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Gammelgaard, Jens; Husted, Kenneth; Michailova, Snejina

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**Jens Gammelgaard, Kenneth Husted &  
Snejina Michailova  
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**Department of Management, Politics and Philosophy**  
**Copenhagen Business School**  
**The Center for Knowledge Governance**  
**Blaagaardsgade 23 B**  
**DK-2200 Copenhagen N**  
**Denmark**  
**Phone +45 3815 3630**  
**Fax +45 3815 3635**  
**E-mail: [ckg.lpf@cbs.dk](mailto:ckg.lpf@cbs.dk)**  
**[www.cbs.dk/ckg](http://www.cbs.dk/ckg)**

## **Knowledge-sharing Behavior and Post-acquisition Integration Failure**

Jens Gammelgaard  
Department of International Economics and Management  
Copenhagen Business School  
Denmark  
E-mail: jg.int@cbs.dk

Kenneth Husted  
Department of Management, Politics, and Philosophy  
Copenhagen Business School  
Denmark  
E-mail: Husted@cbs.dk

Snejina Michailova  
Department of International Economics and Management  
Copenhagen Business School  
Denmark  
E-mail: Michailova@cbs.dk

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All three authors are members of the Center for Knowledge Governance, CBS, Denmark.

# **Knowledge-sharing Behavior and Post-acquisition Integration Failure**

## **Abstract**

Not achieving the anticipated synergy effects in the post-acquisition integration context is a serious cause for the high acquisition failure rate. While existing studies on failures of acquisitions exist from economics, finance, strategy, organization theory, and human resources management, this paper applies insights from the knowledge-sharing literature. The paper establishes a conceptual link between obstacles in the post-acquisition integration processes and individual knowledge-sharing behavior as related to knowledge transmitters and knowledge receivers. We argue that such an angle offers important insights to explaining the high failure rate in acquisitions.

**Descriptors:** post-acquisition integration, acquisition failure, individual knowledge-sharing behavior

## **Introduction**

Existing research on mergers and acquisitions (M&As) has suggested several theoretical frameworks for studying reasons for acquisition failures. Very and Schweiger (2001) have identified a number of problems related to the different stages of an acquisition as well as obstacles typical for the entire acquisition process. Most studies have focused on the integration process following the acquisition and in particular on integration barriers (Haspeslagh and Jemison 1991). The emphasis has primarily been on cultural clashes (Buono et al. 1985; Nahavandi and Malekzadeh 1988), communication difficulties (Schweiger and DeNisi 1991), employees' perceptions and reactions (Risberg 2001), and conflict resolution (Blake and Mouton 1985). However, these studies have focused on single issues and therefore, have been largely

fragmented (Chatterjee et al. 1992). Additionally, they have produced mixed and even conflicting results (Seth 1990). A notable exception is the work by Larsson and Finkelstein (1999), which has offered a broader process-oriented model on acquisitions integrating theoretical perspectives from economics, finance, strategy, organization theory, and human resources management.

During the 1990s, a series of takeovers took place where the knowledge possessed by the target firm was emphasized as a strategic acquisition motive (Chakrabarti et al. 1994; Bower 2001). Some of the post-acquisition literature points out that efficient knowledge sharing following acquisitions is imperative to capturing the value potential of knowledge synergies in acquisitions (Haspeslagh and Jemison 1991; Capron and Mitchell 1998; Bresman et al. 1999).

The current paper offers an approach to failures of acquisitions that has not been systematically explored in the post-acquisition integration literature. We argue that by borrowing insights from the knowledge-sharing literature, especially regarding individual knowledge-sharing behavior, and applying them in an acquisition context, additional explanations can be found for why knowledge synergies in the post-acquisition process are often not realized.

In order to analyze this issue, the paper is composed as follows: first, the notion of synergy and its specific features in post-acquisition integration are explored. We then review the post-acquisition literature in relation to the question why do acquisitions often fail in capturing positive synergy effects. The concept of individual knowledge-sharing behavior is then introduced as a) an extension of the studies outlined in the literature review and b) an aspect that is largely ignored in the post-acquisition literature. We introduce a model that presents a framework for linking individual knowledge-sharing behavior with knowledge processes underlying the synergy benefits in the post-acquisition integration. Finally, directions for future research are outlined.

## **Synergies in Post-Acquisition Integration**

Capturing positive synergy effects is often claimed to be an explicit aim in post-acquisition integration. For the purposes of this paper the synergy effect is meant to describe the cooperative action between two or more agencies whose combined effect is greater than the sum of their separate effect and the subsequent value-creation effect of combining the formerly independent entities. The underlying assumption is that sharing of resources leads to improved performances of the newly formed entity as compared to the aggregated performance of the acquiring and the acquired firms if they remain independent. This argument builds on the resource-based view of the firm, where sustained competitiveness, in the case of an acquisition, is a product of resource combinations of the two firms (Wernerfelt 1984; Karim and Mitchell 2000; Ahuja and Katilla 2001).

