Bachelor Thesis Organization and Strategy

‘Accessing Valuable Knowledge of the Target Firm in Mergers and Acquisitions’

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Management Summary

Mergers and acquisitions and knowledge sharing are both subjects which have been thoroughly examined and discussed throughout the past decades, resulting in fragmented and sometimes contradictive theories. There is however little literature about how knowledge sharing occurs and has to be dealt with in mergers and acquisitions. This thesis aims to clarify how an acquiring company can efficiently access highly valuable knowledge within the acquired firm. The focus will lie on related mergers and acquisitions with the intention to maximally utilize the acquired firms recourses by sharing tacit knowledge. First the factors and facilitators that influence and enable knowledge sharing will be identified. Second, it provides an overview of the success factors in M&A and what role knowledge sharing plays in this sense. Finally, managerial implications will be discussed and practical implementations to the problem statement will be provided.

Chapter 1 Research Proposal

1.1 Problem Indication

In the 1990s we have witnessed unprecedented motion of mergers and acquisitions (M&A) (Papadakis 2007). Since the year 2000, however, the number of M&A started to decline due to several reasons (Report KPMG 2003). Nevertheless M&A still play a significant role in modern day business life. Unfortunately most M&A fail to accomplish their strategic objectives and result more often in value destruction than in value creation (Warren, Galin, Herdon 2004). According to Padadakis (1999), even 50 to 75 percent of all M&A fail to live up to their expectations. There are many different reasons for firms to engage in M&A. One of them is to create value and improve their competitive advantage by attaining knowledge from the acquired firm (Warren, Galin, Herdon 2004). According to Teece *et al.* (1997), ''a firm's ability to continually learn, adapt and upgrade is key to competitive success.'' So valuable knowledge possessed by a firm represents an advantageous strategic resource over its competitors. A firm's knowledge is the result of years of organizational activity in which the knowledge of individuals is combined into a collective whole (King, Marks 2004). Furthermore, according to Nonaka (1994), knowledge in contrast to data and information is about beliefs, commitment, perspectives, intention and action. It therefore can be considered as extremely firm specific. When merging firms seek to access new knowledge and expand their field of expertise, it is vital that all parties involved are able and willing to share their knowledge in order to increase the overall value. However, in many organizations it is believed that 'knowledge is power' and employees are only triggered to share this knowledge when externally motivated (King, Marks 2004). Moreover, knowledge flows more efficiently through established relationships spanning subunit boundaries (Tushman 1977, Ghoshal and Bartlett 1988, Nobel, Birkinshaw 1998, Hansen 1999), and best practices are transferred more easily when a positive relationship exists between the two parties (Szulanski 1996). As many M&A are held in favor of the shareholders of the acquiring organization and employee and management turnover are no rarity for merged companies (Ellwood, Walsh 1991), efficient knowledge sharing seems to be everything but self-evident in such cases.

1.2 Problem statement

Based on the problem indication described above, the main goal of this thesis is to find an answer to the following problem statement:

How can an acquiring or merging company gain access to valuable knowledge within the acquired company?

Knowledge sharing between merging companies with dissimilar operations or cultures seems to be crucial to the organizational learning process and the post-deal integration. In this thesis, the focus will lie on noncodified knowledge, which is defined as knowledge that is difficult to adequately articulate in writing (Zander, Kogut 1995, Hansen 1999). Therefore knowledge sharing has to be well managed in order to create additional value and make the merger or acquisition successful.

1.3 Research Questions

In order to satisfactory answer the problem statement; it has been split up into four research questions in a funnel shaped approach. The first and most general research question of this thesis is to find out what factors influence knowledge sharing.

In the case of M&A, where two companies become one, characteristics from both knowledge sharing within firms and between firms will be addressed. Therefore this chapter will be divided into several parts which address the differences between knowledge sharing within and across companies and how they can be combined in the case of M&A.

The second chapter identifies how knowledge sharing influences the successfulness of M&A. This chapter will elaborate on how M&A become successful with a focus on the role of knowledge sharing.

Finally, after attaining all information about the concept of knowledge sharing in M&A, the last research question will consider what knowledge sharing mechanism the management should implement in order to create a smooth flow of knowledge throughout the newly formed company.

Summary of research questions:

Chapter 2 What factors influence knowledge sharing in M&A?
Chapter 3 How does knowledge sharing influence the successfulness of M&A?
Chapter 4 What knowledge sharing mechanisms must be implemented in order to access valuable knowledge of the target firm?

1.4 Research Design

The nature of this thesis will be descriptive by means of a literature review. Although there are not many articles specifically written on this topic, there are numerous articles written about relating topics like knowledge sharing in multiunit organizations, inter organizational knowledge sharing and papers that investigate the factors influencing the successfulness of M&A in a more general perspective.

1.5 Data Collection

This thesis will be based on literature review from primarily high quality (reviewed) journals and books.

Chapter 2: What factors influence knowledge sharing in M&A?

