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Knowledge transfer in acquisitions: Fear of exploitation and contamination

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integration

Summary Knowledge transfer plays an important role in the creation of synergies in acquisitions. Acquisitions provide opportunities for learning and are often justified on the basis of the new knowledge made available or created by them. Nevertheless, we do not know enough about the factors that influence knowledge transfer in the context of acquisitions. This paper focuses on the motivation on part of individuals in the acquiring and target companies to share their knowledge and make use of the knowledge of their partner. More specifically, it is hypothesised that the fear of being exploited or contaminated by the other party will have a profound negative effect on the transfer of knowledge in acquisitions. These hypotheses are tested on a sample of acquisitions by Finnish companies in 2001–2004 and they are largely supported by the empirical analyses.

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Introduction

The performance of acquisitions is an important topic of study because their outcomes often fail to meet expectations (King, Dalton, Daily, & Covin, 2004). Although many factors affect the outcome of acquisitions, it has been argued that knowledge transfer plays a crucial role in contemporary acquisitions. This is because acquisitions provide access to new knowledge or create it (Vaara, Tienari, & Björkman, 2003; Vermeulen & Barkema, 2001). Furthermore, knowledge transfer is needed for the realization of synergies between the acquirer and the target (Capron, 1999; Capron & Pistre, 2002; Haspeslagh & Jemison, 1991). However, knowledge transfer in this context is challenging; in particular, uncertainty and ambiguity (Bresman, Birkinshaw, & Nobel, 1999; Ranft & Lord, 2002; Sarala, 2010; Vaara, 2003)

tend to impede knowledge transfer (e.g. Husted, Gammelgaard, & Michailova, 2005).

While we know a great deal about knowledge transfer in alliances or multinational corporations (MNCs) more generally, less is known about knowledge transfer in acquisitions. Furthermore, most studies on knowledge transfer in this context are based on case studies that cannot be generalized to larger populations (e.g. Ejenäs & Werr, 2005; Empson, 2001; Westphal & Shaw, 2005). Hence, there is a need to systematically examine the factors that facilitate and impede knowledge transfer in acquisitions. In particular, we suggest that the motivation of individuals to engage in post-acquisition knowledge transfer warrants special attention. Work motivation has been defined as “a set of energetic forces that originate both within as well as beyond an individual’s being, to initiate work-related behaviour and to determine its form, direction, intensity, and duration” (Pinder, 1998, p. 11). In line with this definition, motivation on part of individuals to engage in knowledge transfer can be understood as the effort that they are willing to expend on sharing their knowledge with others as well as absorbing new knowledge from others (Minbaeva, 2007).

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This paper draws on [Empson's \(2001\)](#) work from her case study of post-merger knowledge transfer between three service firms. This paper aims to extend her study to examine to what extent motivational factors – in relation to other variables – influence knowledge transfer in acquisitions. More specifically, it is hypothesised that the fear of being exploited or contaminated by the other party will be negatively related to knowledge transfer in acquisitions, because individuals will be less motivated to participate in knowledge transfer ([Empson, 2001](#)). These hypotheses were tested on a sample of 92 acquisitions made by Finnish companies in 2001–2004, both domestic and international.

This paper contributes to existing research on acquisitions by examining barriers to knowledge transfer, emphasising the role of individuals who share, receive and use the knowledge, and on factors that (de)motivate them to do so. This study adds to previous research on knowledge transfer in acquisitions (e.g. [Bresman et al., 1999](#); [Ejenäs & Werr, 2005](#); [Empson, 2001](#); [Husted et al., 2005](#); [Westphal & Shaw, 2005](#)) by elucidating how fear of exploitation and contamination on the part of individuals relates to knowledge transfer.

Theoretical background

In the context of acquisitions, knowledge transfer is closely related to success in integrating the acquired unit with the acquirer. In order to achieve synergies some degree of integration is necessary ([Larsson & Finkelstein, 1999](#)). The integration process requires and is typically intended to foster ongoing and extensive communication, and consequently knowledge sharing ([Bresman et al., 1999](#); [Vaara et al., 2003](#)) that supports value creation ([Haspeslagh & Jemison, 1991](#)). For example, [Capron \(1999\)](#) found that the post-acquisition redeployment of resources has a positive impact on the performance of horizontal acquisitions. In addition, [Hagedoorn and Duysters' \(2002\)](#) research shows that companies are more likely to acquire a business when their aim is to acquire or transfer knowledge that is closely related to their core business. However, knowledge transfer can be both difficult and time-consuming, especially in the post-acquisition integration period when the parties try to adapt to each others' practices ([Vaara, 2003](#); [Vaara et al., 2003](#)).