In general, there are two ways to reveal synergy. One is to utilize the differences in efficiency between the two firms and improve the “weak” firm through transfers of resources from the acquiring firm to the acquired firm in the form of managers, management systems, knowledge, capital, etc. The purpose is to replace or renew the consolidated practices of the target firm (Weston et al. 1990; Nooteboom 1999), which sometimes requires the replacement of management (Manne 1965) or heavy rationalizations in the non-efficient target firm, like in the case of take-overs of Eastern Europe enterprises during the 1990s. This differential efficiency approach is sometimes considered to be the opening of bottlenecks by redeploying target firm’s resources (Capron et al. 1998) or emphasizing the full utilization of intangible resources, such as specialists or high-tech equipment in the target firm (Itami 1987). Secondly, the aforementioned opportunities for resource combinations give both firms an opportunity to tap into knowledge areas located outside their normal organizational and cultural contexts (Zander 1999). The two

firms' knowledge base will here be broadened through intensive in- and outflows of knowledge in both firms (Gupta and Govindarajan 2000). One example could be a promising product design, owned by a relative small firm, being acquired by the experienced and old firm, with the needed capital, process technologies and distribution channels (Teece 1987; Bower 2001). The sharing of intangible assets between more equal partners, like research and development (R&D) engineers from the two firms forming project groups subsequent to the take-over, is another engine for synergy (Capron and Mitchell 1998, Markides and Oyon 1998; Morck and Young 1992). The access to specific valuable resources of the target firm is in these cases emphasized as a key motive for acquisition (Chakrabarti et al. 1994), which puts a further request for proper integration and knowledge-sharing strategies.

Some of the acquisition literature points out that efficient knowledge sharing following acquisitions is imperative to capturing the value potential of synergies in acquisitions (Haspeslagh and Jemison 1991; Capron and Mitchell 1998; Bresman et al. 1999). Assumed this is true, a serious managerial implication is that synergy effects following an acquisition are only achievable through a successful integration of the two firms, not only at the operational and procedural level, but also at the human level (Shrivastava 1986; Birkinshaw et al. 2000; Grant 1996). This includes, among others, creating a friendly atmosphere for knowledge sharing (Haspeslagh and Jemison 1991). Synergy is here an outcome of knowledge integration rather than knowledge itself (Grant 1996). Therefore, as Ranft and Lord (2002, p. 422) emphasize, "it is not enough for an acquirer to simply "buy" a technology or capability and keep it in stasis; to create value, it must be nurtured and integrated throughout the process of acquisition implementation, long after the deal is done." Synergy is created through learning effects since the takeover gives both firms an opportunity to tap into knowledge areas located outside their own organizational and cultural contexts (Zander 1999). It has been emphasized that in the post-

acquisition integration, the two firms' knowledge base will therefore be broadened through intensive in- and outflows of knowledge in both firms (Gupta and Govindarajan 2000). Cooperation is emphasized in this symbiotic approach, where both organizations adapt and learn from the best practices of the other (Haspeslagh and Jemison 1991). One example of a company oriented towards integration-based acquisitions is Cisco. Cisco acquires firms with specific R&D capabilities within the Internet server and communication equipment fields. The company manages much of the post-acquisition tension extremely well, since it is part of its culture to acknowledge the superiority of the target firm (Bower 2001). Cisco ensures that the top people of the acquired firm maintain/get key positions in the new organization, and in general the target firm is quickly integrated into the organization, normally within about three months.

### **Why Do Acquisitions Fail? Answers from the Post-acquisition Integration Literature**

Not achieving the anticipated synergy effects in the post-acquisition context is a serious cause for the high acquisition failure rate. Several studies are conducted looking into the wealth creation for shareholders or other financial measurements such as return of assets, earnings per share, cash flows or sales growth (Datta 1991). Another stream of literature operates with managers' perceptions of performance (Very et. al. 1997), whereas other investigations test more intangible factors like technology performance (Hagedoorn and Duysters 2002). Most of the studies investigating reactions of the target and bidders' stock conclude a positive effect only for the target firms' shareholders (Jarrell et al. 1988; Jensen and Ruback 1983; Datta et al. 1992; Bouwman et al. 2003; Healy et al. 1997; Datta and Puia 1995). A number of factors are found influential, such as geography, as in the survey by Markides and Oyon (1998). This study demonstrates that U.S. international acquisitions into Great Britain and Canada create no value, while U.S. acquisitions into Continental Europe create substantial value. Additionally, Morosini

et al. (1998) find a positive association between national culture distance and cross-border acquisition performance. Market concentration and competition further have impact on post-acquisition results (Chatterjee 1992).