2.1 Definitions

Knowledge is becoming more and more important in today's business environment. Over the past decades we have gone from an age where capital was the most important resource towards an economy in which knowledge has become the most significant resource (Bresman, Birkinshaw, Nobel 1999). Nonaka *et al.* (1995) even state that the winners of tomorrow's market place will be the masters of knowledge management. Although knowledge sharing is an essential aspect in knowledge management, it is far from self evident that these transfers run smoothly between departments and sister units in both national and international settings (Bresman, Birkinshaw, Nobel 1999). There are many different types of knowledge held within firm. Most literature divides the concept of knowledge into two main parts. First, information or 'know-what', which is the more articulated or tangible knowledge of the firm. In other words, knowledge "specified either verbally or in writing, computer programs, patents, drawings or the like" (Polanyi 1962). Secondly, there is 'know-how' which is relatively tacit knowledge (Bresman, Birkinshaw, Nobel 1999). Also defined as "the accumulated practical skill or expertise that allows one to do something smoothly and efficiently" (Kogut, Zander 1992). According to Zander (1991) and Szulanski (1996), sharing tacit knowledge proves to be far more difficult then more articulated knowledge.

Besides the aspect of knowledge, it may be useful to further elaborate the aspect of sharing or transferring. In general knowledge sharing is considered to be reciprocal; this means the flow of knowledge both from the acquired to the acquiring firm as well as the other way around.

The main problem in this thesis however lies with the aspect of the parent firm accessing the knowledge of the target firm. Because there is a wide variety of different motivations for M&A, the focus will be narrowed down to the cases with the intention to maximally utilize the intangible resources of the target firm. The main intention for this kind of M&A is to give both firms opportunities to gain access into knowledge outside the usual organizational and cultural context (Zander 1999). This way the firm's knowledge base will be expanded by means of in- and outflows of knowledge (Govindarajan, Gupta 2000).

2.2 Knowledge sharing in general

M&A are no day to day business for most firms and therefore most companies are not familiar with dealing with these situations. On the other hand, most organizations have to deal with knowledge sharing one way or the other. This can be internal, for instance in multi-unit companies, between firms; in that case firms have to deal with other firms completely independent to their own, or strategic alliances besides M&A, like joint ventures, license agreements, development partnerships and so forth (Borys, Jemison 1989). In the case of M&A, where two companies blend together, factors from all three different contexts are relevant.

Szulanski (1996) argued that a set of four factors influences the difficulty, and therefore efficiency, of knowledge transfer: "the characteristics of the knowledge transferred, of the source, of the recipient and of the context in which the transfer is taking place. " Furthermore, each set of characteristics has been split up in primary variables that influence these factors.

The variables for the characteristics of the knowledge transferred are causal ambiguity and unprovenness. Due to causal ambiguity it is impossible to produce an unambiguous list of factors of success when replicating a capability (Rumelt 1984). Because a indefinable portion of knowledge is suggested to consist of highly tacit human skills (Polanyi 1962) and the tacitness is often considered as a major attribute to knowledge regarding its transferability (Nonaka 1994), the principle of causal ambiguity is to a large extent based on the concept of tacit knowledge held within a production process. Causal ambiguity could also result from the specific new context in which the transferred knowledge will be put to use (Tyre, von Hippel 1997). The other variable influencing the characteristics of the knowledge transferred is so called unprovenness. This means that the past record of the knowledge usefulness influences the difficulty of the transferability (Szulanski 1996).

There are also two variables that influence the characteristics of the source of the knowledge. The first variable is lack of motivation of the source. Managers are reluctant to share crucial knowledge due to the fear of losing a position of privilege or superiority (Walsh 1988). This can be reinforced when the source thinks he is not adequately rewarded or just does not want to spend time and resources at such a transfer (Szulanski 1996). The other variable is the reliability of the source. If the source is considered to be a trustworthy or expert source, it is less likely its knowledge will be challenged or resisted (Perloff 1993).

As well as the source, the recipient can suffer from a lack of motivation. This may emerge from the fact that the recipient may feel the information is forced upon him or her and can result in things like passivity, feigned acceptance, 'foot dragging', hidden sabotage or even outright rejection of the knowledge (Zaltman, Duncan, Holbek 1973). Another variable that influences the characteristics of the recipient is the absorptive capacity. This, according to Dierickx and Cool (1989), is based on the pre-existing knowledge of the recipient. When a recipient lacks absorptive capacity they might be unable to exploit outside sources of knowledge (Cohen, Levinthal 1990). Furthermore, a transfer of knowledge is only successful if the transferred knowledge is retained (Bjork, Druckman 1991). The retentive capacity of the recipient can be described as the capability to institutionalize the use of the new knowledge he gained. If one lacks such capability difficulties will arise which may become an excuse to stop using the new knowledge (Duncan, Holbek, Zaltman 1973).

