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Knowledge transfer and cross-border acquisition performance: The impact of cultural distance and employee retention

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ABSTRACT

The current understanding of when and how knowledge transfer leads to cross-border acquisition (CBA) success is still limited. The aims of the paper are to provide new insights into the factors that facilitate or impede knowledge transfer, and to examine the impact of knowledge transfer on CBA performance. The data were gathered via a cross-sectional survey using a questionnaire on a sample of UK firms that had acquired North American and European firms. The findings indicate that knowledge transfer and employee retention have positive influence on CBA performance. In addition, organizational culture differences have a negative influence on CBA performance, but also mediate the relationship between knowledge transfer and CBA performance. No direct or mediating effect of national cultural distance has been found on knowledge transfer and CBA performance. One of the important contributions of the present paper is the development of a conceptual framework incorporating the mediating effect of national cultural distance, organizational culture differences, and employee retention on knowledge transfer and acquisition performance. Moreover, we have tested the two distinct types of knowledge transfer namely knowledge transfer in the functional area and knowledge transfer in the general management area, thus making a contribution to the existing literature on knowledge transfer in CBAs.

1. Introduction

The exploration of cross-cultural differences in merger and acquisition (M&A) has yielded inconsistent and perplexing findings (Gomes, Angwin, Weber, & Tarba, 2013; Gomes, Weber, Brown, & Tarba, 2011; Teerikangas & Very, 2006; Weber & Tarba, 2012; Weber, Tarba, & Reichel, 2009, 2011). Several studies conducted in the last two decades show that cultural differences have a negative effect on M&A performance, but other studies have explicitly indicated that cross-cultural differences affect both negatively and positively M&A performance (e.g., Ahammad & Glaister, 2011a, 2011b; Reus & Lamont, 2009; Sarala & Vaara, 2010; Slangen, 2006; Vaara, Sarala, Stahl, & Björkman, 2012; Weber, Tarba, & Rozen Bachar, 2011; Weber, Tarba, Stahl, & Rozen Bachar, 2012).

Strategy researchers have begun to examine knowledge transfer processes during acquisition implementation. Previous studies have delineated several mechanisms facilitating knowledge transfer, such as social community (Bresman, Birkinshaw, & Nobel, 1999, 2010), culture and socialization as a learning strategy (Zander & Zander, 2010), and dominant logic perspective (Verbeke, 2010). However, the current understanding of when and how knowledge transfer leads to CBA success is limited.

The objectives of the present study are to pinpoint the role that knowledge transfer plays in cross-border acquisition performance, and to elucidate the impact of employee retention, national cultural distance, and organizational culture differences on knowledge transfer and acquisition performance. Furthermore, our study aims to shed light on the factors that facilitate or hamper knowledge transfer. In this way, we intend to develop a better understanding of the parameters that make the knowledge transfer process successful in the context of the cross-border mergers and acquisitions thus contributing to better understanding of added value creation process and synergy realization in international M&A.

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We begin by reviewing the literature on knowledge transfer, national cultural distance and organizational (corporate) culture differences, and employee retention in M&A, and to develop our hypotheses. Next, we explain the research design and method adopted for the study. Finally, we present and discuss the results of the study and conclude with its theoretical and managerial implications.

2. Literature review and hypotheses

2.1. Knowledge transfer in M&A

Knowledge transfer is critically important for value creation, both for the acquirer and for the target of a cross-border M&A (Birkinshaw, Bresman, & Håkanson, 2002; Sarala, Junni, Cooper, & Tarba, 2014). According to Ranft and Lord (2002), knowledge transfer, that is, the acquisition and utilization of new sets of knowledge-based resources, is one of the primary objectives of mergers and acquisitions, and plays a significant role in the process of synergy realization in acquisitions (Junni, 2011). Previous studies have delineated several mechanisms facilitating knowledge transfer, such as social community (Bresman et al., 1999, 2010), culture and socialization as a learning strategy (Zander & Zander, 2010), and dominant logic perspective (Verbeke, 2010).

Knowledge-based view of firms as knowledge generators and integrators (Grant, 1996; Kogut & Zander, 1992). The ability of a firm to create value hinges largely on sets of intangible, knowledge-based resources (Leonard, 1998; Nonaka, 1994). Firms can achieve higher than average performance if they have relatively idiosyncratic and non-substitutable organizational knowledge that can be used for added value creation (Almor, Tarba, & Benjamini, 2009; Junni & Sarala, 2011, 2012; Ranft, 2006). Although knowledge is highly valuable and it may help the focal organization achieve competitive advantage, gaining knowledge by virtue of cross-border acquisition is a challenging task, and consequently the process can result in as many problems as benefits (Junni, Sarala, & Vaara, 2013; Lakshman, 2011; Öberg & Tarba, 2013; Ranft, 2006).