Despite the high failure rate, firms continually keep acquiring other firms. General Electric acquires around 100 firms every year. By frequently acquiring firms GE draws on experiences from prior take-overs and utilizes this learning effect when turning future acquisitions into success (Hitt et al. 2001; Markides and Oyon 1998). At the same time, heavily relying on prior success may lead to inertia in adapting to new and changed situations and contexts (Finkelstein and Halebian 2002). The fact that many target firms are absorbed into the acquiring corporation and remain as subsidiaries, is in contrast to the generally accepted view of a high acquisition failure (Hopkins 1999). Furthermore, subsequent divestitures of acquired firms, or part of them, are rather an outcome of strategic focusing than a question of failure. Divestitures do contribute to acquisition performance (Capron 1999) and firms being able to combine divestitures and acquisitions are seemingly more innovative (Van Beers and Sadowski 2003). The legitimate question then arises whether the high failure rate is a myth rather than a reality. A recent study by Gurgler et al. (2003) shows that merged firms, in comparison with non-merging firms, in general produce higher profits, but simultaneously lower sales, speaking for a higher degree of efficiency. Therefore, many acquisitions do lead to synergy, but benefits are then eroded by the high premiums paid to the target firm's shareholders (Eccles et al. 2001; Hayward and Hambrick 1996; Slusky and Caves 1991). The reason for the latter is associated with managers overvaluing their skills in producing post-acquisition value (Duhaime and Schwenk 1985; Roll 1986). In fact, much of the literature investigating reasons for failure has been focusing on managers' individual opportunistic behavior, thereby maximizing own utility at the expense of the stockholders (Seth 1990). The empire building theory has been particularly popular in explaining failures (Penrose

1959; Mueller 1969; Achampong and Zemedkun 1995; Norton 1993; Ravenscraft and Scherer 1987; Pfeffer and Salancik 1978).

Another school of thought emphasizes the lack of strategic fit between the acquiring and the acquired firm as the main explanation of failure. The strategic fit, i.e. the fact that resources of the two firms are complementary, is seen as the fundamental for reaching synergy (Larsson and Finkelstein, 1999, Hitt et al. 2000, Harrison et al. 1991, Healy et al., 1997; Hopkins 1999; Markides and Oyon 1998; Hagedoorn and Duysters 2002). Sometimes, however, the effect of relatedness on company performance is unclear (Datta and Puia 1995). The interpretation of relatedness is somehow ambiguous and similarities in markets, industries, and resources have been investigated. According to Shelton's (1998) study, the access to new but related markets improves performance. Industry similarity between acquirer and target firm is typically also associated with positive performance (Finkelstein and Haleblan 2002; Very et al. 1996), and industry-related acquisitions are commonly found to be more successful compared to diversification-oriented acquisitions. This assertion is confirmed in Palich et al.'s (2000) review of 55 previously published studies in which moderate levels of diversification, i.e. complementarity, yield higher levels of performance than either limited or extensive diversification. This fact is in other studies associated with declining industries (Anand and Singh 1997), service industries like the US banking industry (Ramaswamy 1997), and internationally (Hitt et al. 1997). The relatedness of resources is addressed by Ahuja and Katila (2001). The disparity between the two firms' resources can be interpreted as a potential value gap. If the acquired resources are very similar to the acquiring firm, the opportunities of creating synergy-based value from the amalgamation of resources is only marginal.

Strategic fits need to be combined with organizational and cultural fits before synergy can be achieved (Larsson and Finkelstein 1999). Utilizing a strategic fit opportunity requires a

simultaneous integration of operational procedures and people (Birkinshaw et al. 2000). The writings oriented towards the human side of acquisitions suggest a number of relatively broad explanations to why acquisitions fail to deliver the expected benefits. These accounts can be clustered in reasons related to cultural clashes, size differences, and a destructive asymmetry of power. They can result in opportunistic behavior and goal conflicts (Buckley and Carter 1999). Cultural differences are found to be a central source of clashes following a takeover (Berry 1980; Nahavandi and Malekzadeh 1988), and high cultural distance typically lowers the wealth of bidders' stockholders (Datta and Puia 1995; Weber and Menipaz 2003). The amalgamation brings about cultural clashes manifested in negative behavior such as fights, absenteeism, unproductive work, stress, and sabotage (Cartwright and Cooper 1994). Acquisitions within the same country or even the same industry are not spared from major cultural problems (Buono et al. 1985), and even where there is a high degree of cultural compatibility (Cartwright and Cooper 1993) or strategic fit (Chatterjee et al. 1992) between the two firms, cultural clashes may still occur. The fact that one organization gains ownership of another, formerly independent, entity creates a situation where changes can be forced onto the acquired firm's culture and identity. The pressure from the dominating culture will further increase subculture protectionism as the acquired personnel may feel that their individual, group, and corporate identity is threatened. Ashkenas et al. (1998: 172) refer to the acquired personnel's 'psychodrama', since they walk onto the stage of the new company feeling anxious, insecure, uncertain, and even angry. Developing shared identity and mutual respect is important in preventing destructive cultural clashes in the entire acquisition process, and this is crucial to capturing knowledge synergies from acquisitions (Birkinshaw et al. 2000). Naturally, national cultures have their impact when emphasizing cross-border acquisitions. Very et al. (1996) have based their study on British and French firms acquired by national or foreign (British, French and US) firms respectively. In the