The last factor Szulanski describes is the context to which the knowledge has to be transferred. The first variable with respect to this factor is the organizational context. It is stated that especially in inter-organizational transfers, the context plays a major role. Transfers that prove to be successfully unfolded in one type of organization may do poorly in another. Therefore, context related attributes like, structure and systems, coordination, expertise, culture and behaviour affect the outcome of the transfer attempts. Besides the organizational variable, especially in the case of tacit knowledge, a transfer requires many individual exchanges (Nonaka 1994). The ease of communication and the overall relationship between the source and the recipient influence the chances on success of knowledge transfers as well.

2.3 Intra-organizational knowledge sharing

Szulanski (1996) does not discuss his theory in a specific context, but as mentioned above, there are many different circumstances in which knowledge sharing can become relevant. As with types of knowledge and different types of M&A, there are many different types of firms and many different reasons for sharing knowledge internally. For instance, when two business units of the same company strive for a common goal, informal lateral relationships have a positive effect on knowledge sharing. On the other hand, when two business units have to compete for internal resources these kind of relationships prove to have a negative effect on knowledge sharing (Tsai 2002). Although the effect of lateral relationships differ per situation, it is obvious that they play a very significant role in knowledge sharing between units of the same company (Hansen 1999, Kogut, Zander 1992, Tsai 2002).Besides the relational linkages between different units in the firm, experience is also considered to be an important factor (Teece 1977). The basic assumption is here that the more experience you have as a company with respect to internal knowledge sharing, the more efficient it will become over time. This assumption was later confirmed by Zander and Kogut (1995) who state that the "cumulative experience with a technology is a critical factor determining the learning capability of the recipient to understand new technologies." They also state that experience has a positive effect on the ability to transform tacit knowledge into a more comprehensible code, understandable for a large amount of people. This implies that the extent to which knowledge is articulate or tacit also plays a significant role in knowledge sharing within firms (Szulanski 1996, Zander 1991). The last factor is to what extent units share common practices, techniques and manufacturing capabilities (Zander, Kogut 1995).

2.4 Inter-organizational knowledge sharing

Independent companies within the same market often compete with each other. For these companies it is not likely that they want to share valuable information. When companies do gain access to valuable knowledge of a competitor we should speak of knowledge transfer, not knowledge sharing, because there is no mutual corporation between two parties. This area has not received as much attention as the other modes so far, however it should not be neglected. Each firm wants to protect their innovations, skilled employees and other types of valuable knowledge in order to maintain their competitive advantage with respect to competitors. It would however be ignorant to assume that this does not happen in practice. Through a combination of imitation, reverse engineering, movement of personnel and business intelligence, valuable knowledge can be transferred from one firm to the other (Bresman, Birkinshaw, Nobel 1999).

According to Kogut and Zander (1995), there are several variables that influence the likelihood of valuable knowledge being transferred or imitated by competitors. Factors that positively influenced the likelihood of knowledge transfer and imitation were: codifiability, teachability, parallel development and product observability.

Factors that have a negative influence are: knowledge complexity and system dependence.
Codifiability roughly means to what extent knowledge can be captured in articulated documents and software. Teachability implies the ease to which knowledge can be taught to new employees on an individual level. Parallel development means that competitors are in parallel efforts to develop a similar product. This can be reinforced by factors such as employee turnover and level of outsourcing. Product observability is constructed when product manufacturing capabilities can be acquired though reversed engineering or publicly available reports. Although a definition of knowledge complexity is hard to capture it can best described as: ”the degree of multiple competencies used to manufacture a product” (Kogut, Zander 1995). System dependence is described as the lateral linkages between plant engineering and production personnel (Tyre 1991).

2.5 Knowledge sharing in strategic alliances

The main reasons for companies to engage strategic alliances is to exploit natural resources, achieve a higher level of knowledge exchange and technology transfers and reducing and spreading the risk of new innovations (Mowery. Oxley, Silverman 1996). According to Mowery *et al.* (1996), the most important factor for efficient knowledge sharing in strategic alliances is the absorptive capacity of the party that acquires the new capabilities. This absorptive capacity is mainly determined by the experience in related technological areas of the recipient (Cohen, Levinthal 1990). Finally, they also state that especially in international strategic alliances communication is an important factor, because many obstacles in transferring knowledge are created by things like distance, cultural differences, etc. (Mowery, Oxley, Silverman 1996, Gulati 1996).

2.6 Knowledge sharing in M&A

Up till now, many different variables influencing knowledge transfers in many different contexts have been elaborated and it already became clear that there is a significant amount of overlap. This holds for knowledge transfer in M&A as well. Birkinshaw, *et al.* (1999) developed a scheme in which they identified the main facilitators for knowledge transfers in acquisitions. These are: communication between the two parties, visits and meetings, articulability of the knowledge, time elapsed and the size of unit or control.
Communication is argued to occur in two different processes. First of all there is the overall post-deal integration process. Extensive communication between both parties

in M&A is necessary to make knowledge transfer effective and to create a supportive environment or social community in order to facilitate knowledge sharing (Kogut, Zander 1992) and keep the post-deal integration explicit and transparent (Bresman, Birkinshaw, Nobel 1999). This type of communication is to ensure that both parties will be able to operate in a positive environment without internal struggles, misunderstandings and envy. The other type of communication has more of a direct nature. This means it is focussed on the direct work processes within the firm. Especially in cases where much tacit knowledge is involved, intensive communication and interaction between the transmitting and receiving parties has to take place (Szulanski 1996).