As indicated by Nelson and Winter (1982), explicit knowledge can be articulated, codified, and accessed by means of verbal communication and written documents. A firm can access new knowledge by acquiring it (Ahuja & Katila, 2001) or by grafting the knowledge of other firms onto their own (Huber, 1991). For instance, Zou and Ghauri (2008) found that the process of knowledge transfer and learning is conducive to performance improvement of international acquisitions.

According to Sternberg and Horvath (1999), tacit knowledge is grounded in personal experience, and it is procedural rather than declarative in structure. Although tacit knowledge is difficult to formulate and codify, several studies found that it significantly affects organizational performance (Nonaka & Takeuchi, 1995; Prahalad & Hamel, 1990). The acquisition of tacit knowledge is affected by learning styles; for example, effective experiential learning is found to facilitate the knowledge acquisition process (Armstrong & Mahmud, 2008). In the context of cross-border acquisition (CBA), social interactions between acquiring and target firms may establish a venue for channeling tacit knowledge at a collective level, such as joint tasks or projects, so that tacit knowledge transfer can have a positive effect on acquisition performance.

Extending prior research, we hypothesize that:

Hypothesis 1. Knowledge transfer has a positive effect on CBA performance.

2.2. Organizational culture differences

Organizational culture differences affect post-merger integration and performance (Weber, 1996; Weber, Shenkar, & Raveh, 1996; Weber & Tarba, 2012). The meta-analysis conducted by Stahl and Voigt (2008) points to the fact that cultural differences affect socio-cultural integration and synergy realization, and increase shareholder value. Social and operational integration mechanisms are conducive to the post-acquisition transfer of capabilities (Bjorkman, Stahl, & Vaara, 2007). Moreover, various cultural integration mechanisms, such as communication (Schweiger & Denisi, 1991; Weber & Tarba, 2010) and use of expatriates (Hebert, Very, & Beamish, 2005), can be effective means for overcoming the cultural distance between the amalgamating entities. The influence of corporate culture differences and other human resource-related factors on the effectiveness of the post-acquisition integration is complex and varies across different industry sectors (Weber, 1996; Weber & Fried, 2011a, 2011b; Weber et al., 1996). Several research studies advanced our understandings of the effects of national and organizational culture differences and of post-acquisition integration mechanisms (Sarala, 2010; Sarala & Vaara, 2010). For example, Sarala (2010) indicated that organizational culture differences increase post-acquisition conflicts, which can lead to inferior post-acquisition performance. Although corporate culture analysis can alleviate the tension between the acquiring and target firms during the M&A process (Weber & Tarba, 2012; Weber, Tarba, & Rozen Bachar, 2011, 2012), we argue that organizational culture distance cannot be easily overcome. Hence:

Hypothesis 2. Organizational culture differences have a negative effect on CBA performance.

2.3. National cultural distance

Hofstede's (1980) national culture values framework has been used in a variety of studies in management and psychology (Kirkman, Lowe, & Gibson, 2006). The relationship between national cultural distance and CBA performance remains a puzzle, with some studies pointing to positive effects and others highlighting the negative ones (Rottig, Reus, & Tarba, 2013). In his explorative study of cross-border mergers and acquisitions, Angwin (2001) reached the conclusion that national cultural distance plays an important role in affecting the acquirer's perceptions of target companies, which in turn affect post-acquisition performance. Other scholars have confirmed that the post-integration mode plays an important role in the effect of national culture distance on CBA performance. For example, Chakrabarti, Gupta-Mukherjee, and Jayaraman (2009) have found that acquisitions performance is better in the long run if the acquirer and the target come from countries that are culturally more disparate. They also indicate that overall national cultural distance rather than dimension-wise differences seems to drive these results, albeit the difference in masculinity appears to hurt performance slightly, presumably due to integration-related problems. Reus and Lamont (2009) on their part indicated that national cultural distance impedes understandability of key capabilities that need to be transferred, and constrains communication between acquirers and their acquired units, thus having a negative indirect effect on the acquisition performance. Uhlenbruck (2004) reached the conclusion that national cultural distance reduces the extent to which acquirers learn from experiences abroad and impedes the sales growth of acquired firms. Yet rather strikingly Slangen (2006) showed that the planned level of post-acquisition integration moderates the relationship between national cultural distance and acquisition