French case personal and societal responsibility was important and led to improved performance. In this case it was important that employees were able to identify with the organization. Further, managers' organizational, social and environmental responsibility in addressing employees' personal problems as well as giving recognition when deserved was of high importance. Finally, lifetime job security was vital. In the British case, performance and incentive structures were found to be positively related to performance, and so was the use of clear measurements of individual performance. Individual performance based promotion was important in the British case and in general, it was appreciated that the organization challenges persons to invest their best efforts. In a related conceptual study Calori et al. (1994) talk of improving "attitudinal" performance by encapsulating, positive attitudes, enthusiasm and "willingness to help others", when integrating the acquired personnel. Personal efforts from the buyer and the use of informal communication and cooperation improved performance. In these studies, the use of the right management tools is emphasized as a key to success. This gives a long term process-oriented approach to M&A performance (Birkinshaw et al. 2000; Jemison and Sitkin 1986). One example is the use of appropriate communication techniques reducing concerns of the acquired employees (Buono and Bowditch 1989; Cartwright and Cooper 1993; Calori et al. 1994). Though, communication practices can be used to effectively manage the personnel in the target firm as well (Pierce and Dougherty 2002). Another example is the use incentive compensation plans, which in a study by Ramaswamy and Waegelein (2003) were positively correlated with performance.

Differences in size between the acquiring and the acquired firm raise the issue of the physical manifestation of domination. Since the acquiring firm can be much larger in terms of capital, resources, and employees, size differences can be threatening to the target firm (Hambrick and Cannella 1993), although sometimes small companies acquire large ones (Kaplan 2000).

Unequal resource distribution creates an inequitable social construction of power between organizations. The acquired personnel may feel that their career opportunities have suddenly changed (Greenwood et al. 1994), ambiguity increases regarding their future position in the new entity (Buono and Bowditch 1989), and they may feel a loss of status (Elsass and Veiga 1994). In a study by Ramaswamy and Waegelein (2003), performance is negatively associated with relative target size. This does not imply that when the parts in an acquisition deal are of relatively the same size, there are no problems associated with power and domination. Firms may be less willing to subordinate their interest to another organization of the same size or even smaller. In mergers, it may not be easy for employees to realize that an “identical” employee exists on the other side, duplicating her/his efforts. Staff units, like administration, are often merged, or one of them simply being closed down. Work force reductions are on the one hand cost-efficient, but on the other hand, it often leads to anxiety and lower motivation, and, as concluded in a recent study by Krishnan and Park (2002), negatively related to performance. In sum, dominance is essential to failure (Kusewitt 1985) since the feeling of powerlessness leads to strong employee resistance. At the end of the day, key employees, like top management, may leave the firm (Ranft and Lord 2000; Cannella and Hambrick 1993; Hambrick and Cannella 1993; Castanias and Helfat 1991). However, it is important to notice, that contradictory results exist, like in Very et al.’s study (1997), where differences in the two firms’ sales had no effect on performance. Larsson and Lubatkin’s (2001) study found no relationship between relative firm size and achieved acculturation.

Minimizing cultural clashes and revealing synergies are naturally connected through the integration practices. The expedient in choosing the right approach is emphasized by Haspeslagh and Jemison (1991), where the need for strategic interdependence for revealing synergies, and the need for autonomy in order not to destroy target firm’s capabilities has to be stressed

simultaneously. A preservation strategy, with a minimum of changes in the acquired firm, is proposed in cases where the target possesses unique knowledge embedded in persons or organizational routines and with the risk of key employees leaving the firm. However, over time, a symbiotic approach, a kind of merger of best practices of the two firms, is emphasized facilitating knowledge sharing and resource combination. A dilemma is here foreseeable: since integration may ultimately lead to improved performance due to the obtained synergy effect, it may also lead to internal resistance in the acquired company (Weber 1996). The effect of integration in relation to acquisition is therefore unclear. The study by Datta (1991) provides an example. It concludes that failure was an outcome of differences in management style between the two firms, and not an outcome of integration. Therefore, high degree of integration did not lead to success in the case of lack of organizational fit. Low degree of integration and assumable high level of autonomy of the acquired firm were only successful in diversified acquisitions. However, integration takes time, often years, and time is needed to reveal synergies. Time elapsed since the take-over here speaks for positive performance effects (Calori et. al. 1994; Very et. al. 1996)

The causes of acquisition failure mentioned above resulting from cultural differences, size, and power can all negatively influence the effectiveness with which members of the acquired and the acquiring organization share knowledge. In addition to these relatively broad explanations of acquisition failure in the M&A literature, we propose that by stepping on insights from the knowledge-sharing literature, we can offer more specific and detailed explanations of the failure phenomenon. Brush (1996) highlights the importance of knowledge sharing for acquisition performance and a recent survey by Schoenberg (2001) of 121 British acquisitions into continental Europe reveals that knowledge sharing plays an essential role in achieving operational synergy, especially within the area of marketing and distribution. At the same time, a

thorough analysis of knowledge-sharing on the individual level is lacking in this post-acquisition discussion, and whether the tendency for employees to either hoard or reject knowledge is a barrier to obtaining post acquisition synergies has remained a lacuna in our understanding of M&A failures.