The second factor, visits and meetings, refers to meetings or training programs aimed at specific tasks or problems. Because these types of meetings often imply much social contact, these serve as a sort of tool to enlarge normative commitment and integration within the corporation as well (Ouchi 1980). This bonding aspect of different parties to a new organization with common interests is again related to the creation of a supportive environment after M&A deals.

As mentioned earlier, articulability of knowledge refers to the extent to which knowledge is either tacit or articulate. The more tacit the knowledge is, the more difficult it will be to successfully transfer it.

M&A often cause uncertainty amongst top management and other employees that might posses valuable knowledge to the parent firm (Simmons 1984). This can lower the commitment and corporation of these employees towards the new firm. These uncooperative and disappointed individuals will gradually leave the firm and they will be replaced by newly recruited individuals who will not perceive (or to a lesser extent) the previous boundaries between the former separate entities (Buono, Bowditch 1989). These internal organizational changes made over time tend to have a positive impact on the integration process and knowledge sharing (Bresman, Birkinshaw, Nobel 1999).

In Bresman *et al.* (1999) the factor size of unit, is redefined to the number of R&D employees in cases where the primary focus lies on tacit knowledge. Their research has proven that the larger the number of R&D employees in the acquired firm, the more knowledge sharing occurs. This statement is based on the assumption that simply more individuals are involved in the knowledge sharing process.

2.7 Wrap-up

“A key reason for an acquisition has often been to gain access to knowledge in the acquired company, and to transfer that knowledge into other parts of the firm”

(Bresman, Birkinshaw, Nobel 1999). In this chapter we have seen that knowledge sharing exists in many different situation besides merger and acquisitions. For each of these situations, factors that influence knowledge sharing were identified. There proved to be a considerable amount of overlap in knowledge sharing between these different situations. Overall, insights by Szulanski (1996) and Bresman *et al.* (1999) provide us with the best overview on what factors influence and what facilitators enable knowledge sharing in M&A.

Chapter 3 How does knowledge sharing influence the successfulness of M&A?

3.1 Definitions

M&A occur in many different forms. According to Walter *et al.* (1990), there are four major types of M&A:

- Horizontal: Mergers between firms with identical products, operating in the same or different markets.
- Vertical: Mergers in which a buyer-seller relationship exists or could exist between the two firms
- Concentric: Mergers with similar production or distributional technologies
- Conglomerate: Mergers between two firms who have no buyer-seller relationships, no technical and distributional relationship, and do not deal with identical products.

However, within the boundaries of these four different types there still remain many different motivations for two companies to decide to merge. Based on earlier literature (Kitching 1967, Howell 1970, Steiner 1975), Walter and Barney (1990) developed a list of twenty possible motivations to engage in M&A[1]. These motivations then were clustered into the following categories; obtain and exploit economies of scale and scope, dealing with ongoing interdependencies with others in a firm's environment, expand current product lines and markets, enter new businesses, maximize and utilize financial capabilities.

In the previous chapter, the type of M&A on which this thesis is focussed was already briefly discussed. The emphasis lies on cases with the intention to maximally utilize the intangible resources of the target firm. The aim of this chapter is to identify the key success factors and determine the role of knowledge sharing in this type of M&A.

[1] Apendix I: List of twenty motivations for M&A by Walter and Barney (1990)

3.2 Success factors of M&A

There has been extensive research on M&A and what factors influence them. However, due to conflicting theories and the fragmented nature of the studies there is little consensus on which factors influence the likelihood of success or failure in M&A (Larsson, Finkelstein 1999). The goal of this part is to capture a framework that identifies the success factors in the type of M&A mentioned above. In M&A where firms seek to gain access to specific knowledge within the other firm, operational synergy between both parties is a crucial aspect (Trautwein 1990) but is in practice extremely hard to realise (Kitching 1967). In order to achieve (operational) synergy Larsson *et al*. (1999) developed a framework which integrates several M&A perspectives. The idea behind this framework is to combine strategic (motivational), organizational (integrative), and HRM (employee resistance) factors which all influence the synergy realization of M&A.

