSEK 9 in customer losses. This negative trend continued in 2001 when the major investments in expansion through acquisitions during 1999, 2000 and the beginning of 2001 resulted in increased difficulties in integrating new operations with Nocom’s core business. Many segments of the organization lost contact with the company’s core activities, despite the fact that this is where most of Nocom’s original resellers and customers can be found. Like many other IT companies, Nocom’s direction and offers became unclear, not only for employees, but for resellers, customers, suppliers and other counterparts. The situation was so serious that Nocom was now only weeks from bankruptcy.

Given this situation, it was necessary to act. Management was changed and an action program created with the aim of reversing the company’s negative profit trend, strengthen liquidity and optimize efficiency throughout the organization. A lot of effort was put into streamlining the company’s activities and strengthening the core operations to return the company to profitability. Restructuring measures were taken. All sales to resellers and partners were moved to an independent company, Nocom Partner Network (formerly Nocom Software AB) to emphasize the importance of all relationships to resellers and partners. Cost-saving measures were taken by reducing the number of staff in consultant operations in Gothenburg and Norway and closing segments of operations within Nocom Travelutions (a company that had been established by the acquisition of Aero Hosting and the remaining 30% of MCS the same year). The total number of employees decreased from 241 to 155, and by the end of 2001 some non-core operations had been either sold or put in liquidation. Hera, ECMM and Tradevision, which were contributory factors to Nocom’s growth, were sold (Figure 8).
In 2001, Nocom acquired Aero Hosting AB and the remaining 30% of MCS AB. Later the same year Nocom sold Hera AB, ECMM and Tradevision. All of these changes were necessary for Nocom to recover. Nevertheless, they cost the company a great deal. During 2001, Nocom recorded a heavy loss of approximately MSEK 190, a record loss. Additional measures were required to rebuild profitability into the organization. Thus, Nocom launched a new action program in 2002, which meant winding up the entire IT consulting business, including all ongoing customer relationships.

The history of Nocom is a history of critical events and radical changes. First, the company decided to grow and establish new customer relationships through strategic acquisitions. Then, the situation was so intolerable that Nocom had to close down all new subsidiaries and terminate the relationships.
involved. Only then, after returning Nocom to its original core business – value-added software distribution only via resellers and partners – could the company achieve its highest sales in five years. This positive development is still progressing. And although strategic acquisitions and growth are still on the agenda, the organization has learnt from its earlier mistakes.

When Nocom had stabilized its profitability, it ended 2004 by announcing its bid to acquire TurnIT and IAR Systems (the latter owned to 75% by TurnIT). At the time of the bid (Figure 9), TurnIT was in the process of selling two subsidiaries, CityData and IAR Systems Jonkoping. The remaining activities were divided into two business areas: (1) a distribution area consisting of two firms, SweDeltaco and Network Innovation, both of which sell only through resellers and partners; and (2) a consulting and software area organized into four firms (the Arete Group) providing a variety of IT services directly to customers, and one firm (IAR Systems) distributing licensed and proprietary software.
Figure 9. In 2004, Nocom acquired Tempest A/S and announced its bid to acquire TurnIT and IAR Systems (which were owned to 75% by TurnIT). During the same period, TurnIT sold CityData and IAR Systems Jonkoping.
TurnIT and IAR Systems were acquired in March 2005. But there was one problem: the Arete Group of four firms. As I mentioned above, these firms were specialized in IT consulting services and had relationships directly with end customers. Owing to earlier backfall in connection with Nocom’s growth and alteration in existing business strategy, Nocom had learnt not to make that mistake again. Therefore, just 2 months after the acquisition of TurnIT and IAR Systems, Nocom wound up the Arete Group with all connected customers. Once again, we can witness a critical event leading to the dissolution of several customer relationships.

Concluding remarks

I hope that I have made the network perspective a little more vivid by this case. I have only shown the very closest relationships to the focal company, but the events in the network history of Nocom are diverse and very intense, making it an ideal company for deeper analysis, not only with regard to the dynamics within business networks but also in the extension on the effects on business networks from specific critical events. By illustrating and capturing network structures over time in the way presented in this section, we will in the future reach a more profound understanding of how changes in the network spread depending on actors’ perceptions and reactions. It is evident that business relationships between organizations are complex and interconnected and that the network perspective must be considered when faced with major changes. Changes to organizational structure and position within the market place should be considered to affect not only the company in question but also most associated companies.

Discussion

Business networks exist within all sectors of all industries. Already in the first phase of its existence, every company establishes interconnections with suppliers, resellers, customers, and so on – interconnections that continue to rise and fall throughout all changes that the company undergoes, not the least in the case of bankruptcies, mergers and acquisitions. The work already done by researchers, such as Gratzer and Sjögren (1999) and those mentioned in the review by Anderson et al. (2003) have shown great interest in several aspects of bankruptcies, mergers and acquisitions.

However, to comprehend properly the ways in which single organizations suffer, benefit or react in these situations, the network perspective must be considered. Bankruptcies, mergers and acquisitions should be seen as critical events or potential critical events that can lead to major changes in the surrounding network. Understanding this perspective could realistically save
companies and their connected partners’ time, money and other valuable resources.

To maximize the potential for growth and minimize the risk of collapse, it is vital to understand and anticipate disruptions to and changes within evolving, developing industries. Because all companies are connected and can be affected by changes in the surrounding network, there is a need for every individual firm to take precautions, develop plans and consciously make choices about how to manage a nearby critical event. Spread of change can be prevented or promoted by directly affected firms as well as by connected firms. The actions taken to deal with changes in the surrounding network are a central part of a company’s business strategy. In fact, as an extension to this reasoning, “strategy” could even be defined as a firm’s conscious effort to direct its resources and relationships to the environment. Therefore, the reaction of each organization forms part of what should be a stringently monitored change management undertaking, ensuring that the outcome of the interconnected change can be encouraged to envelope positive restructure. The reaction of a firm to particular external occurrences can have a great impact, positively or negatively, on the future of the firm.

It is clear that without a proper understanding of the way the changes are being managed and planned for, companies are unable to use them to their strategic benefit and thus set themselves up for potential negative change. Organizations should invest a portion of their resources in effective bankruptcy, merger and acquisition management, whether or not they are directly or indirectly affected by it. Firms should have strategies in place and improve their understanding of the way business relationships are structured in order to manage these situations as well as possible.

References

Literature


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