### **Individual Knowledge-Sharing Behavior: The Less Explored Cause for Post-Acquisition Failure**

When organizational members share the relevant personal knowledge they possess, this knowledge is made available to those who need to solve a certain problem without being dependent on where knowledge has been obtained and stored originally in the organization. In this way, the organization avoids redundancy in knowledge production, secures diffusion of best practice, and enables efficient problem solving. Moreover, knowledge sharing contributes to knowledge creation. The latter is a social process involving sharing tacit knowledge and converting part of the tacit knowledge into explicit knowledge (Nonaka & Takeuchi 1995). Knowledge is created by individuals, but is also expressed in rules by which members cooperate in a social community. According to Kogut and Zander (1992: 383), what firms do better than markets is the sharing of the knowledge of the individuals and groups within an organization. These issues become even more crucial in multinational corporations (MNCs). As pointed out by Gupta and Govindarajan (2000), it is widely accepted that the major reason why MNCs exist is their ability to transfer and exploit knowledge more efficiently in the intra-corporate context than through the market.

However, although it may sound simple, sharing knowledge in and across organizations is far from being a smooth and self-propelled process. Knowledge sharing is flawed by ineffectiveness

and often depends purely on chance. Knowledge sharing is costly, and should therefore, be restricted to sharing relevant knowledge with those who need it. At the same time, the uncertainty regarding what specific piece of idiosyncratic knowledge is to be shared with whom in order to create benefits for the organization is relatively high (Jensen and Meckling 1996). Potential receivers/users are often not aware of the existence of the knowledge they need, and likewise, the potential sources are not aware that there may be a need for their knowledge somewhere else in the organization. In other words, unawareness at both the end of the transmitter and the receiver is a major barrier to knowledge sharing (Szulanski 1996). The problems caused by the lack of transparency are further reinforced by people's tendency merely to seek the missing answers in the local environment (Davenport and Prusak 1998). These obstacles, we claim, are perpetuated in an acquisition context since the two organizational entities are usually independent of and/or possibly unknown to each other prior to the acquisition.

Another well-described barrier for efficient knowledge sharing is related to the differences between tacit and explicit knowledge (Kogut and Zander 1993; Nonaka and Takeuchi 1995). At one end of the spectrum, knowledge is almost completely tacit: it is stored semiconsciously and unconsciously in people's brains and neural systems and it is uniquely personal and complex (Leonard and Sensiper 1998). At the other end of the spectrum, knowledge is predominantly explicit and codified and thus more easily accessible to other people (e.g. blueprints, description of best practice, manuals). Tacit knowledge is more sticky (Szulanski 1996) and difficult to share than articulated knowledge (Winter 1994). Between the two poles, knowledge is partly explicit or articulated and partly tacit, and applying explicit knowledge requires mastery of the associated tacit knowledge (Leonard and Sensiper 1998).

Acknowledging that epistemological differences and difficulties of identifying of the exact

location of relevant knowledge matter for studying knowledge-sharing processes, we turn our attention towards the individual knowledge-sharing behavior. Ideally, systematic knowledge sharing relies on individuals' autonomous and constructive behavior, however, barriers to knowledge sharing reflect to great extent barriers to interpersonal communication and problems with sharing can only be fully understood by reference to the individual level (Empson 2001). Additionally, sharing is largely dependent on the willingness of individuals to a) signal what knowledge they possess and b) their decision to share or hoard when a particular piece of knowledge is requested (Nonaka 1994). This is especially true in terms of sharing of the valuable tacit knowledge that, to a large extent, is stored semiconsciously in people's neural systems. Seen from an organizational perspective, successful knowledge sharing also implies that the shared knowledge is actually reused by somebody in the organization. Again, reusing knowledge is most of the time also an individual decision. It is the individual who is confronted with a specific situation or a particular need; she/he has to decide whether her/his own knowledge base is sufficient to solve a particular problem; it is also the individual who decides to trust or not the knowledge received from somebody else and whether apply it to her/his own ends. Bresman et al. (1999) point out, too, that the lack of knowledge sharing after a takeover is mainly caused by a lack of personal relationships among individuals in the acquiring and the acquired firm. Much of the knowledge-sharing literature implicitly assumes that individuals are essentially positive towards knowledge sharing (Nonaka and Takeuchi 1995; Szulanski 1996) as long as they are given the right incentives (Davenport & Prusak 1998). Contrary to this, we argue, in line with Husted and Michailova (2002), that people have a deeply-rooted resistance not only to sharing the knowledge they possess, but also to reusing knowledge from others. Their concept of knowledge-sharing hostility offers important insights on barriers towards knowledge sharing at the level of individual organizational members.