First to discuss is the strategic factor. In existing literature with respect to strategic management in M&A, the focus lies on motives and relatedness of the two firms. Ansoff *et al.* (1971) believe that a large portion of the outcome of M&A lies with the pre-acquisition search and planning. It is believed that strategic planning and 'fit' are critical to acquisition success (Reed 1977, Walter, Barney 1990). This strategic fit is also often referred to as relatedness. This relatedness can be divided into two parts. On the one hand, there are related acquisitions (Salter, Weinhold 1979, Lubatkin 1983), which could provide greater synergies through economies of scale and scope, and possibilities to transfer core skilles across involved firms (Datta 1991). Here the scope in on similarities of the merging firms. On the other hand complementary sources may be present throughout the value chain of the firms (Larsson, Finkelstein 1999). When those sources like different products, market access, or know-how fit together, this is found to be a key success factor in M&A as well (Hitt *et al.* 1993). In the framework by Larsson *et al.* (1999), these two concepts of relatedness; 'economies of sameness' (similarities) and 'economies of fitness (complementariness) are referred to as combination potential of the two firms.

Second is the organizational part. Organizational researchers often stress the notion that a strategic fit does not automatically results in M&A success (Hunt 1990, Datta 1991). They believe that achieving synergy depends on the post-deal integration after the merger as well. However, according to Datta (1991), the need for post-deal integration depends for a large extent on the objectives of the merger or acquisition. He states that post-deal integration is only significantly beneficial to improve operating efficiency, and achieve economies of scale in acquisitions that form a part of a strategy of related diversification. Furthermore, considerable interaction and coordination is necessary to exploit interdependencies that might exist between the merging firms (Shrivastava 1986, Haspeslagh, Jemison 1991, Pablo 1994). Post-deal integrations primary objective is use existing capabilities as efficient as possible (Datta 1991). In the framework of Larsson and Finkelstein (1991) the concept of organizational integration is divided into two parts: (1) interaction between joining firms through restructuring and material flows, (2) coordination to improve the previously mentioned interaction by means of special integrators, transition teams, preplanning, and so forth.

The last factor is employee resistance. Where the first two factors were positively related to operational synergy of M&A, employee resistance will obviously result in a negative effect on operational synergy (Blake, Mouton 1985). Employee resistance can be split up in an individual aspect primarily based on psychological influences and career perspectives (Levinson 1970, Walsh, 1989), and a collective aspect where the firms culture plays a dominant role (Buono, Bowditch 1985). Problems with regard to the psychological aspect are usually; distrust, tension, hostility and discomfort (Levinson 1970, Chatterjee, Lubatkin, Schweiger, Weber 1992, Zaltman, Duncan, Holbek 1973). These problems can result in stress, constricted communication and lower commitment towards the newly formed organization. (Marks, Mirvis 1986, Chatterjee *et al.* 1992). Besides the psychological effect, M&A can significantly affect career plans, force employee lay-offs, relocations, and loss of individual influence and status (Hirsch 1987, Walsh 1989). Colliding cultures between merging firms often result in a more collective type of employee resistance within M&A. Culture can be defined as 'the set of important assumptions that members of a community share in common' (Sathe 1985), and is formed by its history, shared experience, and member of the organization (Schein 1985). Culture is not easily modified (Chatterjee *et al.* 1992), and in most cases it is the acquired firms culture that is most challenged (Larsson, Finkelstein 1991). This can result in countercultures (Buono, Bowditch 1989), or cultural rejection (Sales, Mirvis 1984). As with organizational integration, the degree of cultural contact is determined by the nature of the merger (Chatterjee *et al.* 1992). In conglomerate mergers for example, where the two companies are unrelated, the merger is only likely to affect the acquired firms financial and planning system but remain autonomous for most other funtions. In related mergers, when the objective is to obtain operational synergy besides the financial gains, autonomy is much less likely to occur (Walter 1985). Below, the basic schematic framework of Larsson *et al.* (1992) for achieving operational synergy in M&A is displayed.