This paper focuses on acquisitions that aim for some type of integration and thus require knowledge transfer. Naturally the types of synergies that acquiring companies seek and the methods they use for achieving them vary depending on the type of acquisition. The aim of 'absorption' types of acquisitions is to achieve 'hard synergies' through economies of scale and scope e.g. by standardizing practices ([Haspeslagh & Jemison, 1991](#)). Such standardization is typically attempted through efforts to transfer knowledge from the acquirer to the target, and by assimilating the target firm with the acquirer. Other acquisitions – e.g. 'preservation' and 'symbiosis' types – aim at achieving 'soft synergies' by also transferring knowledge from the target to the acquirer ([Eccles, Lanes, & Wilson, 1999](#); [Haspeslagh & Jemison, 1991](#)). In these types of acquisitions the acquirer has to proceed more carefully with the integration process in order not to disrupt the target's knowledge base that contains valuable tacit and culturally embedded knowledge sought by the acquirer ([Haspeslagh & Jemison, 1991](#); [Kale, Singh, & Raman, 2009](#)). Thus

the motivation of individuals to share and absorb knowledge is especially relevant in acquisitions that aim to create 'soft synergies' through knowledge transfer.

Knowledge transfer in acquisitions

A number of factors have been found to influence the efficiency of knowledge transfer. Variables from prior research that are relevant in the context of acquisitions can be categorized into four groups: (1) characteristics of the knowledge that is transferred, (2) organizational characteristics, (3) post-acquisition integration mechanisms that support knowledge transfer, and finally (4) the willingness of individuals to share and make use of knowledge.

First, the variable that has probably received the most attention from researchers is the type of knowledge that is transferred. The simplest categorization distinguishes between explicit and tacit knowledge, although a number of other classifications have also been created (e.g. [Kogut & Zander, 1993](#); [Simonin, 1999a, 1999b](#)). Explicit knowledge can be described as knowledge in its simplest form that is easy to codify and to teach ([Simonin, 1999a](#)). Tacit knowledge, which lies on the other end of the spectrum, is more difficult to transfer because it is highly embedded in the context in which it has been shaped, and can for example be found in the routines and procedures of an organization ([Kogut & Zander, 1993](#)). Proponents of the resource-based view (RBV) claim that socially embedded knowledge, which is highly tacit, rare and difficult to imitate, also has the most potential to create value through synergies ([Barney, 1991](#); [Kogut & Zander, 1993](#)). At the same time, since it cannot be easily coded, this type of knowledge is also the most difficult to transfer ([Nonaka & Takeuchi, 1995](#); [Ranft & Lord, 2002](#); [Simonin, 1999a, 1999b](#)). [Lam \(1997\)](#) studied knowledge transfer in a merger and found that in addition to the differences in their knowledge bases the highly embedded nature of the knowledge that resided in the two companies severely hampered knowledge transfer. Moreover, [Bresman et al. \(1999\)](#) found that in the early stages of acquisitions mostly explicit knowledge was transferred from headquarters to the subsidiary. They explained this finding by the fact that codified knowledge is easier to transfer. Moreover, a lack of personal relationships and trust in the early stages of post-acquisition integration may have inhibited the transfer of tacit knowledge.

Second, organizational characteristics have been found to influence knowledge transfer in acquisitions. No matter how codified or articulated the knowledge, in order for the transfer to be efficient, the receiving party has to be able to make use of it or 'absorb' it (e.g. [Lane & Lubatkin, 1998](#); [Mahnke, Pedersen, & Venzin, 2005](#); [Minbaeva, Pedersen, Björkman, Fey, & Park, 2003](#)). This 'absorptive capacity' has been defined by [Minbaeva et al. \(2003\)](#) as the capability and motivation to learn, and it is one of the most significant determinants affecting the success of knowledge transfer ([Gupta & Govindarajan, 2000](#); [Lane & Lubatkin, 1998](#); [Minbaeva et al., 2003](#); [Simonin, 1999a](#)). Differences in the backgrounds, strategy, practices and culture of organizations can make it more difficult for the receiving party to absorb or make use of knowledge ([Lam, 1997](#); [Ranft & Lord, 2002](#); [Simonin, 1999a](#)). In line with this, research by [Al-Laham, Schweizer, and Amburgey \(2010\)](#) shows that familiarity with

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