The value of knowledge sharing is in many cases obvious to the firms, at the same time knowledge sharing is from an individual point of view time- and resource consuming and may even offset potential individual benefits (Cabrera and Cabrera 2002). Most organizational members are to some extent hostile to knowledge sharing. This is partly because of the deeply anchored belief that they need to keep knowledge secret in order to maintain their competitive advantages. The model of knowledge sharing hostility suggested by Husted and Michailova (2002) distinguishes between three parameters: (a) the behavior of the knowledge transmitter, i.e. the person who possesses knowledge that someone else in the organization demands, (b) the behavior of the knowledge receiver, i.e. the person who needs knowledge input from someone else in the organization, and (c) the individual behavior related to the substance of the knowledge. The model suggests that knowledge-sharing hostility on the transmitter side is related to hoarding knowledge, whereas knowledge-sharing hostility on the receiver side is associated with knowledge rejecting. The authors link the substance-related behavior with the attitudes towards sharing knowledge about mistakes and failures.

In this paper, we utilize the distinction of barriers as related to the knowledge transmitter's and the knowledge receiver's individual behavior. Additionally, we propose a differentiation of obstacles to knowledge sharing as experienced in the acquired and the acquiring firm. We insert a link between individual knowledge sharing behavior in the two formerly independent organizational entities and the synergies in the post-acquisition integration.

In the rest of the paper we focus on the differentiation of obstacles to knowledge sharing as related to the individual behavior of knowledge transmitters and knowledge receivers. We follow a similar logic in both exploring knowledge-hoarding and knowledge-rejecting behavior: we first analyze different reasons for this behavior in general and we afterwards outline a number of specificities of knowledge sharing behavior in the post-acquisition integration context. By doing

this, we link the specificities of knowledge sharing individual behavior in the acquiring and the acquired organizations with the processes of capturing post-acquisition synergies.

### **Knowledge-hoarding Behavior**

According to Chow et al. (2000), both the propensity to hoard knowledge and the motivational factors behind such behavior depend on the nature of the knowledge to be shared, employees' national culture, the relationships among employees, and the culture of the workplace. Knowledge hoarding behavior is also embedded in the perceived psychological safety. If one equals an acquisition with workforce reduction, the tendency will be to hoard knowledge to protect, as best one can, their position within the company. Merchant et al. (1995) have pointed out that senior managers' education and experience, the company's stage of development and the company's type of business are also important factors when analyzing knowledge hoarding behavior. Industry specificities and functional areas should also be seriously considered when discussing the use of different channels and forms of knowledge sharing.

In line with the defined level of analysis in this paper, we argue that although the factors mentioned above are relevant, the decision to share or to hoard knowledge is largely individual. The decision to hoard knowledge may be destructive from an organizational point of view, however, it is often rational and well justified from an individual perspective. Organizational philosophies, norms, and values, by which people are evaluated according to what they know and do individually, naturally invite knowledge hoarding and perpetuate a behavior of playing one's cards close to one's chest. Sometimes knowledge hoarding is mainly an instrument supporting individual economic concerns, whereas in other cases, in addition to the importance of economic concerns, involvement in power games becomes decisive and often dominant in

justifying knowledge-hoarding individual behavior (Husted and Michailova 2002).

The *individual economic concerns* are related to the fact that individuals, and especially knowledge workers, associate their own market value and bargaining power with the quality and value of the knowledge they possess. They therefore fear that they may lose their bargaining position by sharing their relevant knowledge (Szulanski 1995). Consequently, they resist the organization's attempts to establish property rights over their knowledge (Empson 2001). In this sense, knowledge hoarding is a natural mechanism for protecting individual competitive advantages. Organizational structures and incentives, too, may tend to promote a tendency by individuals to optimize their own accomplishments and, as a consequence, conceal knowledge from other individuals. This is often linked with organizational cultures (De Long and Fahey 2000) where it is accepted and even valued that people are 'territorial', i.e. that they hoard their knowledge in order to protect themselves and secure their own position. Particularly in environments characterized by a lack of trust, individuals are uncertain whether sharing knowledge would be appropriate (Empson 2001). Reluctance towards spending time on knowledge sharing is another economic concern that contributes to knowledge hoarding. Knowledge sharing is a costly process demanding a great deal of resources either to articulate knowledge or to share it in a tacit form, or both. The time spent sharing knowledge with others could be invested in what may appear to the individual to be more productive priorities. A third economic motive is the fear of hosting 'knowledge parasites' (Husted and Michailova 2002). The main reason why a person possesses knowledge that could be attractive to others is that the knowledge possessor has invested additional effort into acquiring this knowledge. Consequently, she/he as a potential knowledge transmitter may be unwilling to share the return on this investment with someone who has put less or no effort into her/his own development. In other words, a request for knowledge sharing can also mask a lack of effort and/or talent on the side of

the individual making the request for knowledge sharing.