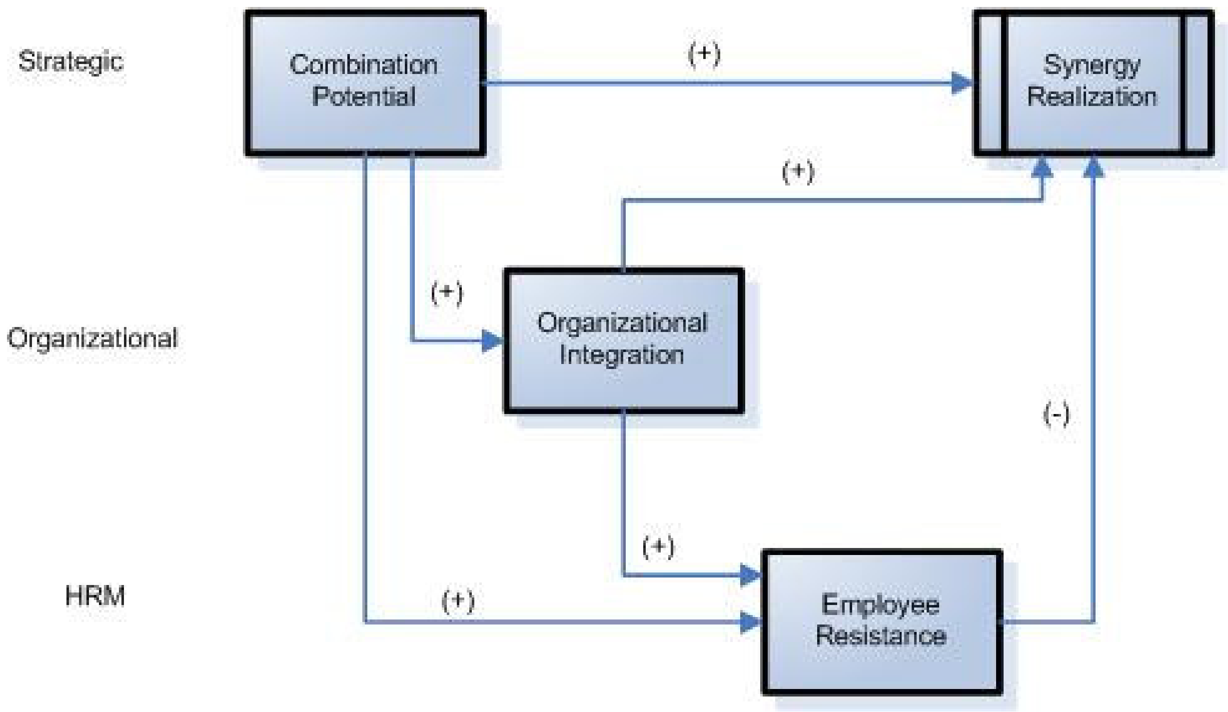

Figure 1. Framework operational synergy by Larsson and Finkelstein (1991)

3.3 The role of knowledge sharing

As showed in the previous paragraph, there are several factors that can obstruct the operational synergy of M&A that aim to maximally utilize and exploit the resources of the target firm. But how does this relate to knowledge sharing? As mentioned before, striving for operational synergy is only relevant in related mergers (Datta 1991). As a consequence firms should well-consider and plan the acquisition and clearly state their motives (Ansoff *et al.* 1971).

The level of knowledge sharing is to a large extent based on the level of organizational integration. According to Porter (1985), operational synergy stems from either combining separate business units or knowledge transfers. So the higher the desired organizational integration within M&A, the higher the degree of knowledge sharing. This leads to a problem. As can be seen in the framework by Larsson *et al.* (1991), organizational integration not only directly leads to a higher synergy, it also has a direct positive effect on employee resistance. This is due to the fact that with a high level of integration, the target firms is not likely to remain autonomous(Chatterjee *et al.* 1992). This causes several problems with respect to knowledge sharing. First of all, it enhances the chance that corporate culture will be lost (Chatterjee *et al.* 1992). In a M&A context, acquired personnel often considers own culture as highly valuable (Berry 1980) and will seek to protect their positions and identities (Buono, Bowdich 1989). Therefore knowledge sharing preferably takes place within a group who share a common set of values and beliefs and to a lesser extent between different groups (Kogut, Zander 1995).

M&A often cause a high level of uncertainty amongst employees of the acquired firm (Buono, Bowdich 1989). They might feel that they are forced to share their knowledge with external receivers and loose individual status or interrupt their career perspectives (Hirsch 1987, Walsh 1989). According to Empson (2001), knowledge hoarding is a natural consequence related to the loss of power after a acquisition. Husted *et al.* (2002) add to this argument that employees of the target firm often are uncertain for what purposes the shared knowledge will be used by the receiver, and whether it may damage their self-interest. Employees also believe that their professional bargaining position is closely related to the value and quality of the knowledge they posses (Szulanski 1995). Consequently, they will try to resist the attempts of the acquiring organization to gain property rights over their knowledge (Empson 2001). This may result in; voluntary exits (and with that, possibly valuable knowledge), sabotage, protest by voice (active), or; absenteeism, disobedience, and shirking (passive) (Larsson, Finkelstein 1991). This will make it hard for the acquiring firms to gain access to valuable knowledge held by these employees, and obstruct the desired post-deal integration of the merger, which obviously leads to a higher chance of failure of the acquisition.

3.4 Wrap Up

In the beginning of this thesis it was stated that, despite extensive research on what factors cause M&A to fail or be successful, many M&A fail to live up to the expectations made by the management. In this chapter it became clear why this is the case for M&A with the intention to maximally exploit existing resources and to achieve operational synergy by accessing the target firms knowledge. Although the success factors have been identified, in accordance with Kitching (1967) and Porter (1987), organizational synergy after this type of M&A proved to be hard to realize due to the contradictive nature of those factors.

Chapter 4 What knowledge sharing mechanisms must be implemented in order to access valuable knowledge of the target firm?