The potential loss of value and bargaining power is relevant to understanding individual knowledge hoarding behavior in acquisitions. Being subordinated to the dominant culture of the acquiring firm automatically lowers the organizational status of the acquired employees. Empson (2001) points out that knowledge hoarding in relation to loss of power increases after an acquisition and that this is a natural outcome of protecting what remains of one's position. At the same time, knowledge sharing may prove to be the only way to be recognized by the headquarters, which delegates resources, decides on career developments, upgrades some organizational positions and downgrades others, etc. The acquired personnel can for that reason, and from the viewpoint of purely individual economic concerns, initially be positive towards sharing knowledge with their new colleagues. The acquired personnel typically experience work overload immediately after the acquisition since they need to follow new orders while simultaneously carrying out their old duties. This work overload reinforces the inclination of individuals to hoard their knowledge because of economic concerns. The fear of hosting 'knowledge parasites' is also relevant, especially when the motive for the acquisition is to utilize the acquired firm's knowledge. In these cases it is natural for the acquired personnel to resist sharing the knowledge they possess in the absence of clear incentives for doing so.

In organizations that are very hostile to knowledge sharing, knowledge hoarding is driven by an individual urge to extent influence and/or control *power games* (Husted and Michailova 2002). An important factor to consider in this context is the uncertainty that relates to how the receiver uses the shared knowledge and for what purposes, and consequently whether the shared knowledge can damage the sharer's self-interests. Avoidance of exposure is another feature that tends to be typical in respect to power games related knowledge hoarding. Avoidance of exposure is associated with the fact that not all knowledge is robust or a good solution to a

problem. By hoarding knowledge, individuals protect themselves against external assessment of the quality of their knowledge. High respect for hierarchy and formal power may also potentially lead potentially to knowledge-hoarding behavior. Especially in organizations embedded in high power-distance national contexts (Hofstede 2001), subordinates may intentionally hoard their knowledge, knowing that their superiors would dislike subordinates who appear to be more knowledgeable than they are. Second, managers may deliberately hoard their knowledge to maintain power — for them knowledge could be a source of greater power rather than a basis for taking optimal managerial decisions. Difficulties in knowledge sharing between superiors and subordinates can also be detected in terms of barriers to knowledge sharing between old and new staff in an organization.

The obstacles to the process of signalling that one possess the knowledge needed somewhere else in the organization are even greater in acquisitions because of organizational cultural differences, asymmetrically distributed power and the relatively low levels of psychological safety perceived by organizational members. When the new company experiences high ambiguity and the primary concern of the acquired personnel is to secure their jobs, one can expect a limited desire on the part of the personnel to share the knowledge they possess. Additionally, individuals who have invested resources in building up a specific competence may not be willing to share this knowledge with others unless they are given the right incentives for doing so. At the same time, however, knowledge creation in firms today is highly dependent on relationships outside the firm and a pre-acquisition relationship often exists where firms have already established certain communication patterns prior to an acquisition, which may make the entire post-acquisition processes less troublesome.

## **Knowledge-rejecting Behavior**

Knowledge-rejecting behavior is captured in the notion of the 'Not-Invented-Here' (NIH) syndrome. Katz and Allen (1982) define the NIH syndrome as the tendency of a project group of stable composition to believe it possesses a monopoly of knowledge in its field, which leads it to reject new ideas from outsiders to the likely detriment of its performance. According to Szulanski (1995), a potential knowledge receiver can choose among a number of behavioral strategies for avoiding external knowledge, including procrastination, passivity, feigned acceptance, sabotage, or outright rejection in the implementation and use of new knowledge.

Doubt about the validity and reliability of external knowledge and the preference for developing in-house solutions are usually associated with organizational members' *professional pride*. External knowledge in such cases is often rejected because it is more prestigious to create new knowledge. Another reason may be that knowledge receivers often doubt the quality of the shared knowledge, possibly because they do not find the source trustworthy (Szulanski 1995). In this case they will prefer to develop the specific knowledge themselves rather than going through a process of validation of the external knowledge before integrating it into their knowledge pool. At the same time, knowledge receivers do not always possess the necessary knowledge for assessing the quality of external knowledge. In those situations they will be even more inclined to develop their own knowledge.

Acquired firms placed in a dominating culture may find a need to manifest themselves through autonomous knowledge-creating programs. From the acquired firm's perspective, the fact that the firm has lived its own independent life for decades, and sometimes even longer, creates an initial preference for its own knowledge compared to that of the other party in the acquisition. Similar behavior is described by Empson (2001) in the example of a merger of two professional

consulting firms. In this case, knowledge resistance was due to certain interpretations of the partner's image. This negatively influenced the way they perceived the value and reliability of their new colleagues' knowledge. This ethnocentric interpretation was expressed by evaluating the partner firm's knowledge stock as simplistic and unsophisticated on the one hand, and insubstantial and unreal at the other. As a result, no efficient knowledge sharing took place.

*Maintain the status quo* under the motto 'Don't rock the boat' is an even greater obstacle to knowledge sharing. This sometimes occurs explicitly, but more often behind a veil of minor, unimportant changes. Strong group affiliation may also be a substantial inhibitor to knowledge sharing outside the boundaries of the group. In older companies with a low employee turnover, there are usually long-standing relationships among organizational members. The longer a group of people has been together, the higher the likely degree of ethnocentric behavior (Katz and Allen 1982). As a consequence, organizational members tend to resist new external knowledge, since it might fracture not only the stability and familiarity of the particular group, but also the continuity of the overall organizational development. In a well-defined group, a common set of values and beliefs among individuals creates a governance system in which the risk of opportunistic behavior is low. Therefore, knowledge sharing will take place within the group and only to a limited extent across different groups (Kogut and Zander 1995).

In an acquisition context, the acquired personnel often considers their old culture highly valuable (Berry 1980), and they will seek to protect positions and identities (Buono and Bowditch 1989). The lack of alignment between different subcultures leads to conflict and often to collision (Buono et al. 1985). The degree of acceptance of the counterpart's culture therefore depends on the acquired employees' wish to preserve their own culture and how attractive they find the acquiring firm's culture (Nahavandi and Malakzadeh 1988).

The knowledge-rejecting behavior might also take the shape of group-think where a stable

group, for example a project group or a management team, believes that it possesses a monopoly of knowledge in its field and therefore rejects new ideas from outsiders. Under the motto ‘Why change a winner?’, it is often perceived unnecessary or even disrupting to allocate resources to changing the way of doing things according to new external knowledge rather than maintaining the *status quo*. Especially in an acquisition, this tendency is further reinforced by winner-looser dynamics. Since usually the acquiring firm “wins”, the dominant view is that their approach/knowledge is superior. If not, the target firm would have acquired them.

### **Conclusion and Directions for Future Research**

This paper has explicitly integrated important notions drawn from the post M&A literature and the knowledge sharing literature in order to offer explanations for acquisition failures, which have been underestimated in previous research. In line with the argument that individuals have a deeply rooted resistance towards both sharing the knowledge they possess and reusing external knowledge, we have outlined the specificities of knowledge-sharing behavior in a post-acquisition integration context. In the process of developing our arguments, we have mainly contributed to the existing M&A literature specifically related to M&A failures. At the same time, as evident from our literature review, we also made use of existing research related to other corporate strategy settings such as strategic alliances. Our explanations are therefore relevant for not merely studying acquisitions, but also for studying coordination of cross-organizational activities in general.

Capturing synergies from knowledge sharing in post-acquisition integration is a multifaceted and complex process, which often turns out problematic. In this paper we have argued that an important reason for this, which is not well explored in the literature, is individual knowledge-

sharing behavior. Hoarding and rejecting knowledge is justified rational behavior anchored in a number of reasons, although it is usually counterproductive from an organizational point of view. Individual knowledge-sharing behavior matters to different aspects of M&A management besides the structural and cultural integration, which we emphasized in the paper. For instance, it may affect the search, valuation, and deal-making steps that precede the consummation of the deal. Some of the knowledge literature in corporate strategy focuses on information asymmetries and the problems arising from the target firm's inability to credibly convey its value.

Another direction of future research that we find especially promising concerns distinguishing acquisition modes according to the specificities of knowledge synergies underlying the rationale for the acquisition. These three acquisition modes constitute different contexts and presumably present different challenges to knowledge sharing. In some acquisitions knowledge flows primarily from the HQ to the subsidiary and the acquiring culture tends to be dominant. The NIH syndrome is likely on both the acquiring and the acquired organization's side, where headquarters act ethnocentrically and the acquired firm protects its own culture by adhering to pre-acquisition procedures. One may speculate whether these HQ-dominated acquisitions constitute an especially fertile ground for external knowledge rejecting behavior. Other acquisitions are motivated by the knowledge possessed by the target firm and thus the direction of knowledge flow is the opposite, i.e. from the subsidiary to the HQ. Not sharing knowledge in these acquisitions could be attributed to sharing hostility is an outcome of protecting bargaining power and career opportunities as well as avoiding 'knowledge parasite' behavior. Finally, in a third type of acquisitions, the explicit objective is to leverage the knowledge possessed by both the acquiring and the acquired firm. In these acquisitions, all the elements of knowledge hoarding and rejecting behavior seem to exist, but in a modified form. The acquired firm enhances its position by transferring knowledge rather than hoarding or rejecting it. Integration

and collaboration appear to solve some of the hostility problems and are therefore advisable as a follow-up strategy after the takeover.

Along with the benefits of our approach there are also some serious limitations. We have focused on the study of individual behavior. By doing so, we have analytically isolated individual behavior from the context of group and organizational behavior. We recognize that considering only the individual as the level of analysis implicitly positions the paper at one of the extremes in the debate on the extent to which it is possible to consider a concept of collective or organizational knowledge as different to that of individual organizational members. It is fertile to explicitly include the group and the organizational context when theorizing about obstacles to knowledge-sharing since group and organizational behavior is powerful in reinforcing and changing individual attitudes, norms, and values, and hence, behavior. Additionally, the paper has established a conceptual link between obstacles in the post-acquisition process and individual knowledge-sharing behavior without offering empirical evidence for the main arguments and conclusions. We regard both limitations as an important focus for future research.

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