4.1 Introduction

Up till now we have discussed how knowledge sharing is influenced, and identified what facilitators enable knowledge sharing in M&A. Besides that we have seen in what kind of M&A knowledge sharing is most relevant and what factors determine the successfulness of these kind of M&A in terms of organizational synergy. The final chapter will deal with the practical implications of the findings mentioned above. Obviously these practical implications will have to be carried out by the management of the firm. However, we have not yet discussed the impact M&A can have on the managerial side. Therefore the first part of this chapter will about how the management of the newly formed company must be formed in order to satisfactory execute these implications. The second part will elaborate on how the factors and facilitators of knowledge sharing can reduce the problems of organizational integration and employee resistance mentioned in the previous chapter.

4.2 Managerial problems in M&A

We already discussed the fact that in related M&A, the level of organizational integration will be high. Subsequently the acquired organization is less likely to remain autonomous. Therefore, the acquired company is likely to be exposed to severe changes in many in ‘the way they do business’. Based on this, Drucker (1981) states that it is crucial that the acquired company is carried by a strong management team to guide the post-deal integration process of the acquired company. Kitching (1967) adds that “a critical element of success is the availability of managers who can be catalysts for change.” According to Mace *et al.* (1962), another important aspect besides the flexibility of the management dealing with M&A, is to what extent they have experience in the (new) line of business. In many cases it is useful to retain the current management of the acquired company (Drucker 1981). Some literature even concludes that it is often the parent companies’ intent to acquire and successfully integrate the team of skillful managers of the target firm (Parsons, Baumgartner 1970, Pitts 1976). This however causes a problem which the acquiring company can not completely control. According to Hayes (1979), 58 percent of the top managers left the merged entity after five years. One could argue that in the case of related mergers this drain is caused by the fact that the acquiring company is already familiar with the line of business the target firm is situated in (Drucker 1981), and therefore has less need to retain current managers. Additionally Pitts (1976) predicted that lower turnover rates in top management were characterized by unrelated M&A. This implies a some variance in management turnover after M&A, however, nor the type of merger or the difference in size of the parent and target firm accounts for this variance (Walsh, 1988).

In most cases, the acquired firm wants to keep its current management as well (Paine, Power 1984). However, they also concluded that the drain of top management was due to several natural reasons. An important reason for the statement made by Paine and Power (1984) that many acquired firms want to retain their current management is that they can gradually implement changes without causing too much opposition and discomfort amongst the employees because they have a better understanding of their culture, mentality and needs.

Walsh (1988) provides three main forces that contribute to the understanding of the reasons of management turnover after M&A. First, related to employee resistance described in the previous chapter, M&A can breed uncertainty amongst top management(Simmons 1984). Managers who can not deal with this type of uncertainty or will not simply tolerate it, are likely to withdraw from the firm (Walsh, 1988). Secondly, M&A have been argued to contain a market for corporate control. In that sense that parties compete for the management over the resources of the target firm (Fama, Jensen 1983). If this leads to distinct winner and losers, a higher turnover rate in top management can be expected within the acquired firm (Wlash, 1988). Finally, organizational cultures are very specific (Smircich 1983) and therefore can collide when the cultures of the merging firms differ too much. Buono *et al* (1985) revealed that merging two distinct cultures can result in 'feelings of hostility' and 'significant discomfort'. Managers who are unwilling or unable to cope with this so called 'culture clash', significant changes in operations, or decision making policies, are likely to leave the acquired firm as well. Drucker (1981) feared that whatever the parent firm would do, management turnover would always remain a huge problem. Paine *et al.* (1984) believe that the magnitude of this problem has to be taken into perspective. They argue that the parent company (if desired) should put serious effort in trying to retain these managers, instead of quietly accept the fact that they will leave. For instance, Mace *et al.* (1962) state that the acquiring firm must be willing to include newly acquired management executives in the companies' policy-making. This, along with considering the human relations issue (Marks 1982), is very important to reduce uncertainty and turmoil within the acquired company. To conclude, on the one hand the new management should neither remain completely autonomous due to the high level of organizational integration between the two firms in related M&A. On the other hand, retaining managers of the acquired firm is also important in order to prevent the loss of business specific expertise and limiting turmoil within the target firm.

4.3 Knowledge sharing facilitators in practice

Bresman *et al.* (1999), stated that the more articulate the knowledge, the easier the knowledge sharing will be in practice. However, in this case of related M&A with a high level of organizational integration, the need for sharing tacit knowledge cannot be denied (Porter 1985). The extent to which tacit knowledge can be codified is also limited (Szulanski 1996). Firms that try to code tacit forms of knowledge into hard data may run into unforeseen problems (Hansen 1999). Logically, it is required to find out what factors facilitate tacit knowledge transferring. Previous research suggests that tacit knowledge sharing is facilitated through mechanisms such as organizational structure, informal relationships among members, and cultural values and norms (Hansen 1999, Tsai 2002). For example: a very hierarchical structure with formal mutual relationships tends to inhibits tacit knowledge sharing, whereas it is facilitated by informal relationships amongst units and members (Tsai 2002). However, these mechanisms approach tacit knowledge sharing from a organizational angle. According to Nonaka (1994) tacit knowledge sharing depends on individuals being encouraged to express ideas freely. More structural mechanisms like spatial proximity of team members can be more informative in this sense(Breschi, Lissoni 2001). As with the organizational level, a positive social environment between individuals is crucial as well (Gupta, Govindarajan, 2000). Openness and trust between members involved in knowledge sharing are crucial for creating such positive social environment (Gold, Malthora, Segars 2001). To achieve this, other facilitators mentioned my Bresman *et al.* have to be used.

In many cases M&A result in a negative atmosphere in the acquired firm. Factors like conflicting organizational cultures and loss of individual positions.(Buono, Bowditch 1985). This leads to what Szulanski (1996) calls: lack of motivation of the source. The most important facilitators to reduce this problem are extensive communication, visits and meetings, and providing personal (career related) opportunities (Mace, Montgomery, 1962, Salter, Weinhold 1979, Drucker 1981, Kogut, Zander 1992, Bresman *et al.* 1999). According to Kogut and Zander (1992), sharing tacit knowledge requires communication in small groups, often with the development of a unique ‘product language’. This means that small groups should be formed with both members from the parent and the target firm who work on specific tasks, products or services. Through intensive communication it should become clear who knows what within this group, and over time a common language which enables efficient knowledge sharing within that environment will be developed. This should also increase the absorptive and retentive capacity of the recipient stressed by Cohen *et al* (1990) and Szulanski (1996). Nevertheless, employees can still be unwilling to share their knowledge with the parent firm due to loss of personal importance. This problem can be overcome by providing important employees opportunities for personal development and promotions (Mace, Montgomery, 1962, Salter, Weinhold 1979, Drucker 1981).

In the long run uncooperative and disappointed individuals will leave the firm and will be replaced. As mentioned before, these newly recruited individuals not perceive (or to a lesser extent) the previous boundaries between the former separate entities, and will not be bothered by difficulties with knowledge sharing related to M&A (Buono, Bowditch 1989).

Conclusion

In this thesis it becomes clear that the lack of motivation of the source and the high level of tacit knowledge are the most important obstacles for an acquiring company to efficiently gain access to valuable knowledge of the acquired company. It proves that that people know more than what they tell. Sometimes this has an unintentional nature, because people are unable to transfer their 'know-how' to outsiders. This can be reinforced by a lack of absorptive and retentive capacity of the recipient. On the other hand people can intentionally obstruct knowledge sharing. This can result from hostile feelings due to conflicting cultures or the fear of loosing individual importance after M&A.

The main success factors to achieve operational synergy in knowledge related M&A proved to be the combination potential, organizational integration and employee resistance. It became evident that these factors were closely related to the factors that influence knowledge sharing in M&A.

In the final chapter, first the importance of assigning a competent management team to guide the post-merger integration process was stressed. Secondly we related the facilitators of knowledge sharing with the previous findings and concluded that by means of intensive communication between small teams consisting for members of both ends, developing a common 'product language', providing important employees with career and promotional perspectives, and gradually implement important changes, the chance of accessing valuable knowledge held by the acquired firm is most likely.

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Appendix I

Managerial Goals for Mergers and Acquisitions by Barney and Walter (1990)

1. Promote visibility with investors, bankers, or governments, with an eye to subtle benefits later.

2. Accelerate growth or reduce risks and costs in a particular industry in which the acquiring company has a strength such as executive wisdom.

3. Utilize interlocking and mutually stimulating (synergistic) qualities of the acquired company *vis-à-vis* the acquiring company.

4. Attain improved competitiveness inherent in holding a sizeable market share or important market position.

5. Utilize financial strengths of the acquired company such as foreign tax credits or borrowing capacity.

6. Gain complementary financial features such as those that balance earnings cyclicality.

7. Reduce risks and costs of diversifying products and services delivered to customers within an industry

8. Utilize the acquiring company's expertise in marketing, production, or other areas within the acquired.

9. Divest poor-performing elements of the otherwise undervalued acquired company, in portfolio management style.

10. Improve efficiencies and reduce risk in the supply of specific goods and/or services to the acquired company

11. Penetrate new markets by utilizing the acquired company's marketing capacities.

12. Improve economies of scale by utilizing the acquired company's distributional capacities to absorb expanded output.

13. Gain valuable or potentially valuable assets with the cash flow or other financial strengths of the acquiring firm.

14. Broaden the customer base for existing goods and services of the acquiring company.

15. create economies of scale by relevant capacity expansion.

16. Reduce risks and costs of entering a new industry.

17. Expand capacity at less cost that assembling new facilities, equipment, and/or physical assets.

18. Fulfill the personal ambitions, vision, or some particular goal of the acquiring company's chief executive.

19. Pursue opportunities to sell stock at a profit by such acts as pressing management of the acquired firm for improved earnings.

20. Utilize the acquired company's personnel, skills, or technology in other operations of the acquiring company.